Admiral Group plc

Annual Report 2018

VALUING OUR PEOPLE
CUSTOMER FOCUS
TEST AND LEARN
A GREAT PLACE TO WORK
CUSTOMER CARE
PEOPLE WHO LIKE WHAT THEY DO
DO IT BETTER
INNOVATION
CUSTOMER SUPPORT
CLEAR AND HONEST COMMUNICATION
TEAMWORK

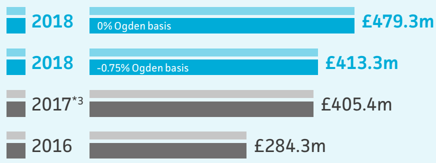
Admiral offers car, van, household and travel insurance in the UK and the Group includes Confused.com, a leading price comparison website.

Outside the UK, Admiral owns four insurance and several price comparison businesses.

Financial highlights

Group's share of profit before tax*1
(£million)

£479.3m



Turnover*1
(£billion)

£3.28bn

Contents

Group's statutory profit before tax
(£million)

£476.2m

2018	0% Ogden basis	£476.2m
2018	-0.75% Ogden basis	£410.2m
2017*3		£403.5m
2016		£278.4m

Earnings per share
(pence)

137.1p

2018	0% Ogden basis	137.1p
2018	-0.75% Ogden basis	118.2p
2017*3		117.2p
2016		78.7p

Return on equity*1
(%)

56%

2018	56%
2017*3	55%
2016	37%

Net revenue
(£billion)

£1.26bn

2018	£1.26bn
2017*3	£1.13bn
2016	£1.02bn

Customers*1
(million)

6.51m

2018	6.51m
2017*3	5.73m
2016	5.15m

Full year dividend per share*4
(pence)

126.0p

2018	126.0p
2017*3	114.0p
2016	102.5p

Solvency ratio (post dividend)*2 194% (2017: 205%)

*1 Alternative Performance Measures – refer to the Glossary for definition and explanation.

*2 Unaudited: refer to capital structure and financial position section later in the report for further information.

*3 The Group's 2017 financial results were reported on an Ogden discount rate -0.75% basis. 2018 reported results reflect the impact of a change in assumption for the Ogden rate to 0%, with the equivalent results on a -0.75% (Pre-Ogden) basis also included above. Refer to Glossary for further information on the Ogden discount rate.

*4 2018 dividend includes an additional dividend of 11 pence per share relating to the increase in post-tax profits from the change in Ogden discount rate assumption.

Admiral Group has delivered another positive set of results in 2018: **record turnover, profit, dividend, strong return on capital, strong solvency ratio** and **record customer numbers.**

People
Page 06

Customers
Page 08

Community
Page 10

Company Overview

Chairman's Statement

"On behalf of the Board I would like to thank everyone at Admiral for their continued hard work and contribution to the Group's results in 2018."

I continue to be impressed by the energy, dedication and passion shown by all of the 10,000 people at Admiral.

Our focus on customer service, our distinctive culture and our contribution to the communities in which we operate remain at our heart. This has resulted again in a positive set of financial results in 2018.

Admiral is now 26 years old and over the years has become a much bigger and more diverse organisation through a strong track record of organic growth. We remain true to our values and approach which are as relevant now as they always have been. We have a straightforward and highly focused strategy where we continue to concentrate on our core market of UK insurance while taking what we know to overseas markets where we are now seeing some encouraging results. At the same time, we are exploring how we can make use of our core skills in other areas of insurance and in the personal loans and car finance markets in the UK.

2018 OVERVIEW

Admiral Group has delivered another positive set of results in 2018: record turnover, profit, dividend, strong return on capital, strong solvency ratio and record customer numbers. Yet again our results have been impacted by Ogden (Personal Injury Discount Rate), this time in a positive way. Following Royal Assent of the Civil Liability Bill in the UK Parliament just before Christmas, the Group has applied a best estimate assumption for the Odgen rate at 0%, which has had a significant positive impact on our 2018 profits. Excluding this our profits would have been slightly up year on year.

The Group has continued to grow with turnover increasing by 11% to £3.28 billion. Customer numbers increased strongly by 14% to 6.5 million.

The Group's share of pre-tax profit increased by 18% to £479.3 million, heavily impacted by the change in Ogden rate (assumed 0%). Earnings per share and return on equity increased by 17% to 137.1 pence (1% increase to 118.2 pence excluding Ogden impact) and one percentage point respectively. The Group's solvency ratio remains robust at 194% from (205% in 2017).

UK insurance continued to be dominated by UK Motor where we grew the number of vehicles we insure by 9% to over 4 million. We have seen some deterioration in the 2018 loss ratio; this has been more than offset by favourable claims development of past years, part of which arises due to the change in the Ogden discount rate. We have reduced our growth in the second part of the year in line with our normal prudent approach and focus on value rather than volume.

We continue to invest resource in improving our core skills in UK Motor including investing in technology to improve our efficiency and the service we provide to customers supporting the continuing shift to online servicing.

Household insurance continues to grow but the result has been impacted by adverse weather and subsidence events resulting in a loss of £3.0 million for the year (profit of £4.1 million in 2017). Turnover is now £146.0 million and properties insured have increased by 31% to 0.87 million. Customers buy from us either using price comparison sites (which continue to grow significantly), or directly and, increasingly, using our MultiCover offering, building on the success of MultiCar.

Our Financial Services business continues to grow in both Personal Loans and Car Finance, with a loans balance at year end 2018 of £300 million. We continue with our test and learn approach. The early signs are positive; we see the potential to differentiate and expect this to be an increasingly significant part of our business in future.

We are continuing to invest in our overseas insurance businesses, which is bearing fruit with reduced losses overall and our European insurers delivering overall profits as outlined at our European investor day in September. Turnover and customer numbers are continuing to grow materially by some 20% and 18% respectively and we now have £0.5 billion of combined turnover and 1.2 million customers outside the UK. We remain optimistic in delivering significant long term profit for the Group. In particular, ConTe has seen significant growth, now insuring 580,000 vehicles, and increased profits due to loss ratio improvement. At Elephant Auto in the US we have refined the strategy and are seeing positive loss ratio development as well as improved customer loyalty.

As a result of Brexit, we have established an insurance company and an insurance intermediary business in Spain to support our European operations.

In our Price Comparison (PC) businesses, Confused in the UK increased revenue and profits. In Confused, Rastreator and LeLynx, we continue to invest in a range of market verticals which are growing well as well as investing in delivering an improved customer experience. Our US comparison business, Compare, has experienced challenging market conditions impacted by increased competition for customer acquisition which pushed up marketing spend in 2018. This is reflected in a £32.9 million impairment of the carrying value of the Group's investment. In addition, our former Admiral CEO, Henry Engelhardt, and his wife, Diane, entered into an agreement to invest in Compare and we look forward to having Henry sharing his expertise as part of the Compare Board.

Our joint venture PC business, Preminen, continues to explore new opportunities with operations in Mexico, and more recently Turkey.

ADMIRAL CULTURE

Our distinctive culture which has been maintained since launch is definitely worth a further mention. It is a key part of our competitive advantage which we work hard to maintain. It can be distilled into the following areas, and is underpinned by a deep focus and commitment to the customer:

- **Highly talented team** – David Stevens is an outstanding leader who leads a strong, capable and experienced management team which engages the whole business.
- **Focus** – selective diversification building on our core skills.
- **Pricing** – data analysis lies at the heart of what we do.
- **Prudent reserving** – continue to hold a material margin in our claims reserves.
- **Claims management** – consistent positive feedback from customers on the service they receive.
- **Controlled test and learn** – organic growth with measured expansion steps.
- **Shareholder returns** – we believe in returning excess capital to shareholders.

Overall we believe that people who like what they do, do it better.

I have had the pleasure of visiting our operations in the UK, France, Italy, Spain and the US along with other Non Executive Directors ("NED's"). I have also attended the annual Staff General Meeting (with approximately 6,000 people), our annual management off-site event and the Admiral Business Club. I continue to be inspired by the deep commitment of our people to our culture and serving our customers. In all of these the Admiral distinctive culture is in evidence; it really is different.

From the moment a new employee starts at Admiral, they understand our commitment to putting the customer at the heart of what we do – *the customer, the customer, the customer.* We do try to do the 'right thing' and to continue to make it easier to do business with us and be there at moments of need to provide excellent service.

We are proud to be recognised as a Great Place to Work. We were recently awarded the Best large Company to Work For in the UK, as well as the tenth Best Workplace in Europe and third in Italy amongst other similar accolades across the Group.

Chairman's Statement continued

DIVIDEND

Our dividend policy remains that we distribute each year the available surplus over and above what we retain to meet regulatory requirements, the future development of our business and appropriate buffers. The Directors have recommended a final dividend of 66p per share (2017: 58p) for the year to 31 December 2018 representing a distribution of 87% of our second half earnings and including an Ogden impact of 11p per share. The 66p per share includes a normal dividend of 65% of post-tax profits (49.6p per share) and a special dividend of 16.4p per share.

This will bring the total dividend for the year to 126p per share, an overall increase of 11% . This represents a pay-out ratio of 92%.

The Group has delivered a Total Shareholder Return (TSR) of 314% over the last 10 years (as illustrated in the chart on page 105).

CORPORATE GOVERNANCE AND BOARD CHANGES

The Board recognises the need for a strong corporate governance framework and supporting processes across the Group and believes that good governance, with tone set from the top, is a key factor in delivering sustainable business performance and creating value for all the Group's stakeholders.

The Board and I feel that the Board has a good balance of experience, skills and knowledge to support and challenge the management team and it is supported by effective governance and control systems.

We will continue to review all aspects of diversity to ensure that we are well prepared to guide the Group through our next phase of growth.

During the year the Board and each of its Committees undertook reviews of their effectiveness. The conclusions from these reviews provided useful feedback to each body on its performance. Further details are provided in the Corporate Governance Report on pages 64 to 87.

Admiral's incentive schemes remain distinctive, as our people are shareholders in our business. These are designed to ensure that decisions are made by management to support long-term value growth, that the right behaviours are rewarded and that our people's interests are aligned with those of shareholders. Our core belief is that over the long-term, share appreciation depends on delivering great outcomes for our customers. Further details are provided in the Remuneration Report on pages 98 to 107.

Colin Holmes stepped down from the Board at the end of 2018 and I would like to thank him for his excellent contribution over the last eight years. He admirably (pun intended) steered the Audit Committee and acted as SID (Senior Independent Director) and a member of the Nominations and Governance Committee.

During 2018 we welcomed Andy Crossley (as reported last year), Mike Brierley and Karen Green. Andy and Mike became members of the Group Audit Committee. Andy was also appointed as a non-executive chairman of EUI Limited, the UK insurance intermediary; and Mike became the non-executive chairman of Admiral Financial Services Ltd (AFSL), the company in which Admiral's loans business is written. Karen became chair of the Audit Committee effective 14 December 2018. They all bring substantial financial services experience. Owen Clarke took over the role as Senior Independent Director and Justine Roberts became a member of the Nomination and Governance committee, both effective end of 2018.

Our focus areas for the Board remain to:

- Continue to build on the remarkably special Admiral culture and in so doing putting our people, customers and communities at the heart of what we do;
- Continue the history of growth, profitability and innovation;
- Invest in the development and growth of our people – we have focused on the quality and development of our senior management team, added to our talent base by some external hires, and reviewed our succession pipeline; and
- Ensure excellent governance and the highest standards.

OUR ROLE IN COMMUNITY

Admiral takes its role in society very seriously and has an active approach to Corporate Responsibility (more information in the Corporate Social Responsibility Report on the Admiral Group website and on pages 58 to 61). We are proud to be Wales' only FTSE 100 headquartered company and employ over 7,000 people in South Wales. Our staff play an active part in the communities in which we operate. We carefully consider our impact on the community and environment, including factors such as the green credentials of our buildings, raising funds for multiple charities, and considering the impact of climate change across the business.

THANK YOU

On behalf of the Board I would like to thank everyone at Admiral for their continued hard work and contribution to the Group's results in 2018. I would also like to thank our shareholders for their support and confidence. Most of all I would like to thank our customers for placing their business with us.

Annette Court
Chairman
6 March 2019

Customer, Customer, Customer…

SIMPLY PUT, WITHOUT OUR CUSTOMERS WE WOULDN'T HAVE A BUSINESS, SO BELOW ARE A SELECTION OF HIGHLIGHTS FROM OUR CUSTOMERS FROM THE PAST YEAR.

Going above and beyond in Claims

Our Group CEO, David Stevens, received an email from a customer recently highlighting the fantastic service she received from Nigel in Claims Service. Our customer was going through an extremely difficult time at home where her father had become ill and had entered end of life care. This was then compounded by her vehicle being stolen. Nigel recognised that this customer needed some extra care and attention. He took it upon himself to expedite his investigations and see the claim through to the settlement stage, something not required of him, but in the circumstances, he recognised that this customer needed her claim process to be made as smooth as possible. He had managed to arrange settlement in less than 25 hours. He also arranged for some flowers to be sent to our customer sending all of Admiral's best wishes at the difficult time they were going through. Fantastic work Nigel, thank you!

The customer said: "Nigel should be recognised for the way he dealt with everything. I never had any concerns that he wouldn't do what he said, he certainly made everything easy at such a difficult time. I cannot thank Nigel and Admiral Insurance enough and will certainly be recommending Admiral Insurance to family and friends. His manager told me this level of service is typical of Nigel and nothing short of what he does with any of his claims."

Good customer service extends to our new brands as well

We had some outstanding feedback from a car finance customer this year. She praised one of our agents, Gurdav, and wanted to express how patient and understanding he has been with her. She explained that she found it quite emotional having to apply for finance as she was getting rid of a car which she had an emotional attachment to as she lost her close friend and took the car over from her. She said that Gurdav listened to her patiently and even though the customer started crying, he cheered her up by stating what a good friend she is and that the new car can be in her friend's memory. The customer will recommend Admiral to all her friends and was also delighted as we originally offered her a great rate on our finance product.

Setting the standard in the industry

Over 1,600 cars were destroyed on New Year's Eve 2017, in a car park in Liverpool. Not surprisingly, being one of the largest insurers in the UK, we received a large number of claims from customers caught in the blaze. Thankfully no one was seriously injured, but the impact on customers was severe.

As a market leader in customer service, we waived the excess and allowed No Claims Bonus on every single one of these claims and we have settled almost all the claims in record time.

Admiral Group plc

Our Culture

People

"People who like what they do, do it better": this belief is integral to our culture. We have created an environment where Admiral employees look forward to coming to work and providing great service to customers. We encourage our people to get involved in innovation, proactively improving our processes, services and working environment. As responsible employers we aim to create an inclusive working environment and support our staff wherever possible.

This is underpinned by our Four Pillars:

95%

of employees believe this is a friendly place to work

COMMUNICATION

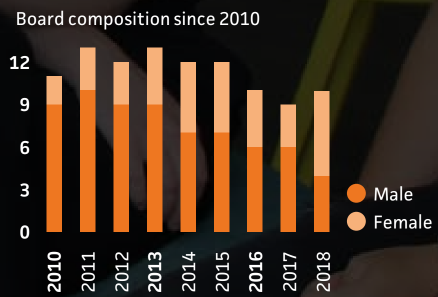
In any organisation, clear communication is vital, and to ensure this we promote open-plan workplaces and constant communication and interaction across teams and departments: it's little things like this can really help break down the barriers and encourage teamwork and a collaborative environment.

REWARD AND RECOGNITION

We firmly believe that a job well done should be appropriately rewarded, be it with a departmental awards ceremony, the award of additional shares, or even just a simple 'thank you'. Without the hard work and dedication of our staff, we wouldn't be where we are today. All of our staff receive shares in Admiral - everyone owns part of the business and every job is important and impacts their returns. The share scheme provides an incentive for strong performance, and promotes collaboration towards building a profitable and innovative business.

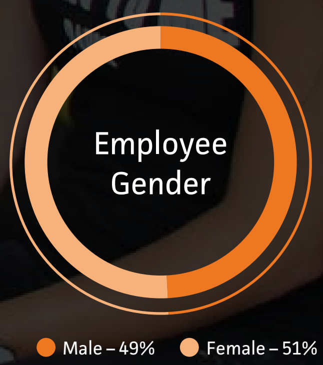
EQUALITY

Being different is what makes us special; we're proud to represent people of all genders, sexual orientation, ethnicities, and abilities, and are always working towards improved representation throughout the Group. Overall, the Group gender split is improving, and we continue to promote diversity at all management levels.



FUN

We work hard, but also encourage our staff to have fun, allowing a balanced work environment that builds strong cohesion among colleagues, and improves morale all round. In fact, we feel that this is so important, we've even got our own Ministry of Fun!



253,241

online courses completed

698

classroom sessions delivered by Academy

Our Culture

Customers

Customer, Customer, Customer… We value customers above anything else. We work hard so that our customers are able to get the most suitable products for their specific needs and can rely on us to be there for them when things go wrong.

98%

of customers would buy again[1]

CUSTOMER SERVICE

We set ourselves the highest standards for customer service and always look to improve. Regular, in-depth customer feedback, a committed Customer Assurance department, and highly-skilled Customer Services representatives all go together to deliver the best possible service. With frequent quality checks and a dedicated training department, our staff are always supported to give high quality care.

COMMUNICATION

Accessible, clear, and formatted to meet the requirements of each individual: our approach to communication reflects our broader commitments to our customers, ensuring they know exactly what to expect should they ever need to make a claim. What's more, we provide a wide range of platforms for our customers to stay in touch with us, including through Facebook chat, webpage chatbots, and a dedicated customer portal to keep it green by going digital rather than relying on carbon-intensive post.

PEACE OF MIND

People buy insurance with the hope of never having to use it, but in an emergency, we want reliable, efficient service and firm emotional support. This is an integral part of the overall customer experience, and it's what we're committed to delivering across the Group.

96%
of customers were happy with their service[2]

96.3%
average call answer rate[3]

74 seconds
average waiting time for a Customer Services call

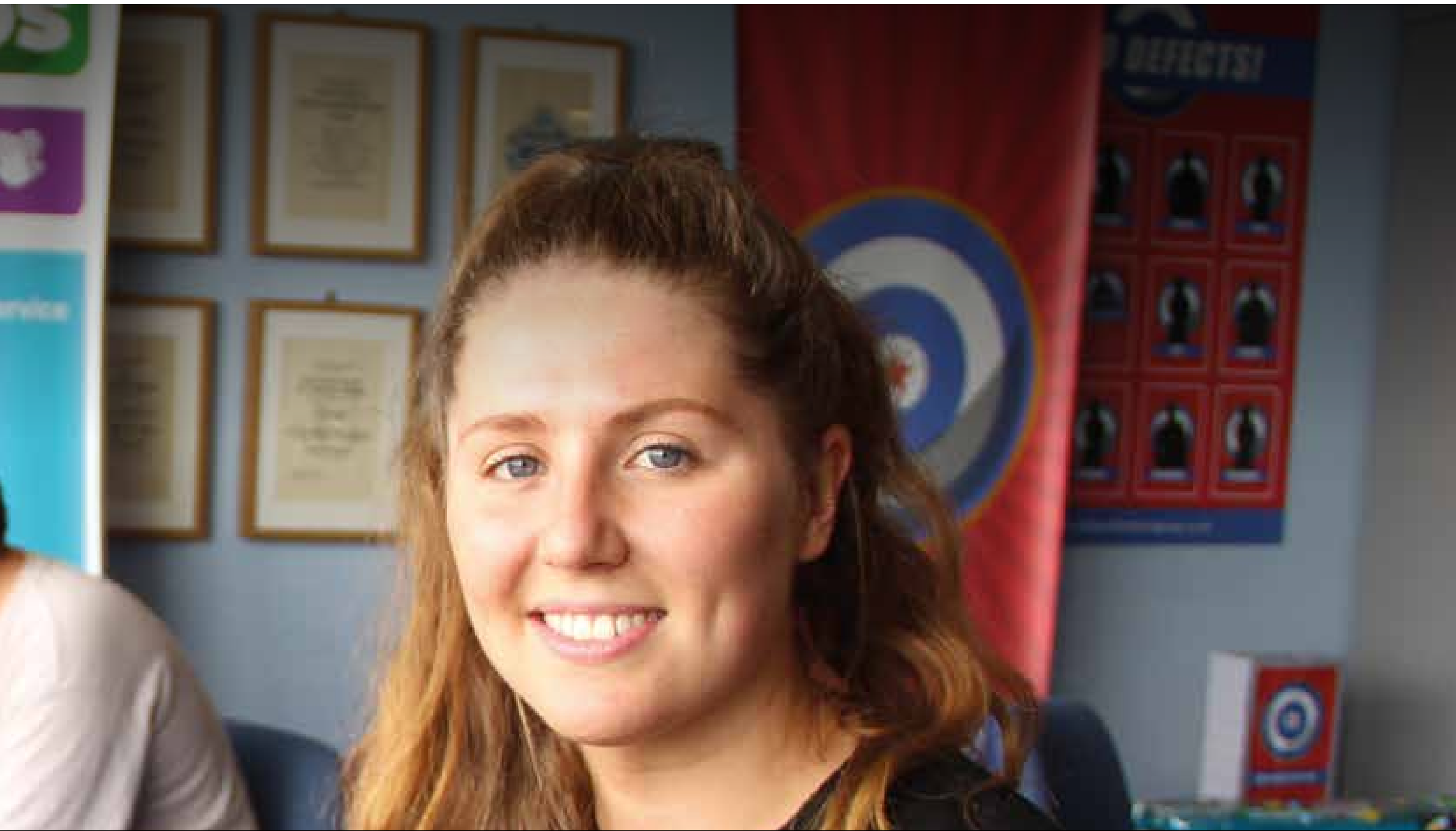
1 Average Reevoo score for 2018, based on 42,834 responses
2 Based on 17,755 responses
3 For UK-based Customer Services

Admiral Group plc

Our Culture

Communities

Our people play an active role in deciding who we help and how – after all, who understands the needs of the community better than the people themselves? As a global business employing over 10,000 people, we feel even more so that it's our responsibility to give something back to our local and global community; what's more is that we feel proud to do so.



COMMUNITY CHEST

It's often said that charity begins at home, and with our Community Chest, we aim to provide the necessary funding that can breathe life into all manner of community projects. As applications are submitted by staff who are personally involved in all manner of projects, from drama groups to sports clubs, we can be certain that our funding is being spent where it's most needed.

HELP TO WORK

Sometimes charity takes the form of time and expertise. We're proud to say that we help those in search of a career or who want to make their own way in life by providing CV workshops, careers talks, and work experience to schools, local job centres, and Prince's Trust beneficiaries from time to time.

GREEN ADMIRAL

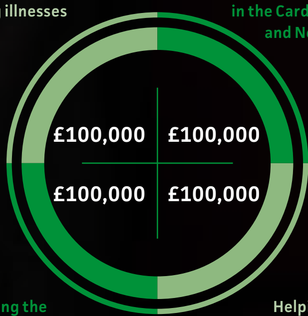
We're committed to reducing our environmental impact in any way we can, and our Green Team meets regularly to discuss this. Examples include an energy-conscious approach to choosing new premises, retro-fitting energy-saving devices in our existing buildings, reducing non-recyclable cutlery and cup use in our offices. For further information on our efforts, please see pages 58 to 61.

COMMUNITY ENGAGEMENT

People really are at the heart of what we do, and if we can get involved, we're glad to do so. Teams are encouraged to undertake community projects as part of their team-building activities and fun afternoons for example, the Recruitment team recently spent the day at a residential care home in Bridgend with an entertaining array of song and dance for residents, as well as helping out where possible.

Brightening the lives of children with life limiting illnesses

Supporting cancer care facilities and charities in the Cardiff, Swansea, and Newport areas



Improving the lives of vulnerable elderly people

Helping homeless people in Cardiff, Newport and Swansea

0.39 tonnes

CO_2e per employee

£156,415

raised by our 2018 Million Makers team

100%

reduction in waste sent to landfill since 2017

£400,000

to be spent by the new Ministry of Giving over the next 2 years

Strategic Report

Group at a Glance

Admiral Group is one of the UK's largest and most recognised car insurance providers, with market leading financial results.

What we do

- UK Insurance
- International Car Insurance
- Price Comparison
- Loans

See more on page 14

10,800

staff employed globally

Where we work

Admiral offers car, van, household and travel insurance in the UK and the Group includes Confused.com, a leading price comparison website. Outside the UK, Admiral owns four insurance and several price comparison businesses.

1. UK

- Admiral
- Bell
- Diamond
- elephant.co.uk
- Confused.com
- Admiral Household
- Gladiator
- Admiral Law
- BDE Law
- Admiral Loans
- Admiral Van
- Admiral Travel

2. France

- L'olivier – assurance auto
- LeLynx
- Homebrella

3. Italy

- ConTe

4. Spain

- Balumba
- Qualitas Auto
- Rastreator
- Seguros.es

5. USA

- Elephant Auto
- Apparent
- compare.com

6. Canada

- Admiral

7. India

- Admiral Solutions
- Admiral Technologies

Global

- Preminen

Strategic Report

What We Do

6.51m

Customers (2017: 5.73 million)

The Admiral Group has five insurance and several price comparison operations. It has over 6 million customers and employs over 10,000 staff.

UK Insurance

	UK Motor Insurance Admiral is one of the largest car insurers in the UK.	UK Household Insurance Admiral has a growing UK household insurance business.
	Admiral, Diamond, Bell, elephant, Gladiator	Admiral
CUSTOMERS	4.32 million (2017: 3.96 million)	0.87 million (2017: 0.66 million)
TURNOVER	£2.42 billion (2017: £2.25 billion)	£146 million (2017: £107 million)
NET INSURANCE PREMIUM REVENUE	£453 million (2017: £433 million)	£31 million (2017: £23 million)

UK Motor Insurance review

Read more on page 33

UK Household Insurance review

Read more on page 38

£3.28bn

Turnover (2017: £2.96 billion)

£1.26bn

Net Revenue (2017: £1.13 billion)

International Car Insurance

Growing car insurance businesses in Spain, Italy, France and the US.

1.22 million

(2017: 1.03 million)

£539 million

(2017: £450 million)

£142 million

(2017: £123 million)

International Car Insurance review

Read more on page 40

Price Comparison

Confused.com, one of the UK's leading price comparison websites, profitable operations in Spain and France, and a developing business in the US.

22 million quotes

(2017: 22.9 million quotes)

£151 million

Revenue (2017: £144 million)

Price Comparison review

Read more on page 44

Other Group items

Admiral Loans and other costs (including share scheme changes, finance costs and business development costs; such as investments in Preminen's ventures).

£300 million

Loan Balances (2017: £66 million)

£15 million

Total Interest Income (2017: £1.6 million)

Other Group Items

Read more on page 48

Strategic Report

Business Model

How we do it

Purpose Statement

Admiral Group's purpose is to provide:

- Good value financial products to our customers
- Excellent and convenient service to all customers
- A great place for our people to work
- Good returns for our shareholders over time

What we do

- Motor, household, travel insurance
- Price comparison
- Personal Loans and Car Finance

TURNOVER BY DIVISION

UK Insurance	**78%**
International insurance	**16%**
Price Comparison	**5%**
Other Group Items	**1%**

What sets us apart

GREAT PLACE TO WORK

We go out of our way to make this a GREAT place to work and believe that if people like what they do, they'll do it better. We have created an environment where Admiral employees look forward to coming to work and providing great service to customers.

EFFICIENT CAPITAL EMPLOYMENT

Sharing risk with co- and reinsurance partners is an important part of Admiral's business and these relationships are underpinned by strong underwriting results. Sharing risk allows Admiral to only provide capital backing for a minority of its business; this results in a superior return on capital for Admiral shareholders whilst also providing protection for losses.

SHAREHOLDER RETURNS

We are committed to returning excess capital to shareholders. We believe that keeping management hungry for cash keeps them focused on the most important aspects of the business. We don't starve our businesses, but neither do we allow them the luxury of excess capital.

FOCUS ON PROFITABILITY

Admiral continues to focus on bottom-line profitability both in the short, medium and long term, and this perspective guides the decisions we make across all of our business operations. The Group's strategy is to build profitable and sustainable business operations for the long term.

CONTROLLED TEST & LEARN

All our growth, at home and overseas, has been organic. We have built each business from the ground up, identifying and understanding the opportunity, taking measured steps to test how well we understand the challenge ahead and the effectiveness of our solutions, and then to learn from that experience and from the experience of those who have tried other strategies.

Satisfied and

Every day revolves around attracting, keeping and satisfying customers. We value customers above everything else and strive to design products that customers want and that represent value for money.

How we maximise value

Motivated Employees
Great place to work for employees

Risk Mitigation
Attractive returns for shareholders

Focused Management Team
Value for money products and excellent customer service

Sustainable Operations
Charitable giving and volunteering in the local community

Effective Solutions

Valued loyal customers

Voted **No.1** best large company to work for in UK

56% Return on equity

126p Dividend

98% customers would buy again

£156,000 raised for Million Makers (Princes Trust)

>9/10 customer satisfaction score following a policy change

Strategic Report

How We Do It – Our Strategy

We have a clear strategy to achieve our goal of building profitable and sustainable business operations for the long-term.

2018

"Our strategy is simple: to continue to progress in the UK car insurance market while taking what we do well to new markets and products: keep doing what we're doing, and do it better year after year."

David Stevens, CBE – Group Chief Executive Officer

Investing in our Core

Sustained Competitive Advantage

OBJECTIVE

Maintain our focus on efficient claims management and pricing to underwrite profitable business, a cost conscious culture and great customer service.

2019 FOCUS

Maintain strong performance of our UK Insurance business.

Respond to market conditions through effective pricing and growing at the right time.

Continue to be an efficient business with a focus on expenses and costs.

Continued Growth

OBJECTIVE

Grow profitably our UK private Motor and Household insurance operations.

2019 FOCUS

Continue to take advantage of growth opportunities in UK Motor and Household.

Focus on customer retention by putting customers at the front of all that we do.

Continued Development

OBJECTIVE

Maximise the value of our core business and lay the foundation for future growth.

2019 FOCUS

Identify and develop new products for customers that add value.

Take advantage of new technologies to improve our customers' experience.

2008

"Our strategy is simple: continue our profitable growth in the UK and take what we know and do well and do it elsewhere."

Henry Engelhardt, CBE – Admiral Co-Founder

Investing in our Future

Price Comparison

OBJECTIVE

Develop websites that allow consumers to compare a range of general insurance, financial services and other products.

2019 FOCUS

Continue to develop and grow a multi-product strategy in Europe and beyond.

Continue to provide a platform that attracts customers and improves the customer experience.

International Insurance

OBJECTIVE

Develop profitable, growing, sustainable insurance businesses that mirror the UK model.

2019 FOCUS

Pursue our path towards long term value creation in Europe and the US.

In the US, continue to drive towards a lower expense ratio and higher retention customers.

UK New Products

OBJECTIVE

Develop a competitive advantage in products beyond insurance.

2019 FOCUS

Develop Admiral Loans and offer UK customers better products and a better online buying experience.

Strategic Report

Chief Executive's Statement

17%
UK Motor market share

31%
Growth in UK Household customers

I think a CEO statement should try and take the long view; try and help readers understand things happening during a year that are often trivial in terms of that year's financials, but may be fundamental to the company's long-term health and prosperity.

There's been a lot going on in 2018 that qualifies as short-term financially trivial, but long-term potentially fundamental, so I can only give you a flavour and will do so by telling the tale of two cities, two Admiral cities: Madrid and Cardiff, and some of what happened in each during 2018.

MADRID

Brexit Preparation

A substantial and effective collective effort by the Group and the Spanish regulatory authorities, saw us set up a structure that is robust in the face of any Brexit eventuality (or at least, any eventuality reasonably envisaged at the time of writing !) both for our "EU" price comparison operations in France and Spain and for our "EU" insurers in France, Spain and Italy. This was achieved with near zero disruption to, or loss of, any of our now over a million policyholders across France, Italy and Spain. The 2018 P&L cost of circa €3.5 million, is a relatively trivial investment to protect the long-term value being created in our now profitable EU ventures.

Customer First Price Comparison

Rastreator, our 75% owned, Madrid-based market leader in price comparison in Spain, took the bold decision to shake up a market it largely dominates for the good of their customers, and ultimately all of their stakeholders. Panel participants had increasingly sought to "game" the system by quoting approximate, and normally overly optimistic, prices, to Rastreator's customers and then upping the premium during the acceptance process. Although this made the prices look attractive, it was eroding customer trust and not delivering on the fundamental price comparison promise of making shopping easy and efficient.

Rastreator responded by literally demoting "approximate" prices and promoting accurate prices on the price page, in a transparent and customer-friendly way. The change, introduced late in 2018, saw customer satisfaction scores rise immediately and substantially. The P&L impact in 2018 was marginally negative, but the bold move holds out the long-term possibility of a step change in customer trust and ultimately in the speed of adoption of insurance price comparison in Spain.

CARDIFF

It's hard to choose what to highlight in Cardiff, the location of our headquarters and 4,000 of our almost 8,000 UK staff. The launch of travel insurance, the growth of Veygo, (our short-term insurance brand), the expansion of MultiCover, our car and home combined policy, were all options, but instead I choose "Ford" and "The Admiral Brand".

Ford

Late in 2018 we signed our first material affinity partnership to provide Admiral-serviced and underwritten car insurance under someone else's brand name: Ford's.

Why? Partly because 13.6% of UK motorists drive a Ford and, while big believers in the cost-efficiency of distribution via price comparison sites, we also value a degree of "distribution diversity". Partly because we believe we can work with Ford Credit more broadly and creatively - to ensure better insurance and claim management outcomes for both Admiral and Ford customers.

The 2018 costs of securing the affinity partnership were in the hundreds of thousands and there will be an IT investment of around £1 million in 2019. Long-term return - a possibly fundamentally important and valuable strategic affinity partnership.

The "Admiral" Brand

During the course of 2018, Admiral Group crossed the threshold of four million cars on cover in the UK, and more than five million cars, vans and houses on cover. The vast majority of these policies are, and will continue to be, under the Admiral brand.

Our brand is, in many ways unobtrusive. Our ads are visible, but not omnipresent. They're unlikely to win industry creativity awards. And yet, over 90% of customers have heard of Admiral and preference ("which single insurer do you prefer?") is up 30% for car insurance and over 100% for home insurance, over the last 3 years.

Our continued investment in maintaining and building our brand in 2018 was around £10 million. Had we cut that spend, most of that £10 million would have fallen to the bottom line, given the lag between cutting spend and a brand withering away. But "Admiral", one of the UK's most recognised financial services brands, is an asset worth investing in for the long-term.

So that's an Admiral 2018 take on a Tale of Two Cities; a tale of investment for the future in Cardiff and Madrid, and across the Group. Whether, in investment terms, 2018 proves to be "the best of times", an "age of wisdom", a "spring of hope", (to quote, very selectively, from the justifiably more widely read original "Tale of Two Cities"), will only become fully apparent with the progress of time, but I'm fairly confident that many of this year's investments will bear long-term fruit for our customers and shareholders. It's certainly a far, far better thing to have made the investments than not to have made them.

David Stevens, CBE
Chief Executive Officer
6 March 2019

In the past I've outlined my priorities, which I indicated would be my priorities for a number of years to come. Here's how we are doing...

ENSURE ADMIRAL REMAINS ONE OF, IF NOT THE, BEST CAR INSURERS IN THE UK

Progress in 2018

Number one car insurer in the UK

Market leading combined ratio

Voted Best Motor Insurance and Best Insurance Provider in the Personal Finance Awards 2018/19 by UK consumers

Leading telematics provider

New products include short term insurance and partnership with Ford

2019 focus

Maintain our lead in cost efficiency, rigorous risk selection and effective claims management by continuing to identify improvements in our approach and operations

Improve online self-service options for customers

Maintain our culture of providing excellent customer service

DEMONSTRATE ADMIRAL CAN BE A GREAT CAR INSURER BEYOND THE UK

Progress in 2018

European insurance first ever profit and growth to over 1 million customers

Improvements in digital and self-service offering for customers

Elephant grew to over 200,000 vehicles in force

2019 focus

Continue the overall long term strategy of building sustainable, profitable businesses

Build on synergies across the European insurance companies

Elephant continues to focus on higher retaining customers and improved combined ratio

DEVELOP SOURCES OF GROWTH AND PROFITS BEYOND CAR INSURANCE

Progress in 2018

Household insurance grew to over 800,000 customers

Growing Loans business in UK

Launched Household insurance in France

2019 focus

Grow the UK Household and Loans businesses with a focus on the long-term objective of developing sources of competitive advantage

ENSURE ADMIRAL STAYS A GREAT PLACE TO WORK

Progress in 2018

Only company to be named in Sunday Times Best Companies to Work For since inception in 2001 – 1st in 2019

Voted 10th Best Workplace in Europe

3rd best large employer for women in the UK

Over 10,000 staff received shares in the business

Over 250,000 online courses and almost 700 classroom training sessions completed by UK staff

2019 focus

Continue to respond to staff feedback and continuously improve

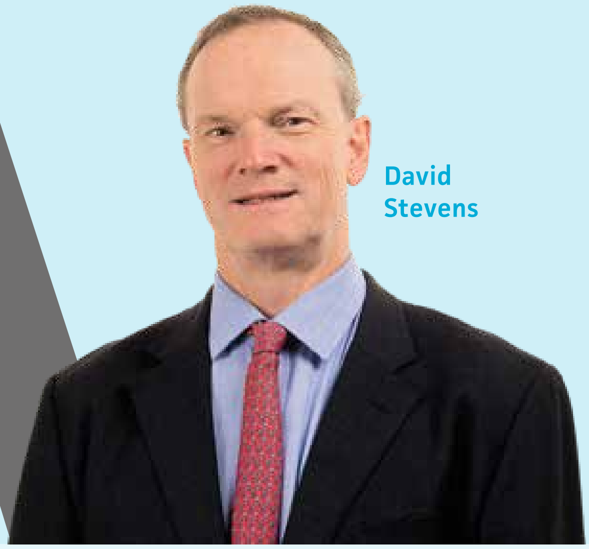
Continue our focus on profitable growth in which all our staff also benefit through the share scheme

Build on our strong track record of encouraging diversity across the Company

Continue to develop our people by offering exciting new career opportunities

Ensure our people enjoy coming to work

Q&A



David Stevens

with David, Cristina, Milena and Geraint

"Our people are shareholders in the business, and are highly motivated to improve processes, better serve customers, as well as maintain a culture of cost efficiency."

Q What happened with UK motor market pricing in 2018 and what is the outlook for 2019 - do you expect a turn in the cycle?

A **Cristina:** The 2018 motor pricing outlook was influenced by uncertainty on the Civil Liability Bill as well as higher than expected claims inflation, particularly in the latter part of the year. The Civil Liability Bill gained Royal Assent in December 2018, providing increased certainty for a change in the Ogden rate during 2019.

After a decrease in market prices in the first half, we saw prices turning in the second half of the year as a result of claims inflation. These price increases are likely to continue into 2019 assuming current market conditions. Admiral followed our disciplined underwriting approach and kept rates flat in the first half of 2018, and then increased price ahead of the market in the second half of 2018, which led to a slower growth rate in the second half.

Q How will Admiral maintain a competitive edge in the increasingly competitive UK Motor market?

A **Cristina:** The UK market continues to be competitive, with more rational players entering over the past few years. This has led to a more stable market, which is good for consumers. Almost 50% of the market consists of direct, listed players which contributes to strong performance and a more rational approach. However, there is still a large degree of inefficiency in the market as a whole which allows for opportunity to disrupt and grow. Whilst our competitors grow, Admiral does not rest on our laurels – we are always challenging ourselves to find ways to improve, innovate and better serve our customers.

The Admiral MultiCover proposition allows customers to purchase multiple insurance products for their household in one go – this allows for a more seamless customer journey, and generally optimal price as they add more products. Hence, customers get a discount and want to stay with us for longer.

Admiral continues to strengthen its underwriting advantage through improvements in pricing and analytics, and pursuing market-leading claims management practices. Our Claims teams are encouraged to innovate through a test and learn approach, making incremental improvements regularly.

Our people are shareholders in the business, and are highly motivated to improve processes, better serve customers, as well as maintain a culture of cost efficiency. Although an intangible measure, I am confident that this underlying culture has a large impact on the way we operate and ultimately contributes to the bottom line.

Q The internal model is taking longer than expected – can you provide an update on why and when you expect to finalise and move to your target Solvency 2 ratio?

A **Geraint:** One of the key objectives of using our own model is to calculate a capital requirement that better reflects Admiral's risk profile than the standard model allows for. Thanks to the huge efforts of our team, we made good progress over the past year but we need to further enhance our application before formally submitting it to the regulator. The continued growth of the Group and additional complexity is also leading us to reconsider the model scope, potentially bringing more business beyond purely UK motor within it.

Therefore we won't make a formal application in 2019 and will possibly not submit it in 2020. We will update further in due course when we have greater certainty around the timing.

Q Elephant sharpened its focus in 2017 – how is this approach progressing, and when can we expect it to reach profitability?

A **David:** The Elephant team continues to pursue the long-term goal of a sustainable, profitable business. To this extent, Alberto Schiavon, Elephant CEO, and his team have been focused on strengthening the business over the past 2 years. The team has focused on attracting and retaining customers that are typically more loyal and improving the combined

ratio. Early signs of this strategy are positive – persistency has improved by 24%, from 2017 to 2018 and the loss ratio in Texas is better than the market benchmark. In addition, the business has improved its digital capabilities allowing for increased self-service and an improved customer experience. This, together with a continued investment in growth to achieve the benefits of scale, has resulted in an improved expense ratio. So overall, I would say the business is making good progress towards sustainable scale which will be necessary to reach profitability.

Q What is the potential of the European operations?

A Milena: The European operations achieved an important milestone in 2018 – overall profitability for the first time. ConTe was profitable for the fifth year, Spain close to breakeven, and France still loss-making but growing to achieve scale. ConTe, in particular, had a strong result due to positive market conditions and strong loss ratio performance. In Spain and France, the businesses continue to grow with improvements in loss ratio and positive growth. Building on strong foundations for loss and expense ratio advantage in these markets, as well as having a very strong and experienced management team, I believe they are well on their way to produce meaningful profits for Admiral in the next 5 years.

We have placed particular emphasis on strengthening the operations as a whole and taking advantages of potential synergies as well as transferring skills and knowledge. Examples include establishing an IT team in Spain that provides support for all European operations, and the transferring of anti-fraud expertise developed in Italy to the French and Spanish operations which has resulted in meaningful improvements. In addition, the newly licensed insurance company in Spain which underwrites all European operations as a result of Brexit, should allow us to further maintain strong governance and increase cross-European collaboration.

Q Compare.com saw an impairment in 2018 – does this mean that Admiral has been unable to crack the US market for price comparison?

A David: The US market environment has taken an interesting turn over the past 18 months – combined ratios have improved, resulting in increased growth aspirations for insurers. Positively, this has resulted in more interest by insurers to join the Compare.com panel. Negatively, the slowdown in insurer price increases means consumer shopping has waned somewhat, while insurers have increased competition, and thus costs, in acquisition channels used by compare.com. This directly affects compare.com as a leading price comparison business in the US. This pressure on marketing spend has resulted in a similar loss to 2017.

We believe there is potential for price comparison to disrupt the US market and being an early mover is an advantage – however, it remains a challenging market with consumers taking time to shift towards this channel. As a result of the more challenging market environment, we have revised our business plan and also impaired the carrying value of Compare.com in the parent company balance sheet by £32.9 million.

Q How is the loans business doing? Why develop a Loans business, which seems so different to motor insurance?

A Geraint: The Loans market is large, with a £25 billion of new business per annum for personal lending alone and so I would be happy if we were able to successfully capture even a small proportion of this market. How will we compete? Well, we hope to transfer some of the competitive advantages we have built through motor insurance and adapt them to the lending business. These include our skill at risk selection, digital customer acquisition, excellent customer service and expense efficiency. In addition, we hope to take advantage of any overlap from our current customer base – a large proportion of personal loans are taken out to buy cars, and we believe there is also the opportunity to build a car finance business.

Admiral Loans continued to grow strongly in 2018, with loans balances increasing to £300 million from £66 million at the end of 2017. We maintain a prudent approach to growth and continue with a test and learn philosophy, growing where we see opportunity and slowing growth at less optimal times; we have moderated growth in the second half of 2018 in advance of Brexit. Early signs for the loans book are positive, but we continue to remain prudent in our approach as we build up experience.

Q Is Admiral able to continue to succeed in the core business without being distracted by diversification?

A David: Admiral follows a strategy of focused diversification. We believe there is an opportunity to use the competitive advantages we have developed in UK Motor to build other businesses both in the UK and internationally that can add further value to Admiral and our shareholders. We follow a prudent test and learn approach, without investing a large amount of cash or resources upfront and work with a range of partners to further manage the risk – understanding the opportunity, taking measured steps to understand the challenge and the effectiveness of our solutions, and then learning from that experience and the experience of those who have tried other strategies.

This approach, together with having a very strong and competent leadership team in our international operations as well as new ventures such as Admiral Loans, means that the leadership team are able to focus on the right things at the right time. UK motor continues to be the driver of our profits and hence still remains the key part of our focus and strategy.

Strategic Report

Chief Financial Officer's review

"ConTe deserves a special mention, with a year full of celebration – its 10th birthday party, 3rd best place to work in Italy, and importantly a fifth year of profitability."

2018 V 2017

Our financial result has, once again (see 2016's Annual Report), been significantly impacted by a forthcoming change to the UK Personal Injury Discount Rate (the Ogden rate). To try and explain what's happening behind the very positive headline numbers, I'd like to start my review by setting out some analysis of the underlying changes between 2018 and 2017.

£m	2018 0% Ogden	Ogden impact	2018 -0.75% Ogden	2017	Change
UK Insurance	555.6	70.4	485.2	465.5	+19.7
International Car Insurance	(1.1)	–	(1.1)	(14.3)	+13.2
Price Comparison	8.8	–	8.8	7.1	+1.7
Admiral Loans	(11.8)	–	(11.8)	(4.4)	(7.4)
Other	(72.2)	(4.4)	(67.8)	(48.5)	(19.3)
Group pre-tax profit	479.3	66.0	413.3	405.4	+7.9

OGDEN

Full detail on the partial reversal of Ogden is set out on page 27 of this report, but in brief, the passing of the Civil Liability Bill into law in December 2018 means that our best estimate of the discount rate used in the settlement of large injury claims is no longer minus 0.75% (the new rate will be confirmed by early August 2019 at the latest).

We have therefore revised those best estimate UK Motor reserves to be on a 0% Ogden basis, which would ultimately lead to a benefit of between £120 million and £140 million (pre-tax). There's fair chance the final rate isn't exactly 0% of course but we think it's a reasonable estimate based on the information published by the government to date. As shown above, 2018's profit is £66 million higher as a result of the change and much of the balance (plus or minus any impact of the actual rate when that comes if it's different to 0%) will flow into results over the next couple of years (as 2018 premium is earned and profit commission recognised). We've also set out sensitivities to rates around 0% on page 35.

Beyond Ogden, the main changes between 2017 and 18 were:

- Underlying (i.e. pre-Ogden benefit) UK Motor profit was up 2% from 2017; due to a larger book and positive prior year claims development offset by higher current year loss and expense ratios;
- Despite continuing to grow turnover and customer numbers (both up by more than 30%), the UK Household result was impacted (particularly in the first half) by severe weather (freeze and subsidence, costing around £11 million). The full year result was a loss of £3 million (H1 loss was £2 million, 2017 full year profit £4 million);
- ConTe in Italy led the way to a highly pleasing close-to-break-even overall result for our International Insurance businesses – a significant £13 million or so improvement on the previous year. All businesses improved their results and there was continued strong growth;
- Confused was the standout performer in Price Comparison, producing a profit more than 40% higher than 2017 (£14 million) and around 10% top line growth. The overall Price Comparison segment result was £9 million, £2 million up on last year (also read page 47 for information on the write down in the carrying value of compare.com);
- Admiral Loans made a pre-tax loss of £12 million, in line with expectation (the loss mainly results from acquisition costs which are expensed immediately whilst revenue is recognised over the life of the loans) after a year of strong growth; and
- 'Other' costs (including share scheme charges, debt interest, central overheads amongst others) were around £19 million higher than 2017. The main reasons were:
  - Share scheme costs +£14 million – a combination of a) a change in 2017 in the period over which the charge is spread which reduced 2017's charge; b) a higher scheme vesting resulting from the significantly higher 2018 profit and strong shareholder returns in recent years; and c) the impact of growth in the number of awards in recent periods (which is not expected to increase further).

- Central overheads +£5 million – mainly a result of £3 million of non-recurring Brexit-related costs.

The proposed full year dividend for 2018 is 126.0 pence per share – 11% higher than 2017's payment. The increase is mainly because of the payout in respect of the Ogden profit benefit (around £31 million, 11 pence per share). The post-dividend solvency ratio remains strong at 194%.

2018 RESULTS HIGHLIGHT

As noted above, 2018 saw continued improvement in the combined result of our International Insurance operations. At the end of 2015 those businesses had around 670,000 customers and recorded a full year loss of £22 million. By the end of 2018, customer numbers had increased by over 80% to more than 1.2 million, with a very small loss of around £1 million recorded for the year. Great progress across the board.

ConTe deserves a special mention, with a year full of celebration – its 10th birthday party, 3rd best place to work in Italy, and importantly a fifth year of profitability. The strongest driver of the result is positive loss ratio performance, both on the current and back years.

The ConTe team continues to work hard on all aspects of building a growing, sustainable, profitable business – improving the customer experience, reducing the expense ratio (it's already in line with the market), refining antifraud capabilities, building brand awareness, and advancements in self-service and automation. ConTe's 600,000th customer came on cover in late February 2019.

Great work everyone at ConTe!

ADMIRAL GROUP INTERNAL MODEL

We previously communicated that we hoped to apply to the Group's prudential regulator (the PRA) during 2019 for approval to use our own internal model to calculate the Group's solvency capital requirement. Whilst we continue to work intensively on all aspects of the model and, thanks to the huge efforts of our team, made good progress over the past year, we need to further enhance our application before formally applying. The continued growth of the Group and additional complexity is also leading us to reconsider the model scope, potentially bringing more business beyond purely UK Motor within it. This means we will not submit the formal application in 2019 and will possibly not submit in 2020. Hence, the Group will remain on the standard formula plus capital add on basis for the immediate future.

Whilst disappointing to see a further delay, it's clearly important to make sure our application is complete and we'd hope to be much clearer on the expected timeline by the end of the year.

BREXIT

I'd like to finish with Brexit (wouldn't we all). In late 2017 we started restructuring our European businesses (three insurers, two price comparison websites) so they could continue to trade regardless of the politics and ultimate Brexit outcome. I'm glad we took that course and as of January 2019 all businesses are operating under European licenses and we were successfully able to negate any impact on our customers or staff.

I'm hugely grateful for the work of everyone involved - the cooperation of multiple regulators; the invaluable support of numerous advisers. But the main thanks go to our teams – in Spain, Italy, France, Gibraltar and the UK for all the significant effort, commitment and determination shown over the past year and a bit on what was a **very** ambitious (and at times seemingly impossible) plan. Amazing result and thank you all!

Geraint Jones
Chief Financial Officer
6 March 2019

Strategic Report

Group Financial Review

2018 GROUP OVERVIEW

£m	2018	2017	2016
Turnover (£bn) *1	**3.28**	**2.96**	**2.58**
Net insurance premium revenue	671.8	619.1	548.8
Investment return (Insurance)	33.8	33.2	40.2
Underwriting profit*1	**211.2**	**177.7**	**79.7**
Investment return (Other)	2.9	8.5	13.0
Profit commission	93.2	67.0	54.3
Net interest income (Admiral Loans)	10.7	1.2	–
Net other revenue and expenses (Insurance)	253.0	207.6	185.4
Net other revenue and expenses (Non-Insurance)	(83.5)	(47.1)	(42.6)
Operating profit	**487.5**	**414.9**	**289.8**
Group Statutory profit before tax (Ogden 0%)	**476.2**	**403.5**	**278.4**
Group's Share of profit before tax*1 (Ogden 0%)	**479.3**	**405.4**	**284.3**
Group's Share of profit before tax*1 (Ogden – 0.75%)	**413.3**	**405.4**	**284.3**
UK Insurance	555.6	465.5	337.8
International Insurance	(1.1)	(14.3)	(19.4)
Price Comparison	8.8	7.1	2.7
Other*2	(84.0)	(52.9)	(36.8)
Group's Share of profit before tax*1 (Ogden 0%)	**479.3**	**405.4**	**284.3**
Key metrics:			
Group loss ratio*1	66.4%	66.2%	72.0%
Group expense ratio*1	22.9%	21.5%	22.4%
Group combined ratio*1	89.3%	87.7%	94.4%
Group customer numbers (m)	6.51	5.73	5.15
Earnings per share (Ogden 0%)	137.1 p		
Earnings per share (Ogden -0.75%)	118.2 p	117.2 p	78.7 p
Dividends	126.0 p	114.0 p	114.4 p
Return on Capital Employed*1	56%	55%	37%
Solvency Ratio	194%	205%	212%

*1 Alternative Performance Measures – refer to the end of this report for definition and explanation.

*2 "Other" includes Admiral Loans and other central costs.

Key highlights of the Group's result in 2018 are as follows:

- Continued strong growth in turnover (£3.28 billion, up 11% on 2017) and customer numbers (6.51 million, up 14% on 2017);
- Group's share of pre-tax profits of £479.3 million (2017: £405.4 million) and statutory profit before tax of £476.2 million (2017: £403.5 million). Both saw significant growth, primarily due to the impact of the change in Ogden discount rate assumption that leads to an increase in both underwriting profit and profit commission shown above;
- Excluding the Ogden impact, the Group's share of profit before tax increased by 2% to £413.3 million, with improved results from the UK Insurance, International Insurance and Price Comparison segments, offset by increased investment (due to growth) in Admiral Loans and higher central costs;
- UK Insurance turnover and customers both increased by 9% and 13% respectively to £2.6 billion and 5.2 million (2017: £2.4 billion and 4.6 million). Excluding Ogden, there was a significant increase in instalment income driven by Admiral retaining the instalment income since 2017, previously proportionately shared with Munich Re as well as a general increase in instalment income revenue;
- UK Household saw strong growth in turnover and customer numbers, though its result was impacted by weather events leading to a loss of £3.0 million (2017: £4.1 million profit);
- Improvement in the International Insurance result, with a reduced loss of £1.1 million (2017: £14.3 million loss). European insurance businesses recorded an aggregate profit of £6.4 million (2017: £1.9 million loss); and
- Price comparison recorded aggregate profit (excluding minority interests' share) of £8.8 million (2017: £7.1 million), mainly driven by the increased profit of Confused.com of £14.3 million (2017: £10.1 million).

CHANGE IN UK PERSONAL INJURY DISCOUNT RATE ASSUMPTION ('OGDEN')

During December 2018, the Civil Liability Bill, which brings into law changes to the way that the UK personal injury discount rate ('Ogden' discount rate) is set, received Royal Assent and is enacted as the Civil Liability Act.

The Ogden discount rate is used for adjusting the value of lump sum personal injury compensation, according to the amount the victims of serious personal injury can expect to earn by investing it. The principle of the new legislation is one of fair compensation, and the changes will result in the rate being set with reference to 'low risk' rather than 'very low risk' investments, better reflecting the actual investment risk that claimants are prepared to take.

At the time of the announcement of the proposed legislation in 2017, the Lord Chancellor implied that the new system would result in a rate in the region of 0% to 1%.

The enactment of the legislation marks the start of a process for setting a new rate, with a maximum 230-day timeframe meaning that we will receive a new rate during or before August 2019. As such, the significant majority of relevant open claims at the balance sheet date will be settled under the new rate.

The Group's best estimate assumption for the new rate, applied at the 2018 year-end is 0%. The setting of this assumption reflects a number of factors including current long-term economic forecasts and analysis released by the Government Actuary Department setting out the approach it is expected to take in recommending the new rate to the Lord Chancellor.

The estimated total impact, net of reinsurance and before tax, of the change in assumption from the current rate of -0.75% to the assumed 0% rate is approximately £120 million to £140 million on an ultimate basis. The majority of the financial impact in respect of premiums earned up to the balance sheet date (£66 million pre-tax, £54 million post-tax) has been recognised in the form of increased 2018 profits.

The balance, along with the impact of business written but unearned at the balance sheet date will be recognised in the form of higher claims reserve releases and profit commission over the next two to three years.

The Group anticipates that when the UK market pricing adjusts the level of future premiums to reflect the higher Ogden rate, there will be no significant change to the Group's future profitability.

Following the change in Ogden rate assumption, the financial statement reserves continue to hold a prudent and significant margin above actuarial best estimates in line with the Group's reserving policy.

EARNINGS PER SHARE

Earnings per share increased by 17% to 137.1 pence, reflecting the increase in the Group profit as a result of the change in Ogden assumption noted above. Excluding this change, earnings per share would have been 118.2 pence per share (1% higher than 2017).

Group Financial Review continued

DIVIDENDS

The Group's dividend policy is to pay 65% of post-tax profits as a normal dividend and to pay a further special dividend comprising earnings not required to be held in the Group for solvency or buffers.

The Board has proposed a final dividend of 66 pence per share, a 14% increase on the 2017 final dividend of 58 pence per share.

In line with the dividend policy noted above, the 66 pence per share final dividend can be split between a normal and special element as follows:

- 49.6 pence per share reflecting a normal dividend of 65% of post-tax profits; and
- A special dividend of 16.4 pence per share.

The 66 pence per share reflects the following when taking into account the Ogden benefit:

- 55 pence per share (£157 million) on an Ogden -0.75% basis, representing a pay-out of 99% of post-tax profits; and
- An additional dividend of 11 pence (£31 million) per share relating to the increase in post-tax profits from the change in Ogden discount rate assumption. The pay-out on the incremental post-tax profit is 88% and is lower than on the -0.75% basis, reflecting the capital implications of the change in discount rate assumption, primarily relating to increasing propensity for PPO claims.

The total dividend for the 2018 year is 126.0 pence per share, reflecting an 11% increase on 2017 and a 92% payout ratio.

RETURN ON EQUITY

The Group's return on equity was broadly consistent with 2017 at 56% in 2018 (2017: 55%).

CAPITAL STRUCTURE AND FINANCIAL POSITION

The Group's co-insurance and reinsurance arrangements for the UK Car Insurance business are in place at least until the end of 2019. The Groups' net retained share of that business is 22%. Munich Re will underwrite 40% of the business (through co-insurance and reinsurance arrangements) until at least the end of 2020.

Similar long-term arrangements are in place in the Group's international insurance operations and the UK Household and Van businesses.

The Group continues to manage its capital to ensure that all entities within the Group are able to continue as going concerns and that regulated entities comfortably meet regulatory capital requirements. Surplus capital within subsidiaries is paid up to the Group holding company in the form of dividends.

The Group's Brexit reorganisation means that the Group's European insurance businesses ConTe (in Italy), Admiral Seguros (in Spain) and L'olivier Assurances (in France) is underwritten from a regulated entity in Spain, Admiral Europe Compañía Seguros (AECS) from 1 January 2019. All existing liabilities and contracts relating to these businesses have been transferred through portfolio transfer processes, also effective from 1 January 2019.

Following this reorganisation, the Group has four underwriting entities; Admiral Insurance (Gibraltar) Limited (AIGL), Admiral Insurance Company Limited (AICL), Elephant Insurance Company LLC in the USA (EIC) and AECS as noted above.

The Group's regulatory capital is based on the Solvency II Standard Formula, with a capital add-on to reflect recognised limitations in the Standard Formula with respect to Admiral's business (predominantly in respect of profit commission arrangements in co- and reinsurance agreements and risks arising from claims including Periodic Payment Order (PPO) claims).

The Group continues to develop its partial internal model to form the basis of future capital requirements, although does not expect to submit the application during 2019 and possibly not 2020. In the interim period before submission, the Group will continue to use the current capital add-on basis to calculate its regulatory capital requirement.

The estimated and unaudited regulatory Solvency II position for the Group at the date of this report is as follows:

GROUP CAPITAL POSITION (UNAUDITED)

Group	£bn
Eligible Own Funds (pre 2018 final dividend)	1.26
2018 final dividend	0.19
Eligible Own Funds (post 2018 final dividend)	1.07
Solvency II capital requirement*1	0.55
Surplus over regulatory capital requirement	**0.52**
Solvency ratio (post dividend)*2	**194%**

*1 Solvency capital requirement includes updated capital add-on which is subject to regulatory approval.

*2 Solvency ratio calculated on a volatility adjusted basis.

The Group's capital includes £200 million ten year dated subordinated bonds. The rate of interest is fixed at 5.5% and the bonds mature in July 2024. The bonds qualify as tier two capital under the Solvency II regulatory regime.

Estimated sensitivities to the current Group solvency ratio are presented in the table below. These sensitivities cover the two most material risk types, insurance risk and market risk, and within these risks cover the most significant elements of the risk profile. Aside from the catastrophe events, estimated sensitivities have not been calibrated to individual return periods.

SOLVENCY RATIO SENSITIVITIES (UNAUDITED)

	2018	2017
UK Motor – incurred loss ratio +5%	-27%	-26%
UK Motor – 1 in 200 catastrophe event	-2%	-3%
UK Household – 1 in 200 catastrophe event	-2%	-2%
Interest rate – yield curve down 50 bps	-12%	-11%
Credit spreads widen 100 bps	-5%	-4%
Currency – 25% movement in euro and US dollar	-3%	-3%
ASHE – long term inflation assumption up 0.5%	-10%	-4%

TAXATION

The tax charge reported in the consolidated income statement is £85.7 million (2017: £71.9 million), equating to 18.0% of pre-tax profit (2017: 17.8%).

INVESTMENTS AND CASH

Investment strategy

Admiral's investment strategy was unchanged in 2018.

The main focus of the Group's strategy is capital preservation, with additional priorities including low volatility of returns and high levels of liquidity. All objectives continue to be met. The Group's Investment Committee performs regular reviews of the strategy to ensure it remains appropriate.

Cash and investments analysis

£m	2018	2017	2016
Fixed income and debt securities	1,568.6	1,493.5	1,469.2
Money market funds and other fair value instruments	1,301.1	1,074.3	781.0
Cash deposits	100.0	130.0	170.0
Cash	376.8	326.8	326.6
Total	**3,346.5**	**3,024.6**	**2,746.8**

Money market funds, fixed income and debt securities comprise the majority of the total; 86% at 31 December 2018 (2017: 85%).

Investment and interest income in 2017 was £36.7 million, a reduction of £5.0 million on 2017 (£41.7 million). 2017 benefitted from a gain on the sale of gilt assets and excluding this gain, the total investment and interest income is consistent with 2017.

The underlying rate of return for the year (excluding accruals related to reinsurance contract funds withheld) on the Group's cash and investments was 1.2% (2017: 1.3%).

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

Strategic Report

Group Financial Review continued

CASH FLOW

£m	2018	2017	2016
Operating cash flow, before transfers to investments	488.5	617.6	525.1
Transfers to financial investments	(248.8)	(229.4)	(18.1)
Operating cash flow	239.7	388.2	507.0
Tax payments	(55.6)	(55.9)	(74.6)
Investing cash flows (capital expenditure)	(23.9)	(22.7)	(31.6)
Financing cash flows	(346.8)	(310.0)	(364.7)
Loans funding through special purpose entity	220.2	–	–
Compare.com additional investment	19.3	–	–
Foreign currency translation impact	(2.9)	0.6	25.2
Net cash movement	50.0	0.2	61.3
Movement in unrealised gains on investments	(26.6)	11.2	35.2
Movement in accrued interest	49.7	37.0	43.4
Net increase in cash and financial investments	321.9	277.8	158.0

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

£m	2018	2017	2016
Profit after tax	390.5	331.6	214.1
Change in net insurance liabilities	176.6	53.2	206.8
Net change in trade receivables and liabilities	14.9	195.2	25.3
Change in loans and advances to customers	(242.9)	(65.2)	–
Non-cash income statement items	63.7	30.9	14.6
Taxation expense	85.7	71.9	64.3
Operating cash flow, before transfers to investments	488.5	617.6	525.1

Total cash plus investments increased to £321.9 million or by 11% (2017: £277.8 million, 10%).

The Group's results are presented in the following sections as:

- UK Insurance – including UK Motor (Car and Van), Household, Travel
- International Car Insurance – including L'olivier (France), Admiral Seguros (Spain), ConTe (Italy), Elephant (US)
- Price Comparison – including Confused.com (UK), LeLynx (France), Rastreator (Spain), Compare.com (US)

UK Insurance Review

5.24m

Customers (2017: 4.62million)

"Shortly after the end of the year we won the Home Insurance Provider of the Year at the Moneyfacts Consumer Awards, which was a great endorsement from our customers and reflects the fantastic culture that's been a cornerstone of our business since we launched 26 years ago."

The insurance sector isn't quite consistent with everyone's view of an exciting and fast paced life. Looking back and reflecting over 2018 makes me realise how many things have happened in a 12-month window, and the myriad of changes and improvements we've implemented over that time, I'd argue quite the reverse!

One thing that was certainly fast paced and exciting (for the children at least) was the weather that came in with the "Beast from the East" in the opening quarter of the year, which covered most of the country with snow and brought a flurry of household claims. It was our biggest weather event since the Household business launched in 2012, but the quality of service we were able to offer our customers in difficult circumstances was very pleasing.

Another pleasing aspect of the Household business is the progress we've made with our MultiCover offering, which provides convenience and value for money for our customers whilst offering improvements and cost-efficiencies for us as a business. Whilst the market-wide weather events in H1 and subsidence claims in H2 have resulted in a loss for our Household business this year, we believe that we've made progress in the underlying business.

I've mentioned MultiCover, which is a key element in the future for the UK Insurance segment, but car insurance (and MultiCar, which we launched more than 10 years ago) remains at the centre of what we do and is of course the main source of profit for the Group.

The market started the year positively, with growing confidence of seeing a favourable change in the Ogden rate leading to softening market prices in H1. However, continued inflation in damage claims and increased large bodily injury frequency has caused an increase in the loss ratio during the year. Our disciplined approach to underwriting meant that we therefore maintained our rates in the first half and increased prices more than our peers in H2, which meant that our growth rate slowed as the year progressed.

The Civil Liability Bill finally received Royal Assent in late December, leading us to believe that 0% is the most appropriate discount rate to use in valuing large injury claims. Also included in the Bill are the reforms that will simplify and reduce the costs of whiplash claims. Whilst the impacts of that part will unlikely come into force before mid-2020, we believe that the investments we've made in our systems and our long-running track record of efficient processing means that we'll be well-placed to deal with these changes and will pass on the savings to our customers.

The investments we've made in technology in recent years, not least the successful implementation of our Guidewire policy platform, are now starting to reap benefits for us and our customers. It's allowed us to undertake more sophisticated analytical processes to improve pricing accuracy and fight against claims fraud, but most importantly it has enabled us to further improve the great service we provide to customers and claimants.

Shortly after the end of the year we won Home Insurance Provider of the Year at the Moneyfacts Consumer Awards, which was a great endorsement from our customers and reflects the fantastic culture that's been a cornerstone of our business since we launched 26 years ago.

Perhaps everyone's view of an exciting and fast paced life isn't quite right?

Cristina Nestares

Cristina Nestares
CEO, UK Insurance
6 March 2019

Strategic Report

UK Insurance Review continued

UK INSURANCE FINANCIAL PERFORMANCE

£m	2018	2017	2016
Turnover*1	**2,575.7**	**2,354.0**	**2,063.1**
Total premiums written	2,269.8	2,098.0	1,862.6
Net insurance premium revenue	523.9	491.6	454.4
Underwriting profit	**227.7**	**206.2**	**109.2**
Profit commission and other income	327.9	259.3	228.6
UK Insurance profit before tax	**555.6**	**465.5**	**337.8**

SPLIT OF UK INSURANCE PROFIT BEFORE TAX

£m	2018	2017	2016
Motor	561.7	461.4	335.1
Household	(3.0)	4.1	2.7
Travel	(3.1)	–	–
Group's share of UK insurance profit	**555.6**	**465.5**	**337.8**

KEY PERFORMANCE INDICATORS

	2018	2017	2016
Vehicles insured at year end	4.32m	3.96m	3.65m
Households insured at year end	0.87m	0.66m	0.47m
Travel policies insured at year end	0.05m	–	–
Total UK Insurance customers*1	**5.24m**	**4.62m**	**4.12m**

*1 Alternative Performance Measures – refer to the end of this report for definition and explanation.

Key highlights for the UK insurance business for 2018 include:

- Continued growth in customers and turnover in both Motor and Household with Admiral maintaining market rates in H1 and increasing rates more than the market in H2 for Motor and increasing rates for Household
- A 22% increase in UK Motor profit to £561.7 million (Ogden: -0.75%: 7% increase to £491.3 million) primarily as a result of increased reserve releases due to the change in the Ogden rate assumption, as well as growth in ancillary revenue and instalment income
- Loss ratio performance for 2018 impacted by a combination of worse large bodily injury experience and continued inflation in damage claims
- An increase in the reported motor expense ratio to 18.4% from 16.2% mainly due to a combination of increased levy costs and a change in net retained share at the start of 2017 underwriting year
- Household loss of £3.0 million (2017: £4.1 million profit), impacted by extreme weather and subsidence claims
- Small loss from recently launched Travel insurance product (£3.1 million)

UK MOTOR INSURANCE FINANCIAL REVIEW

£m	2018	2017	2016
Turnover[*1]	**2,423.1**	**2,246.9**	**1,987.0**
Total premiums written[*1]	2,132.1	2,001.5	1,789.3
Net insurance premium revenue	452.5	433.2	404.3
Investment income	32.2	32.6	39.3
Net insurance claims	(189.2)	(214.2)	(290.1)
Net insurance expenses	(72.0)	(59.7)	(59.9)
Underwriting profit[*2]	**223.5**	**191.9**	**93.6**
Profit commission	95.0	64.7	52.7
Underwriting profit and profit commission	**318.5**	**256.6**	**146.3**
Net other revenue[*3]	243.2	204.8	188.8
UK Motor Insurance profit before tax	**561.7**	**461.4**	**335.1**

*1 Alternative Performance Measures – refer to the end of this report for definition and explanation.

*2 Underwriting profit excludes contribution from underwritten ancillaries (included in net other revenue).

*3 Net other revenue includes instalment income and contribution from underwritten ancillaries and is analysed later in the report. 2017 and 2016 have been represented on the same basis.

KEY PERFORMANCE INDICATORS

	2018	2017	2016
Reported Motor loss ratio[*1,*2]	63.5%	64.1%	73.3%
Reported Motor expense ratio[*1,*3]	18.4%	16.2%	17.5%
Reported Motor combined ratio	81.9%	80.3%	90.8%
Written basis Motor expense ratio	17.5%	15.8%	16.5%
Reported loss ratio before releases	88.1%	85.3%	87.7%
Claims reserve releases – original net share[*1,*4]	£111.4m	£92.1m	£58.3m
Claims reserve releases – commuted reinsurance[*1,*5]	£109.6m	£73.8m	£17.1m
Total claims reserve releases	£221.0m	£165.9m	£75.4m
Other Revenue per vehicle	£67	£64	£62
Cars insured at year end	4.09m	3.84m	3.65m
Vans insured at year end	0.23m	0.12m	–

*1 Alternative Performance Measures – refer to the end of this report for definition and explanation.

*2 Motor loss ratio adjusted to exclude impact of reserve releases on commuted reinsurance contracts. Reconciliation in note 13b.

*3 Motor expense ratio is calculated by including claims handling expenses that are reported within claims costs in the income statement. Reconciliation in note 13c.

*4 Original net share shows reserve releases on the proportion of the portfolio that Admiral wrote on a net basis at the start of the underwriting year in question.

*5 Commuted reinsurance shows releases, net of loss on commutation, on the proportion of the account that was originally ceded under quota share reinsurance contracts but has since been commuted and hence reported through underwriting and not profit commission.

Admiral Group plc

Strategic Report
UK Insurance Review continued

KEY PERFORMANCE INDICATORS CONTINUED

UK Motor profit increased by 22% during 2018 to £561.7 million (2017: £461.4 million) and vehicles insured increased by 9% to £4.32 million (2017: £3.96 million), whilst the reported combined ratio increased to 81.9% (2017: 80.3%). The results were impacted by a number of factors:

- Net insurance premium revenue was 4% higher at £452.5 million mainly resulting from the larger portfolio;
- Investment income was in line at £32.2 million;
- The current period loss ratio was slightly worse at 88.1% (2017: 85.3%) due to increased frequency in large bodily injury and damage claim inflation in 2018, albeit positive loss ratio development for prior years. Admiral continues to reflect a cautious approach to setting reserves early in their development;
- Continued positive development of prior year claims costs combined with the change in Ogden rate led to increased releases on original net share of reserves (£111.4 million, 25% of premium compared to £92.1 million, 21% of premium in 2017);
- Releases on reserves originally reinsured but since commuted higher at £109.6 million (v £73.8 million 2017), impacted by the change in Ogden rate;
- The growth in the vehicle base contributed to an increase in the underlying expense base. The change in the Group's net retained share from 25% to 22% in 2017 meant that the prior year earned expense ratio (16.2%) benefitted from the reduction in administration cost in the period. Excluding the impact of this change, the earned ratio would be broadly flat with 2018 (18.4%); and
- Other revenue (including ancillary products underwritten by Admiral) and instalment income were higher (£243.2 million £204.8 million in 2017) resulting from growth and changes to the arrangement with Munich Re in 2017 where Admiral now retains all instalment income.

Underwriting discipline was maintained in H1 by maintaining flat rates while the market reduced rates. In H2, market prices started to increase in reaction to higher than expected claims inflation. Admiral increased prices ahead of the market in H2 which impacted competitiveness and slowed growth. Turnover was 8% higher at £2.42 billion (2017: £2.25 billion). The numbers of cars insured exceeded four million and vans insured moved past 200,000, leading to 9% growth in total customers to 4.32 million (2017: 3.96 million).

CLAIMS AND RESERVES

Notable claims trends for Admiral and the market in 2018 include slightly higher overall frequency, a flattening in the rate of improvement in small injury claims frequency and continuing elevated levels of inflation in damage claims costs. Large bodily injury claims costs were also increased in 2018, which was notably higher than the benign large bodily injury claims experience in 2017.

The Group continues to reserve conservatively, setting claims reserves in the financial statements well above actuarial best estimates to create a margin held to allow for unforeseen adverse development.

As noted above, in addition to the favourable impact arising from the change in Ogden rate assumption, the Group experienced continued positive development of claims costs on previous underwriting years and these factors led to another significant release of reserves in the financial statements in the period (£111.4 million on Admiral's original net share, up from £92.1 million). The margin held in reserves remains prudent and significant though is slightly lower than the comparative period-end, reflecting the reduction in Management's assessment of uncertainty around the reserves.

CHANGE IN UK DISCOUNT RATE ('OGDEN')

As noted above, following the Royal Assent of the Civil Liability Bill, which brings into law changes to the way that the UK personal injury discount rate ('Ogden' discount rate) is set, the Groups' best estimate of the Ogden discount rate that will be applicable in the settlement of open claims has moved to 0% (from the existing -0.75% rate)

The table below shows the estimated sensitivity of profit before tax and solvency ratio to different Ogden rates. The profit impact presented is the estimated total impact of the change on the Group's pre-tax profit on an ultimate basis. It should be noted that not all of the impact would necessarily be recognised immediately.

	Impact on Profit before Tax (£m)*1	Impact on Solvency Ratio (%)*2
Increase in Ogden discount rate of 50 basis points (to 0.5%)	76.2	+13%
Decrease in Ogden discount rate of 50 basis points (to minus 0.5%)	(94.2)	-6%

*1 The impacts on profit before tax are stated net of co-insurance and reinsurance and include the impact on net insurance claims along with the associated profit commission movements that result from the change in the Ogden rate.

*2 Estimated impact on solvency ratio is based on the change in Own Funds and SCR resulting from change in the Ogden rate and is presented before the impact of changes in final dividend.

CO- AND REINSURANCE AND PROFIT COMMISSION

The proportional co- and reinsurance arrangements in place for the Motor business are the same as those reported in the 2017 Annual Report and will continue into 2019.

At 31 December 2018, all private car quota share reinsurance for underwriting years up to and including 2016 has been commuted, meaning Admiral assumes a higher net risk for these years than had the reinsurance been left in place. The 2016 contracts and the remainder of the 2015 contracts were commuted during 2018. Admiral generally elects to commute reinsurance where it makes economic sense to do so.

In 2018 profit commission of £95.0 million was recognised, up from £64.7 million the prior period. The increase in 2018 mainly arose due to improvements in booked loss ratios on prior years, which have also been impacted by the change in Ogden rate in 2018.

Note 5 to the financial statements analyses profit commission income and reserve releases by underwriting year.

UK CAR INSURANCE – CO-INSURANCE AND REINSURANCE

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

The Munich Re Group will underwrite 40% of the UK motor business until at least 2020, with future extension options available to Munich Re until 2022. 30% of this total is on a co-insurance basis, with the remaining 10% under a quota share reinsurance agreement from 2017 onwards.

The Group also has other quota share reinsurance arrangements confirmed to the end of 2019 covering 38% of the business written. The Group reduced its net underwriting share from 25% previously to 22% with effect from 2017.

The nature of the co-insurance proportion underwritten by Munich Re (via Great Lakes) is such that 30% of all motor premium and claims for the 2017 year accrue directly to Great Lakes and are not reflected in the Group's financial statements. Similarly, Great Lakes reimburses the Group for its proportional share of expenses incurred in acquiring and administering this business.

The quota share reinsurance arrangements result in all motor premiums and claims that are ceded to reinsurers being included in the Group's financial statements, but these figures are adjusted to exclude the reinsurer share, resulting in a net result for the Group.

The Group also purchases excess of loss reinsurance to provide protection against large claims and reviews this cover annually. For 2017 the Group increased its excess of loss cover as a result of the anticipated change in Ogden discount rate and the potential impact on large claims. For 2018, the Group has reduced this level of cover to be back in line with more recent levels. 2019's cover will be similar to 2018.

Strategic Report
UK Insurance Review continued

PROFIT COMMISSION

Admiral is potentially able to earn material amounts of profit commission revenue from co- and reinsurance partners, depending on the profitability of the insurance business underwritten by the partner. Revenue is recognised in the income statement in line with the booked loss ratios on Admiral's retained underwriting.

Note 5c to the financial statements analyses profit commission income by underwriting year.

COMMUTATIONS OF QUOTA SHARE REINSURANCE

Admiral tends to commute its UK Car Insurance quota share reinsurance contracts for an underwriting year 24 months from inception, assuming there is sufficient confidence in the profitability of the business covered by the reinsurance contract.

After the commutation is executed, movements in booked loss ratios result in reserve releases (or strengthening if the booked loss ratio were to increase) rather than reduced or increased reinsurance claims recoveries or profit commission.

During the first half of 2018, all quota share contracts relating to the 2016 underwriting year were commuted, along with one remaining contract relating to the 2015 underwriting year (the other quota share contracts relating to the 2015 year having been commuted in the second half of 2017). There were no commutations during the second half of 2018. At 31 December 2018, quota share reinsurance contracts remained in place for the 2017 and 2018 underwriting years.

In 2018 Admiral recognised reserve releases from commuted reinsurance contracts of £109.6 million (2017: £73.8 million). Excluding the accounting impact of commutations (refer to the glossary for further information), the releases relating to commuted reinsurance contracts were £141.5 million (2017: £97.5 million). The increase from 2017 is primarily due to more significant improvements in booked loss ratios on 2016 and prior underwriting years, in part due to the change in Ogden assumption.

Refer to note 5d(v) of the financial statements for analysis of reserve releases on commuted quota share reinsurance contracts.

4 millionth risk

In April, we also insured our four millionth car in the UK. The first car we insured back in 1993 was an Isuzu Piazza Turbo Coupe 2 Door Saloon and our four millionth car was a Peugeot 108. We marked this milestone with banners in all our buildings thanking staff for all their hard work, Atlas News stories and emails to all staff from our UK CEO, Cristina Nestares.

OTHER REVENUE AND INSTALMENT INCOME

UK Motor Insurance Other Revenue – analysis of contribution:

£m	2018	2017	2016
Contribution from additional products & fees	206.5	187.3	183.3
Contribution from additional products underwritten by Admiral*1	13.6	15.0	17.4
Instalment income	81.4	56.1	33.5
Other revenue	**301.5**	**258.4**	**234.2**
Internal costs	(58.3)	(53.6)	(45.4)
Net other revenue	**243.2**	**204.8**	**188.8**
Other revenue per vehicle*2	**£67**	**£64**	**£62**
Other revenue per vehicle net of internal costs	**£57**	**£54**	**£54**

*1 Included in underwriting profit in income statement but re-allocated to Other Revenue for purpose of KPIs.

*2 Other revenue (before internal costs) divided by average active vehicles, rolling 12 month basis.

Admiral generates Other Revenue from a portfolio of insurance products that complement the core car insurance product, and also fees generated over the life of the policy.

The most material contributors to net Other Revenue continue to be:

- Profit earned from motor policy upgrade products underwritten by Admiral, including breakdown, car hire and personal injury covers;
- Revenue from other insurance products, not underwritten by Admiral;
- Fees such as administration and cancellation fees; and
- Interest charged to customers paying for cover in instalments.

Overall contribution (Other Revenue net of costs plus instalment income) increased by 19% to £243.2 million (2017: £204.8 million). Whilst there were a number of smaller offsetting changes within the total, the main reasons for the increase were higher instalment income primarily due to changes in the arrangements with Munich Re in 2017 such that Admiral now retains all instalment income on the car insurance business compared to 60% previously, plus the growth in the size of the business.

Other revenue was equivalent to £67 per vehicle (gross of costs; 2017: £64), the increase being substantially due to the increase in instalment income noted above. Net Other Revenue (after deducting costs) per vehicle was £57 (2017: £54).

Strategic Report

UK Insurance Review continued

UK HOUSEHOLD INSURANCE FINANCIAL PERFORMANCE

£m	2018	2017	2016
Turnover*1	**146.0**	**107.1**	**76.1**
Total premiums written*1	131.1	96.5	73.3
Net insurance premium revenue	31.2	23.1	17.0
Underwriting loss*1*2	**(6.3)**	**(0.8)**	**(1.8)**
Profit commission and other income	3.3	4.9	4.5
UK Household insurance (loss)/profit	**(3.0)**	**4.1**	**2.7**

*1 Alternative Performance Measures – refer to the end of this report for definition and explanation.

*2 Underwriting loss excluding contribution from underwritten ancillaries.

KEY PERFORMANCE INDICATORS

	2018	2017	2016
Reported household loss ratio*1	92.3%	73.5%	76.5%
Reported household expense ratio*1	28.1%	30.0%	34.1%
Reported household combined ratio*1	120.4%	103.5%	110.6%
Impact of extreme weather and subsidence*1	19.1%	–	–
Households insured at year end*1	865,800	659,800	468,700

*1 Alternative Performance Measures – refer to the end of this report for definition and explanation.

UK Household insurance was launched in December 2012 under the Admiral brand.

The UK Household insurance business continued to grow strongly and increased the number of properties insured by 31% to 865,800 (2017: 659,800). Turnover increased by 36 % to £146.0 million (2017: £107.1 million). The 2018 result was a loss of £3.0 million (2017: profit of £4.1 million) following the weather and subsidence events that have impacted the UK Household market during the first and second halves of 2018 respectively. Adjusting for normal weather experience the result would have been a profit of £7.7 million. Market premiums increased as a result, and Admiral also increased premiums.

The volume of new business policies sold in the market continued to increase as more households changed insurer, and the share of these sales made via the price comparison channel also continued to increase. Admiral enjoyed strong customer retention and new business volumes and saw an increasing share of new business sales made either directly or via cross sell to existing Admiral customers within the Group's MultiCover product offering.

The reported loss ratio of 92.3% (2017: 73.5%) included around 11 percentage points of weather impact and eight percentage points related to subsidence. Prior year releases contributed a benefit of 4 percentage points, meaning that the underlying attritional loss ratio increased to 77.6% from 75.6% as a result of a combination of slightly lower average premiums and higher costs relating to escape of water and fire claims. Admiral's expense ratio also continued to improve (28.1%, down from 30.0%) and similar to the motor business, significantly outperforms the market.

UK HOUSEHOLD INSURANCE – REINSURANCE

The Group's Household business is supported by long-term proportional reinsurance arrangements covering 70% of the risk. In addition, the Group has non-proportional reinsurance to cover the risk of catastrophes stemming from weather events.

UK INSURANCE REGULATORY ENVIRONMENT

The UK Insurance business operates predominantly under the regulation of the Financial Conduct Authority (FCA) and Prudential Regulatory Authority (PRA), and through a Gibraltar-based insurance company, under the Financial Services Commission (FSC) in that territory.

The FCA and PRA regulate the Group's UK registered subsidiaries including EUI Limited (an insurance intermediary) and Admiral Insurance Company Limited (AICL; an insurer), whilst the FSC regulates Admiral Insurance (Gibraltar) Limited (AIGL; also an insurer).

The Group is required to maintain capital at a level prescribed by the lead regulator for Solvency II purposes, the PRA, and maintains a surplus above that required level at all times.

Innov8

This year we ran our successful Innov8 programme for the third consecutive year. Innov8 is an intense 48-hour challenge involving small cross-functional teams working on generating creative and innovative solutions to challenges from across the business set by our senior management team. Final presentations are delivered to a judging panel made up of our senior management group including CEO David Stevens and UK CEO Cristina Nestares. Anyone in the business can apply to take part. An email is sent to all staff (and an Atlas News article) inviting interested staff to tell us what challenge they are interested in and, in no more than 100 words, what they think they can bring to the Innov8 programme.

This year Innov8 teams focused on six challenges including how we can improve our management and organisation model, and where and how automation can be used to benefit the business, customers and staff. The winning team, as chosen by the judging panel, each win £50 vouchers as well as having the honour of winning. Alongside choosing the winning team the judges also awarded a 'Star Performer', the individual who really stood out and impressed them during the final presentations. Winners are announced on Atlas and we also share a video of the presentation on Admiral TV.

Innov8 organisers David and Sophie said, "Innov8 2018 was a fantastic success, the competition went smoothly, and we had great buy-in from senior management. We were incredibly impressed at how teams of Admiral employees who may never have met came together and produced brilliant ideas and polished pitches in just two days."

Strategic Report

International Car Insurance Review

Milena Mondini de Focatiis
CEO, European Insurance

2018 is likely to remain a memorable year in continental Europe for reaching three important milestones: one million customers, successful delivery of the Brexit project and the first time reaching profitability on a combined basis.

At the very end of the year European insurance celebrated its millionth customer. This came after the celebration of 500,000 customers at the beginning of the year in ConTe, 150,000 customers before the half year in L'olivier and 250,000 customers in December in Admiral Seguros. European insurance closed the year with 18% growth and higher brand awareness in each country despite a slower market in the first half of the year in Spain and Italy.

Shortly thereafter, we celebrated the successful completion of the Brexit project with the transfer of the European portfolio to a newly created company in Spain, Admiral Europe Compania de Seguros (AECS). AECS underwrites all policies in continental Europe from 1 January 2019 and we expect it to provide additional governance and support to the future development of our overseas operations.

Our third celebration (what a fantastic celebration period!) was closing the year with the first ever combined profit of €7 million. This is the result of improved metrics in each business, economies of scale and positive development of technical results. ConTe delivered record profits and both L'olivier and Admiral Seguros, again reduced their losses.

The main goal in continental Europe remains to continue to grow efficiently in markets where acquisition costs are materially higher than the UK and the direct channel still represents a very minor share of the market.

Improving our customer experience has been the "leitmotif" of the year – from a smoother sales journey with more customer friendly forms and accurate pricing, to new self-service features and faster customer service enabled by a higher degree of automation of internal processes. EUIGS, our IT service arm in Spain, played a prominent role in strengthening our systems and technology for a more efficient scalable business.

We believe we have good foundations to continue our journey to become a relevant contributor to group profits in the future.

Spain

Sarah Harris
CEO, Admiral Seguros

2018 was a year of somewhat slower growth, but again strong technical results.

Spanish market loss ratios finished 2017 at their lowest level for almost a decade, and we saw several competitors decrease prices at the beginning of 2018. Whilst this headwind affected volumes in the first half of the year, we regained momentum in the second half, improving conversion through price comparison sites and reaching record levels of policy retention. We finished the year with more than 250,000 customers, up 12% compared to 2017.

We continued to enhance our capabilities in both risk selection and claims handling. Investments in people, technology and data support our strategy of building a long-term sustainable loss ratio advantage.

Acquisition economics also improved materially through the year. In particular, we worked closely with our sister company, Rastreator, to improve the customer experience for those coming to us via price comparison.

What's next? Well, for 2019 both loss ratio and acquisition remain areas of focus. We will also be increasing investment in technology to become even more agile in servicing the needs of our customers.

Italy

Costantino Moretti

CEO, ConTe

ConTe closed 2018 with a profit for the fifth year in a row, whilst also achieving significant growth of the customer base of 17% year-on-year.

The market wasn't particularly favourable, even though prices started to slightly increase in the second half of the year, pushing more customers to shop online. Despite this context, ConTe was able to grow by leveraging on its competitiveness and on improvements in the digital journey.

ConTe has consolidated its position in the Italian Market by leading the competition on price comparison sites in terms of times top position, strengthening brand awareness through a continuous presence on TV and football sponsorship, and increasing customer satisfaction scores.

This was also a good year for the key ratios of the P&L: loss ratios continued to improve consistently across all underwriting years and the expense ratio hit the market average thanks to efficiencies gained through investments in digital and automation.

Those strong foundations allow ConTe to continue to stay focused on our sustainable growth strategy and to maintain an appropriate level of investment in technology and brand.

Finally, our people and culture continue to make the difference. ConTe has been awarded for the third year in a row as one of the best large companies to work for!

France

Pascal Gonzalvez

CEO, L'olivier - assurance auto

Another year of fast growth for L'olivier – assurance auto!

Despite a sluggish aggregator market, L'olivier managed to keep growing at a strong pace with more than 35% increase in turnover and closing the year with 174,000 customers.

This was possible thanks to strong improvements both in new business conversion and in persistency. Close to 40% of the French population now recognise our brand. This, coupled with several operational optimisations, helped us to increase our market share.

Our plan to deliver better service is coming to fruition with a strong improvement of our net promoter score and continuously increasing customer satisfaction leading to more loyal customers. Our ambition remains to prove to French customers that a direct insurer can provide service excellence. In this context, we have been developing new capabilities for self-service with a brand new customer portal that is increasingly used by customers leading to better service and more efficiency.

For 2019, we're planning more growth, a continuous focus on quality, new functionalities for self-servicing and the beginning of our product diversification strategy. Some exciting announcements to come…

USA

Alberto Schiavon

CEO, Elephant Auto

In 2018 Elephant shifted our book towards higher tiered customers, delivering stronger growth, persistency, and operational efficiency.

Premiums grew 16%, and we ended the year with 212,600 vehicles in force (17% growth year-on-year) due to higher retention and more vehicles per policy. Attracting customers who retain longer drove our expense ratio down (6 points year-on-year) in the short run and provides the critical foundation to sustainable growth in the long run.

Operationally, we are providing a better journey and higher service levels to our customers. Expanded and improved digital capabilities allow them to self-service their policies more effectively throughout their lifetime. They can now complete many essential tasks online, including making payments, changing coverage, and reporting a claim. The better digital journey has increased our operational efficiency, as fewer customers are forced to call in for sales, service or claims help. It has also improved customer satisfaction levels as policyholders can more quickly and effortlessly access information and make changes to their policy.

In 2019 we will continue to invest in our digital transformation. We are also planning some new customer acquisition initiatives to strengthen our brand awareness and grow our base of higher retention customers. Ultimately these initiatives are critical to building a growing, profitable, sustainable company centred around our customers.

Strategic Report

International Car Insurance Review continued

INTERNATIONAL CAR INSURANCE FINANCIAL PERFORMANCE

£m	2018	2017	2016
Turnover*1	**538.7**	**449.8**	**365.9**
Total premiums written*1	484.3	401.4	331.3
Net insurance premium revenue	141.7	123.0	91.3
Investment income	1.3	0.6	0.4
Net insurance claims	(104.0)	(94.1)	(75.5)
Net insurance expenses	(55.8)	(58.0)	(46.2)
Underwriting result*1	**(16.8)**	**(28.5)**	**(30.0)**
Net other income	15.7	14.2	10.6
International Car Insurance result	**(1.1)**	**(14.3)**	**(19.4)**

KEY PERFORMANCE INDICATORS

Reported Loss ratio*2	76%	76%	76%
Expense ratio*2	40%	45%	49%
Combined ratio*3	116%	121%	125%
Combined ratio, net of Other revenue*4	105%	109%	113%
Vehicles insured at period end	**1.22m**	**1.03m**	**0.86m**

*1 Alternative Performance Measures – refer to the end of this report for definition and explanation.

*2 Loss ratios and expense ratios have been adjusted to remove the impact of reinsurer caps so the underlying performance of the business is transparent.

*3 Combined ratio is calculated on Admiral's net share of premiums and excludes Other Revenue. It excludes the impact of reinsurer caps. Including the impact of reinsurer caps the reported combined ratio would be 2018: 113%; 2017: 124%; 2016: 133%.

*4 Combined ratio, net of Other Revenue is calculated on Admiral's net share of premiums and includes Other Revenue. Including the impact of reinsurer caps the reported combined ratio, net of Other Revenue would be 2018: 102%; 2017: 112%; 2016: 122%.

GEOGRAPHICAL ANALYSIS*1

2018	Spain	Italy	France	US	Total
Vehicles insured at period end (m)	0.25	0.59	0.17	0.21	1.22
Turnover (£m)	67.6	176.8	80.5	213.8	538.7

2017	Spain	Italy	France	US	Total
Vehicles insured at period end (m)	0.22	0.50	0.13	0.18	1.03
Turnover (£m)	61.5	154.6	59.2	174.5	449.8

*1 Alternative Performance Measures – refer to the end of this report for definition and explanation.

Admiral operates four insurance businesses outside the UK: in Spain (Admiral Seguros), Italy (ConTe), the US (Elephant Auto) and France (L'olivier – assurance auto).

The operations continued to grow strongly in 2018, with customer numbers increasing by 18% to 1.22 million (2017: 1.03 million) and combined turnover rising by 20% to £538.7 million (2017: £449.8 million).

The key features of the International Car insurance results are:

- An aggregate loss of £1.1 million reflecting a large improvement from the 2017 loss of £14.3 million;
- A record profit in the Group's Italian business ConTe, which also grew its customer base to 0.6 million customers;
- A significant improvement in Elephant Auto's result (reduced loss from £12.5 million to £7.5 million year-on-year);
- An improved combined ratio (net of other revenue) of 105% (2017: 109%) reflecting reduced acquisition costs, positive back year development and improvements in pricing and operational efficiencies; and
- Continued investment in people, technology and customer experience in all operations.

The combined expense ratio improved to 40% (2017: 45%) as all businesses grew and continued to pursue operational efficiencies. The expense ratio continues to appear high in comparison to Admiral's UK business because of high acquisition costs as the businesses grow and also the continued need to build scale. ConTe expense ratio reached the Italian market level in 2018.

The European insurance operations in Spain, Italy and France surpassed the one million mark to insure 1.01 million vehicles at 31 December 2018 – 19% higher than a year earlier (31 December 2017: 0.85 million). Turnover was up 18% at £324.9 million (2017: £275.3 million). The consolidated result of the businesses was a profit of £6.4 million (2017: loss of £1.9 million) consisting of continuing (and higher) profitability in Italy and lower losses in France and Spain. The combined ratio net of other revenue (excluding the impact of reinsurer caps) improved to 98% from 101% due to the improved claims experience and expense ratio.

Elephant insured 212,600 vehicles at the end of 2018, up by 17% year-on-year. Turnover was £213.8 million, up 23% on the prior year (£174.5 million). Elephant again reduced its loss for the period (to £7.5 million from £12.5 million in 2017) despite the positive growth. Elephant continues to see improvements in customer persistency as a result of the focus on higher retaining customers. The focus on expense ratio through improvements in operational efficiency, as well as loss ratio, translated into a continued improvement in the combined ratio net of other revenue of 115% (119% in 2017).

INTERNATIONAL CAR INSURANCE CO-INSURANCE AND REINSURANCE

In 2018 Admiral retained 35% (Italy), 30% (France and Spain) and 33% (USA) of the underwriting risk respectively. The arrangements for 2019 will remain the same.

INTERNATIONAL CAR INSURANCE REGULATORY ENVIRONMENT

Admiral's European insurance operations are now primarily regulated by the Spanish regulator, the Dirección General de Seguros y Fondos de Pensiones (DGSFP). This shift is a result of restructuring ahead of Brexit. More information on company changes due to Brexit can be found on page 49.

The Group's US insurer, Elephant Insurance Company, is regulated by the Virginia State Corporation Commission's Bureau of Insurance.

Both insurers are required to maintain capital at levels prescribed by the regulator and hold a surplus above these requirements at all times.

Admiral Group plc

Strategic Report

Price Comparison Review

Global

Elena Betes

European Price Comparison Director

During 2018, we continued to deliver on our ambition of playing relevant and leading roles in our services comparison markets where barriers to entry are low, but barriers to success are high.

In our European markets, we have prepared the businesses for Brexit by creating a robust organisational structure. We have also invested in our brands, products and data capabilities to strengthen and diversify our revenue lines.

We believe that our world requires disruption to improve customer experience and we have proven this in Spain, where by putting the customer first, we succeeded in getting more reliable and accurate prices from insurers in 2018. This is already having a positive impact on conversion rates and gives us optimism for the future. In Confused in the UK, we continued to focus on our priorities and invested in developing attractive new offers for customers.

We are increasing our diversification and leveraging our brands, particularly relevant with the launch of our energy vertical in France and mortgage comparison in Spain.

In emerging markets, we continue our path of organic expansion and we welcome Tamoniki.com, as the newest member of the family in Turkey. Rastreator.mx in Mexico is seeing the first positive signs of growth.

We prefer to call ourselves 'Customer Portals' rather than Price Comparison, as the future requires us to not only compare prices, but also to give advice on the individual fit between consumer and service/product. We expect insights based on data analysis and AI will enable us to achieve this, but this is only one of the many opportunities that 2019 offers to our growing family.

UK

Louise O'Shea

CEO, Confused.com

Confused.com has seen and embarked on many changes in its 16-year history, but as the Group's most mature price comparison business and the company that created the industry, one thing has remained the same - our focus on saving customers time and money.

In 2018, Confused.com continued to evolve its driver centric strategy, with a focus on leading drivers from confusion to clarity, and helping people navigate the noise, clutter and confusion when it comes to the hundreds of insurers fighting for their attention.

The price comparison sector remains one of the UK's biggest advertisers and in 2018 we saw costs increase across most of our marketing channels. This, together with a downturn in insurance prices, and customers using multiple price comparison websites, made the market as competitive as ever. Our interactions with customers also changed during 2018 as GDPR came into force.

Confused.com responded to all of these challenges, growing revenue by 10% and profit by 42% year on year, whilst continuing to invest in technology and people. 2018 profit margin also improved to 15% (2017: 12%) as we focused on more effective marketing in response to market conditions and implemented improvements for customers. In 2018, we also achieved the milestone of £1 billion revenue since we launched in 2002, a fantastic achievement for everybody who has been a part of the Confused.com story.

In 2019, we don't expect the competitive environment to ease, but Confused.com will continue its focus on saving time and money for customers which, after all, is what it is all about.

Spain

Fernando Summers
CEO, Rastreator

2018 was a mixed year for Rastreator. Challenging market conditions and investment in new products resulted in flat revenue and a decrease in profit. This, as well as several regulatory changes including IDD, Brexit and GDPR did not stop us from concentrating on moving towards an improved customer proposition through our price accuracy strategy.

It has been challenging in our relationships with insurers but the steps we are taking are improving the experience and therefore conversion.

For 2019 we are focusing in setting up our own call centre to get deeper into the contracting process of the customer and being able to close sales by ourselves (mortgages, loans and insurance policies). This will allow us to give a complete and better experience to our customers.

In addition, this provides a new way to communicate and improves our marketing approach towards a better understanding of the benefits we can provide to customers. This has allowed us to develop a strategic transformation of our marketing structure, messages and campaigns.

To make this happen, we have a strong, ambitious and committed team that truly believe in this growing future for Rastreator!

France

Itzal Arbide
CEO, LeLynx

French market growth in 2018 was more volatile following increased marketing spend by incumbents. Whilst the car insurance aggregator market started to show signs of maturity, we saw impressive growth in other insurance products helped by favourable regulation for switching.

In 2018, LeLynx achieved double-digit revenue growth of 10% on the back of a well-founded marketing campaign and focus on diversification of the product range. LeLynx launched a well-received comparison tool for energy suppliers, in a new market experiencing rapid growth and simple switching rules for consumers.

The business continues to go from strength to strength with a growing team to support important projects that we anticipate will strengthen revenue and profit growth in 2019 and beyond. The plan is to pursue growth and develop new products that will help consumers make the right choices when it comes to insurance, finance, energy and potentially other products very soon.

I am delighted and optimistic about the future of LeLynx and look forward to 2019 in my new role as CEO. Lots to do. And a great team to do this with.

USA

Andrew Rose
CEO, compare.com

2018 was not the year we expected. Most carriers achieved rate adequacy in late 2017 and came into 2018 in growth mode.

That was good for us in terms of carrier additions to our panel (including Esurance, Travelers, USAA) as well as rates returned to customers (our highest national average ever). It also meant, however, an upward movement in our acquisition costs as those same carriers sought growth. That resulted in lower revenue and quote volumes in 2018 and pressure on marketing spend.

This pressure meant an ever-vigilant focus on cost management as well as the exploration of new acquisition channels. Several nice partnerships have developed with a strong pipeline established for 2019.

Another highlight of 2018 was the raising of approximately $35 million to fuel and grow compare.com. Admiral entered an agreement with Henry Engelhardt and his wife, Diane, whereby Diane invested $25 million. In addition, Admiral Group provided compare.com up to $10 million by way of a convertible loan instrument, $5 million of which had been drawn down at the year end.

Our 2019 priorities remain similar to 2018: grow our absolute volumes while continuing to pursue overall profitability. Consumers can save billions and we are determined to help them realise how easy it can be!

Strategic Report
Price Comparison Review continued

PRICE COMPARISON FINANCIAL REVIEW

£m	2018	2017	2016
Revenue			
Car insurance price comparison	110.1	108.8	97.7
Other categories	40.9	34.8	31.5
Total revenue	**151.0**	**143.6**	**129.2**
Expenses	(144.4)	(138.2)	(132.1)
Profit/(loss) before tax	**6.6**	**5.4**	**(2.9)**
Confused.com profit	14.3	10.1	16.1
International price comparison result	(7.7)	(4.7)	(19.0)
	6.6	**5.4**	**(2.9)**
Group's share of profit/(loss) before tax *1			
Confused.com profit	14.3	10.1	16.1
International price comparison result	(5.5)	(3.0)	(13.4)
	8.8	**7.1**	**2.7**

*1 Alternative Performance Measure – refer to the end of this report for definition and explanation.

Admiral operates four price comparison businesses; in the UK (Confused.com), in Spain (Rastreator), France (LeLynx) and the US (compare.com). Admiral Group owns 75% of Rastreator and 59% of compare.com (2017: 75% of Rastreator; 71% of compare.com).

Combined revenue grew by 5% to £151 million (2017: £143.6 million) and the businesses made a combined profit (excluding minority interests' shares) of £8.8 million (2017: £7.1 million).

The key features of the Price Comparison result are:

- A loss of £6.9 million (2017: £7.1 million) at compare.com in the US, (Admiral Group share). Statutory loss before tax remained constant at £10.0 million. The results reflect a reduction in sales volumes due to increased market competition and pressure on acquisition costs;
- In the UK, Confused.com saw market share increases in Motor and Home Insurance price comparison and efficient media spending led to an increased profit of £14.3 million (2017: £10.1 million);
- The European price comparison businesses reported a reduced profit of £1.4 million (2017: £4.1 million) reflecting investment in a more diversified product range as well as a more competitive market environment, including a new entrant spending on marketing in France; and
- The UK price comparison market remains very competitive with increasing advertising spend across all marketing channels, however small market share increases led Confused.com to a 10% increase in turnover to £95.1 million (2017: £86.8 million).

The combined revenue from the European operations increased by 4% to £46.3 million (2017: £44.4 million*2), reflecting continued growth in traffic and quotes provided to customers in LeLynx and increased competitive pressures in Spain.

During 2018 compare.com received investments totalling $30 million, $25 million in an agreement with former Admiral Group CEO Henry Engelhardt and his wife, Diane, and separately, $10 million by way of a convertible loan from Admiral Group, of which $5 million was drawn down in the year. Henry has subsequently joined the Board of compare.com.

*2 2017 Turnover for Confused.com updated to £86.8 million from originally reported £87.1 million due to new products which no longer fall under Confused.com and have been transferred to the Group.

In 2018, a non-cash impairment charge of £32.9 million was recognised by the parent company in respect of its investment in compare.com. This followed the regular review of the carrying values of subsidiary companies and review of the long-term strategy of compare.com, and reflects challenging conditions for nascent price comparison market in the US. Given the challenging market conditions there remains considerable uncertainty over the timing and level of the future profitability of the business. The impairment charge is recognised in the income statement of the parent company and has no impact on the Group's consolidated profit for the period or the Group's 2018 regulatory capital position.

Compare.com's plans for 2019 and beyond include continuing to scale marketing activity and grow volumes. The Group anticipates that the Group's share of compare.com's losses for 2019 will be in the range of $7 million to $14 million.

Preminen, the Group's price comparison venture with Mapfre, continues to explore price comparison in new markets overseas. Rastreator.mx in Mexico has focused on panel development and growth, while Tamoniki, Preminen's Turkish price comparison website, was launched in 2018.

PRICE COMPARISON REGULATORY ENVIRONMENT

Confused.com is regulated by the Financial Conduct Authority (FCA) as an insurance intermediary and is subject to all relevant intermediation rules, including those on solvency capital.

During 2018 Brexit preparations were finalised and Rastreator and Lelynx are now locally licensed, negating the need to passport insurance intermediary permissions from the UK. Further information on the impact of Brexit on our European operations can be found on page 49.

Compare.com is a regulated insurance agency domiciled in Virginia, US, and licensed in all other US states.

Staff General Meeting

The annual Staff General Meeting (SGM) started in 1998. All UK-based staff are invited to attend. They are lively and entertaining meetings where the senior managers give presentations about the performance of the company and inform staff of business plans for the coming year. The presentations are informative, but the focus has always been to entertain and inspire staff for the year ahead. This is our only event where senior managers speak to all UK staff face to face on the same day and we think this is a very powerful and effective way to promote a renewed sense of pride in Admiral every year.

Strategic Report

Other Group Items

OTHER GROUP ITEMS FINANCIAL REVIEW

£m	2018	2017	2016
Share scheme charges	(49.0)	(35.2)	(31.5)
Admiral Loans loss before tax	(11.8)	(4.4)	-
Other interest and investment return	2.9	8.4	13.4
Business development costs	(4.3)	(5.2)	(5.2)
Other central overheads	(10.8)	(6.2)	(4.1)
Finance charges	(11.3)	(11.4)	(11.4)
UK commercial van broking	0.3	1.1	2.0
Other Group items	**(84.0)**	**(52.9)**	**(36.8)**

Share scheme charges relate to the Group's two employee share schemes (refer to note 9 to the financial statements). Charges increased by £13.8 million in 2018, to £49 million. The increase in the charge is mainly due to a non-repeating change made in 2017 over which the charge is spread (without this change, the 2017 charge would have been approximately £6 million higher). Other factors for the increase include a change in the vesting outcome assumptions for variable awards (including 2016 which vests in 2019, and reflects the significantly higher profit in 2018) and an increase in the number of awards, reflecting the increasing Group headcount over a three year vesting period.

Other interest and investment income of £2.9 million was lower than in 2017 (£8.4 million). The 2017 result included a £5.4 million realised gain from the sale of investments held by the Group, which was not repeated in 2018. Both 2017 and 2018 include the impact of unrealised losses relating to forward foreign exchange contracts (2018: £2.3 million, 2017: £2.3 million). The higher number in 2016 of £13.4 million benefitted from £6.5 million of unrealised gains from forward contracts.

Business development costs include costs associated with potential new ventures, including the investment in Preminen's ventures related to the price comparison businesses in Mexico (launched in 2017) and newly launched business in Turkey.

Other central overheads of £10.8 million continue to reflect the cost of a number of significant Group projects, including the one-off cost of Brexit reorganisation (approximately £3 million) and a number of other non-recurring costs relating to ongoing Group projects.

Finance charges of £11.3 million (2017: £11.4 million) mainly represent interest on the £200 million subordinated notes issued in July 2014 (refer to note 6 to the financial statements).

ADMIRAL LOANS

£m	2018	2017
Total interest income	15.0	1.6
Interest expense*1	(4.3)	(0.4)
Net interest income	**10.7**	**1.2**
Other fee income	0.4	-
Total income	**11.1**	**1.2**
Expenses	(22.9)	(5.6)
Admiral Loans result	**(11.8)**	**(4.4)**

*1 Includes £0.7 million Intra-group interest expense.

Background

Admiral Loans launched in 2017, and currently distributes unsecured personal loans and car finance products through price comparison websites and also direct to consumers via the Admiral website.

The Group employs a prudent test and learn approach regarding growth in customers and loan advances, consistent with other new business launches. Initial results are encouraging, and the business has grown significantly since launch, with loan balances increasing to £300 million in 2018 (2017: £66 million). The Group continues to expect the business to make losses in its early phase as a result of the upfront accounting for acquisition costs as opposed to interest income earned on loans which is spread over the life of the loans. Admiral is encouraged with the performance of the business and the credit quality of the loans portfolio.

Admiral Loans has secured external funding during 2018 (of up to £300 million) through the securitisation of certain loans via transfer to a special purpose entity ("SPE") which remains under the control of the Group. The securitisation and subsequent issue of notes does not result in a significant transfer of risk from the Group.

Result

The Admiral Loans business grew significantly during 2018, and recorded a pre-tax loss of £11.8 million (increase from pre-tax loss of £4.4 million in 2017). The higher loss predominantly relates to the cost of acquiring new customers which is expensed immediately with interest income recognised over the life of the loan, typically three to four years.

As a result of growth, net interest income increased and expenses also increased driven by factors including the acquisition cost of growth and changes to provisioning.

Admiral Loans also adopted the new IFRS9 accounting standard as at 1 January 2018 which has accelerated the recognition of expected losses on loans advanced to customers.

UK EXIT FROM THE EUROPEAN UNION ('BREXIT')

Admiral has adopted a prudent approach in relation to Brexit, designed to mitigate the risks to our European businesses of a potential "hard Brexit", which could have prevented those operations from continuing to trade due to reliance on passporting rights.

The businesses that potentially would have been impacted, being the European insurers and European price comparison businesses, have been restructured so as to fully mitigate a "no deal" outcome. This has been achieved for the European insurers through Admiral receiving approval for an application to establish insurance and intermediary companies in Spain, such that from 1 January 2019, all of the Group's European insurance business is underwritten by a regulated entity in Spain, Admiral Europe Compania Seguros (AECS). All existing liabilities and contracts relating to these businesses have been transferred through portfolio transfer processes, also effective from 1 January 2019.

In addition, the Group's European price comparison businesses Rastreator and LeLynx have successfully been merged into price comparison companies established in Spain (Comparaseguros Corredia de Seguros) and France (LeLynx SAS) respectively.

The Group expects AIGL, the Group's Gibraltar insurance entity, to be able to continue to carry on trading in an uninterrupted manner after 29 March 2019. This is reliant on the passing of relevant legislation by UK government which is anticipated prior to 29 March.

Brexit continues to bring risks to the Group, which include:

- The potential for market volatility, and the potential for the uncertainty or the emerging terms of exit to trigger or exacerbate less favourable economic conditions in the UK and other countries in which Admiral operates (though it is worth noting that car insurance has tended to be resilient to economic downturns; and Admiral Loans has adopted a cautious approach to volumes and credit quality in advance of Brexit. As part of the Own Risk and Solvency Assessment ("ORSA") process, the Group has performed a stress testing exercise for its Brexit assessment of the impact of a recession through 2019 on the UK insurance business, including the increase in claims costs following a spike in inflation. This includes negative movement in interest rates, currency, investment yields, inflation, unemployment and GDP, alongside a "hard" Brexit (i.e. no deal outcome). Given the results of the stress testing the Group is comfortable that it is able to manage the potential outcomes of such scenarios should they occur.

  Also as part of the ORSA process, a specific economic stress test scenario which captures the potential outcomes from a 'no deal' Brexit has been applied to the Admiral Loans business in order to assess the potential impact. The stress results in an increase in the loss provision that would be required as a result of the deterioration in economic environment. As for the UK insurance business, the Group is comfortable that it is able to manage the potential outcomes based on the results of the stress test and relevant management actions.
- Potential changes to the rules relating to the free movement of people between the UK and the remaining EU member states. The Group has followed external advice on planning for the small number of EU citizens working within the UK and UK citizens working in the EU, for the Group.
- Potential for impact on the import of car

Other Group Items continued

parts with potential impact on claims costs. A working group is in place to manage and review this risk, with commercial negotiations ongoing to mitigate risks arising from a "no deal" Brexit.

- Modest potential operational difficulties relating to the provision of 'green cards' to customers wishing to drive in Europe. A full communications plan has been developed for customers wishing to drive their vehicles in Europe after 29 March 2019.

At present, the Group does not foresee a material adverse impact on day-to-day operations (including customers or staff). The Group recognises the potential economic disruption that may arise from a 'hard' Brexit. Whilst the Group is comfortable that it is able to manage potential outcomes following the review of the stress testing noted above, it recognises the uncertainties that exist in relation to Brexit and the potential for adverse impacts to the Group's capital position and future dividend payments. Sensitivities to the Group's regulatory solvency ratio are presented on page 29, including a number of specific market risk sensitivities. The cost of the restructuring activity has not been material to the Group.

Managers' Awards

Our Managers' Awards were first awarded in 1993. There are now 20 awards in total, which are named after executives and senior managers reflecting the skills and qualities that particular manager values, such as the Louisa Scadden "Don't Just Sit There" award or the Stuart Clarke "Details Make a Difference" award. Each manager chooses the recipient of his or her award and consequently, the awards carry a great deal of prestige. Each recipient receives a plaque to keep and his or her name is added to a company plaque for each award, which are then displayed in reception in all our sites so everyone can see them. There are no rules with the awards, so if someone only works part time, they have just as much a chance as a full-time employee to win one.

Strategic Report
Year in Pictures

1


2


3


4


5


6


7


8


1. Staff at Rastreator, our Spanish price comparison website, at the 2018 Great Place to Work awards ceremony – winning!
2. Our fantastic Inspire choir turning it up to 11 at our annual Staff General Meeting.
3. The Wales Over 50's Squash Team proudly flying the flag, helped on their way with sponsorship from Confused.com
4. The deserving winners of this year's annual management awards at the awards ceremony in Cornerstone, Cardiff.
5. Our Swansea supporting Matt's Café - a Swansea business that takes food waste destined for landfill to feed people who need it, on a pay-as-you-feel basis.
6. Staff from People Services and Communications at the Wales Air Ambulance airbase in Llanelli, finding out how we can help them promote their fundraising.
7. Arianne getting into the spirit of Pride, an event proudly sponsored by the Group and whose message of inclusivity and diversity we wholeheartedly endorse.
8. Employees at Elephant enjoying the glorious sunshine over the summer.

Strategic Report

Principal Risks and Uncertainties

The Board, with support from the Group Risk Committee and the Group Risk Department, undertakes a regular and robust assessment of the principal risks. These risks have been summarised as those which would threaten its business model, future performance, liquidity and solvency.

These principal risks have not materially changed over the previous 12 months, although it is noted that as the Group continues to diversify away from UK Motor, the key risks to the new businesses are expected to become more material and begin to feature more prominently within the Group's principal risks and uncertainties.

In relation to Brexit risks, Admiral executed a part VII transfer of European policies to its new entity based in Spain, AECS. This action mitigated the risk of not being able to write business in its European businesses post 29 March 2019. Other risks, referred to in the viability section of the report (see page 84), that have been considered include operational risks such as green cards and vehicle parts inflation. Admiral also considered the potential financial risks arising from an economic downturn on its business. Please refer to page 49 for further detail. During 2018 Admiral ran a number of economic scenarios with particular focus on its new lending business, AFSL.

The table below sets out the principal risks which Admiral has identified through its Enterprise Risk Management Framework ('ERMF'). The impact of those risks and actions taken to mitigate them are explained below.

Insurance Risk

Reserving Risk in the UK and international insurance

Admiral is exposed to reserving risk through its underwriting of motor and household insurance policies. Claims reserves in the financial statements may prove inadequate to cover the ultimate cost of earned claims which are by nature uncertain.

This is a particular risk for motor insurance liabilities, where the amount payable for bodily injury claims (particularly large claims) can change significantly during the lifetime of the claim as a result of external risks such as changes in Ogden rates and impacts of increased levels of Periodical Payment Orders.

Impact	Mitigating Factors
Adverse run-off leading to higher claims costs in the financial statements. PPO claims are capital intensive owing to increased uncertainty of the cost of significant claims over a longer term.	Admiral has a conservative reserving policy and continues to hold a material margin in its financial statement claims reserves above actuarially determined best estimates to cover adverse developments Best estimate reserves are estimated both internally and externally by independent actuaries. For very large claims Admiral purchases excess of loss reinsurance, which mitigates a portion of the loss. Regular reviews of both settled and potential PPO cases are undertaken by the Claims and Actuarial teams, with independent Actuarial opinions provided as part of the external reserving analysis. Admiral's investment portfolio is the result of a structured, disciplined and transparent investment process which considers settled and potential future PPOs.

Premium Risk & Catastrophe Risk

The Group is exposed to the risk that claims cost on future business is higher than allowed for in the premiums charged to customers.

The Group is exposed to the risk of increased claims and reduced business volumes following both a UK and European recession.

Catastrophe Risk: Admiral is exposed to the risk of high losses due to the occurrence of man-made catastrophes or natural weather events, potentially increased in frequency and severity due to climate change.

Impact	Mitigating Factors
Higher claims costs and loss ratios, resulting in reduced profits or underwriting losses. A large flood or windstorm causes extensive property damage (both motor and household) to a significant proportion of the portfolio, leading to a large total claims cost in relation to the event.	There are a number of aspects which contribute to Admiral's strong UK underwriting results, including: • Experienced and focused senior management and teams in key business areas including pricing and claims management; • Highly data-driven and analytical approach to regular monitoring of claims and underwriting performance; • Capability to identify and resolve underperformance promptly through changes to key performance drivers, particularly pricing; • Continuous appraisal of and investment in staff, systems and processes; and • Admiral monitors the impact arising from climate change, that is captured as an Emerging Risk. Admiral purchases excess of loss reinsurance, designed to mitigate the impact of very large individual or catastrophe event claims.

Reduced availability of co-insurance and reinsurance arrangements

Admiral uses proportional co- insurance and reinsurance across its insurance businesses to reduce its own capital needs (and increase return on the capital it does hold) and to mitigate the cost and risk of establishing new operations.

There is a risk that support will not be available in the future if the results and/or future prospects of either the UK business or (more realistically) one or more of the newer operations are not satisfactory to the co- and/or reinsurers.

Impact	Mitigating Factors
A potential need to raise additional capital to support an increased underwriting share. This could be in the form of equity or debt. Return on capital might reduce compared to current levels.	Admiral mitigates the risk to its reinsurance arrangements by ensuring that it has a diverse range of financially secure partners. Admiral continues to enjoy a long-term relationship with some of the world's largest reinsurers. Admiral also has relationships with a number of other reinsurers. As well as UK Motor, long term arrangements are also in place for UK Household and International businesses.

Potential diminution of Other Revenue

Admiral earns other revenue from a portfolio of products and other sources.

The level of this revenue could diminish due to regulatory or legal changes, customer behaviour, strategic reasons or market forces.

Impact	Mitigating Factors
Lower profits from insurance operations and lower return on capital.	Admiral continuously assesses the value to its customer of the products it offers, and makes changes to ensure the products continue to meet customer needs and offer good value. Admiral seeks to minimise reliance on any single source by earning revenue from a range of products. This would mitigate the impact of a regulatory change which might affect a particular product or income stream.

Strategic Report

Principal Risks and Uncertainties continued

Group Risk

Erosion of competitive advantage in UK Car Insurance

Admiral typically maintains a significant combined ratio advantage over the UK market. This advantage and/or the level of underwriting profit (and associated profit commission) could be eroded.

This risk could be exacerbated by irrational competitor pricing and/or new technologies used within the insurance market. It may arise from new or existing competitors.

Impact	Mitigating Factors
A worse UK Car Insurance result and lower return on capital employed. A sustained and uncorrected erosion of competitive advantage could affect the ability of Admiral to extend its reinsurance arrangements, which might in turn require Admiral to hold more capital.	Admiral's focus remains on the wide range of factors that contribute to Admiral's combined ratio outperformance of the UK market. Some are set out earlier in the Strategic Report, but in addition: • Track record of innovation and ability to react quickly to market conditions and developments; and • Keen focus on maintaining a low-cost infrastructure and efficient acquisition costs.

Failure of geographic and/or product expansion

Admiral continues to develop the UK Household, non-insurance operations such as loans and expand its overseas operations.

One or more of the operations could fail to become a sustainable, profitable long- term business.

Product expansion into new areas could lead to unprofitable business and increased regulatory risk.

Growth in business plans exceed the scale of infrastructure of the operation.

Impact	Mitigating Factors
Higher than planned losses (and potentially closure costs) and distraction of key management. A collective failure of these businesses would threaten Admiral's objective to diversify its earnings by expanding into new markets and products.	Admiral's approach to expansion and product development remains conservative, applying the 'test and learn' philosophy that has proven successful for previous operations. International insurance businesses have generally executed cautious launch strategies and are all backed by proportional reinsurance support which provides substantial mitigation against start-up losses in the early years. New price comparison businesses have aligned their marketing investment with the extent of improvement in key performance indicators such as average cost per quote and conversion ratio. The Group also accepts partial disposals of equity to share start-up losses with partners. The Directors are mindful of management stretch and regularly assess the suitability of the infrastructure and management structure in place for Admiral's new UK and international operations.

Reliance on UK Price Comparison distribution channel

Admiral is dependent on the four main UK price comparison websites as an important source of new business and growth.

Growth in this distribution channel could slow, cease or reverse, or Admiral could lose one or more of the websites as a source of customers.

Impact	Mitigating Factors
A potentially material reduction in UK Car Insurance new business volumes. However, a more competitive market might benefit the car insurance business through lower acquisition costs.	Admiral's ownership of Confused.com (one of the leading UK price comparison websites which operates independently of the UK Car Insurance business) helps to mitigate the risk of over- reliance on this distribution channel. Admiral also contributes materially to the revenues of other price comparison businesses and therefore it is not considered probable that a material source of new business would be lost. Admiral continues to invest in opportunities to diversify its distribution channels, in particular through the partnership with Ford.

Counterparty Risk

Admiral is primarily exposed to credit risk in the form of a) default of reinsurer; b) failure of banking or investment counterparty.

One or more counterparties suffer significant losses leading to a credit default.

Market volatility and adverse developments to macroeconomic factors can lead to increased risk of defaults on the loans business.

Impact	Mitigating Factors
Additional capital may need to be raised as a result of a major credit event, dependent on its nature and severity. Admiral would also need to ensure that it continues to have sufficient liquid assets to meet its claims and other liabilities as they fell due.	Admiral only conducts business with reinsurers of appropriate financial strength. In addition, most reinsurance contracts are operated on a funds-withheld basis, which substantially reduces credit risk, as Admiral holds the cash received as collateral. Concentrations of credit risk are managed by investing in liquidity funds which invest in a wide range of short duration, high quality securities. Cash balances and deposits are placed only with highly rated credit institutions. Some long term investments are held in Government bonds to further mitigate the exposure to credit risk. Admiral considers counterparty exposure frequently and in significant detail, and has in place appropriate triggers and limits, to mitigate exposure to individual investment counterparties.

Strategic Report

Principal Risks and Uncertainties continued

Market Risk

Market risk arises as a result of fluctuations in the value of market prices of investment assets, liabilities, or the income from our investment portfolio.

Impact	Mitigating Factors
Market volatility (notably very significant reductions in risk free interest rates) can adversely impact the Group's solvency due to an increased regulatory valuation of claims liabilities, in particular in relation to longer dated potential PPO claims. Market volatility and adverse developments to macroeconomic factors, including Brexit, can lead to increased risk of defaults on the Loans business.	The Group's investment strategy focuses on preservation of the amount invested, low volatility of returns and strong liquidity. The majority of the portfolio is invested in high quality fixed income and other debt securities, and money market funds in order to achieve these objectives. The Group's mitigation for interest rate risk resulting from long duration PPO liabilities includes a comprehensive level of reinsurance cover and continuing focus on strategies to ensure that the risks relating to both assets and liabilities are appropriately matched. The Group has relatively low exposure to net assets and liabilities in currencies other than pound sterling.

Operational Risk

Legal and Regulatory risk

Failure to comply with legal or regulatory requirements and/or changes.

Unexpected regulatory changes are introduced.

Impact	Mitigating Factors
Exposure to regulatory intervention, censure and/or enforcement action through fines and other sanctions. Market wide impacts to the UK insurance sector from potential regulatory changes and initiatives.	Mitigated by regular review of the Group's compliance with current and proposed requirements (including the General Data Protection Regulation) and interaction with regulators by Executive Management and the Board. There is continued investment in resources to prepare for a Partial Internal Model application. The project provides regular progress updates with the Board and Regulators. Enhanced project governance is a key control in managing regulatory change.

Operational Risk

Operational risk arises within all areas of the business. The principal categories of operational risk for Admiral are:

- People
- Processes
- IT Systems
- Information Security
- Business Continuity
- Customer Outcomes
- Outsourcing
- Project Risk

Impact	Mitigating Factors
The risk of reductions in earnings and/or value, through financial or reputational loss, from inadequate or failed internal processes and systems, or from people related or external events. In particular: Potential customer detriment and/or potential regulatory censure/enforcement and/or reputational damage as a result of Admiral's action. Risk to Admiral occurs through the losses that could occur if the internal control framework to manage these business processes fails. Availability of systems & data. Integrity of data. Confidentiality of data.	We aim to attract, retain and motivate quality staff to deliver quality customer service and achieve business objectives. Succession planning is based on targeted recruitment, identifying potential leaders through internal development, talent management and retention processes. Internal controls are in place and monitored to mitigate the risk and the control framework is regularly reviewed. The internal audit function has an agreed cycle of testing of the adequacy and effectiveness of controls. Regular review of the effectiveness of the Groups IT capability by Executive Management and the Board. Enhanced project governance and oversight of new systems implementations with external specialist review and assurance where required. Admiral continues to invest in its Security Programme in order to mitigate Information Security risks, including evolving Cyber risk. Within IT there is a major incident team which is tasked with maintaining system availability, with business continuity and disaster recovery plans in place. Data is backed up to allow for its recovery in the event of corruption. Admiral monitors its outsourced and offshore activities, through ongoing supplier relationship and performance management, with regular due diligence reviews. Admiral operates the three lines of defence model for overseeing its products, processes and service. At each stage of the customer journey customer outcomes are monitored, managed and reported in order to mitigate customer detriment. Admiral purchases a range of insurance covers to mitigate the impact of a number of operational risks.

Emerging Risks

In addition to the principal risks and uncertainties, Admiral Group monitors emerging risks which could materialise into, or significantly impact existing principal risks and uncertainties. Admiral's emerging risk framework is a key tool for horizon scanning with developments reported to the relevant Boards and Committees on a regular basis.

Emerging risks are defined as trends or events that are considered to have a potentially significant impact to the Group, with a high degree of uncertainty around the likelihood of occurrence, severity or timescales. Emerging risks are classified into the following segments (a) legal and regulatory, capturing relevant legislations and regulations, (b) socio-political and economic, (c) environmental and (d) technology related.

Admiral continues to scan the risk horizon and monitor any developments to emerging risks, undertaking reviews and assessments of the potential impacts as information becomes available.

Strategic Report

Being a Responsible Business

"An important part of our business is to have a positive impact on our customers, our community, our people, and our environment."

We are continually looking for ways to make Admiral a responsible business and engage with stakeholders to improve our impact. In 2018 we established working groups to encourage diversity, launched policies to further benefit employees, and made commitments to reduce waste and energy consumption.

Beyond this we continue to consider other broader changes such as the continued expansion of AI, climate change on the environment, and the move towards electric vehicles which will impact a number of industries such as manufacturing, insurance and beyond.

David Stevens, CBE
Chief Executive Officer

Our approach

We are always looking for ways to develop and improve as a business, and when it comes to being a responsible business, things are no different.

From procurement and supply chain management, to diversity, fair pay, and inclusion, we have outlined the major initiatives of our corporate social responsibility reporting, identifying the areas that have the most impact on our stakeholders. This allows us to report effectively on the topics that matter most. Here, and in our Corporate Social Responsibility (CSR) report (available on our corporate website), we have taken care to provide useful disclosures with a good level of transparency and accountability to our main stakeholders: our customers, our people, our community, and our environment. It is these four stakeholders who drive the core focus of our Corporate Social Responsibility.

Our People

Our People are our most valuable asset, and we are proud to have such dedicated and hardworking staff in the Group.

Among our different initiatives are an Employee Assistance Programme providing assistance and counselling, a Ministry of Fun promoting fun activities and awards, and a Ministry of Health promoting healthy living and wellness, including free gym access, in-house yoga classes, and discounted flu vaccinations. We also try to encourage healthy eating by providing free fresh fruit in each of our offices to all our staff.

Our amicable and open work culture is crucial to making our employees feel at home and part of the business, and we encourage flexibility and openness across all levels and departments. In this year's Great Place to work survey 95% our workers said they felt this was a friendly place to work.

20th Greatest Place to Work in the World

Our Customers

Our customers are at the heart of everything that we do, which is why we invest so much time and energy in improving their overall experience.

Communication with customers is important, and we offer a range of communication channels so that wherever they are, whenever they need to get in touch, they can do so easily.

We also listen to our customers, and are always looking for areas to improve, surveys by using feedback from customer satisfaction surveys, SMS feedback and through social media. We also have a customer assurance team to monitor feedback, manage complaints and proactively improve the customer journey.

Our UK CEO, Cristina Nestares, also collates monthly feedback for customer-facing staff who receive the highest feedback ratings for providing a superior customer experience. She selects a Customer Champion, awarding them with a prize and explaining how their approach to customer service is so special. This 'Customer Commentary' is communicated across the business to congratulate the Customer Champion as well as enlighten and inspire other employees to make a difference to the way they service customers.

We recognise, however, that you can't please all of the people all of the time, so when things are less than satisfactory, we are responsive. Following negative feedback on social media or review platforms, we'll adapt our training to resolve any underlying issues. In the worst-case scenario, we'll sometimes offer goodwill gestures to try and put things right. What's more, many ideas and solutions come straight from our frontline staff who have the knowledge and experience to help our customers.

Over **5 million** customers globally

Admiral Group plc

Our Community

We actively involve ourselves in supporting our local community through a variety of projects and initiatives, ranging from financial and material donations, to volunteering time and expertise.

In the 13 years it has been running, we donated more than £1 million in funding through our Community Chest initiative, assisting over 3,500 different groups, clubs, and organisations.

A good example of this community outreach is our Recruitment department, who work with local schools, job centres, and universities to offer regular CV-writing classes, interview workshops, and talks. Many of our employees are involved in charity work both through and independent of the business, but we support wherever and however we can.

Since 2008 we have worked with the Prince's Trust, competing in their annual*[1] Million Makers competition: to date we have contributed over £1.2 million to this excellent cause. This year alone, our graduate team raised more than £156,000 through a variety of different fundraising schemes, the vast majority of which were supported by staff members.

£156,000 raised internally for Million Makers (Prince's Trust) charity in 2018 for disadvantaged youngsters in Wales.

£15,000 of funding matched in 2018

*1. 2017/18 was the only year since 2008 in which we did not enter a team.

Our Environment

The state of the Environment is a great concern of ours and we are always looking for ways to reduce our environmental impact.

As insurers, we are exposed to the financial impact of climate change and the resultant extreme weather. One such way for us is when selecting new premises; we consider proximity to public transport hubs, bicycle storage and changing facilities for staff, and the building's overall, independently verifiable, green credentials to reduce overall emissions.

We have our own in-house "Green Team" dedicated to environmental initiatives and developing innovative approaches to reducing our environmental footprint.

We feel that by taking action now we can all play a role in mitigating many of the most severe predictions for climate change while laying foundations for a sustainable and optimistic future.

100% reduction in plastic cup use in UK offices

Strategic Report

Commitments, Achievements, Targets 2018/19

Greenhouse gas emissions, waste creation, and energy consumption all go hand in hand.

As individuals and organisations, we must aim to reverse our negative effects on the planet, the land, the sea, the air. Overall, we aim to play a responsible role as a business and encourage all our staff to do the same. More specifically we approach each area in the following ways:

GREENHOUSE GASES

Improved reporting across the Group has allowed us to compile a more comprehensive list of our greenhouse gas (GHG) figures than in previous years which can be found in our full CSR Report. Emissions per capita are worked out by the total emissions for most of the Group with the exception of Elephant and L'olivier emissions, divided by the year's average staff headcount. All GHG emissions figures are in tonnes of carbon dioxide equivalents (CO_2e) and include all six GHGs covered by the Kyoto Protocol. Unfortunately, 2018 saw an increase in emissions, though as the Group grows and our reporting improves, increases will be recorded. Future green policies should see these minimised, with more information on these approaches following in 2019. All of the electricity tariffs we control in the UK use energy from green sources and we will look to procure green tariffs again for all UK sites we control when we come to renew our contracts.

3,926 CO_2e

GHG gas emissions (2017: 3,642 CO_2e)

WASTE

In 2018, we sent 0 tonnes of waste to landfill, recycling 206 tonnes (a combination of 122 tonnes of paper, and 84 tonnes of other recyclables) with a further 244 tonnes incinerated ethically. We are aiming to reduce non-recycled waste further by increasing staff awareness through Green Week, poster campaigns, and other electronic awareness-raising initiatives. In 2018 we began to phase out single-use plastic cutlery in our UK canteens, replacing them with recyclable models. We took the same approach to single-use plastic cups at the water machines, replacing them with paper cups.

ENERGY

Due to the size and spread of the Group, we approach energy consumption reporting by splitting our UK sites from our overseas sites. Since 2015 all electricity that we have purchased in the UK is from 100% green sources, and in 2019 we will look to continue this with a new supplier. Additionally, our Cardiff and Newport offices are rated BREEAM Excellent for exceeding sustainability benchmarks above regulatory requirements. For our international offices, we work closely with our landlords to reduce the environmental impacts of our business, but accurate figures are very difficult to ascertain. Since 2015 we have participated in Earth Hour, extinguishing all non-essential lighting for 1 hour across all of our sites. This joint international effort illustrates to our staff and to our community how simple, small, individual initiatives can yield enormous results when scaled-up.

EMPLOYEE HEALTH AND FITNESS

We encourage our staff to be fit and healthy, offering methods to reduce stress, improve focus, and generally aid their mental health and wellbeing. Our partnership with Cardiff Metropolitan University sees regular discounted massage sessions on-site, and meditation workshops are offered for free, with donations offered to the Samye Foundation.

Most of our UK and European sites have regular yoga classes and groups on-site, whilst running clubs are also popular. Discounted access, and sometime free day pass allocations to local gyms are also offered across all our UK sites.

We also participate in the Bike 2 Work scheme, whereby our staff receive heavily subsidised bicycles (from 38% to 48% depending on tax banding) to get them on their bikes rather than commuting by car.

And, of course, Rastreator even have their own football team!

GENDER PAY GAP

We are committed to reducing the gender pay gap and overall gender imbalance in the Group by targeting structural inequalities and not just by setting arbitrary targets; this way, we are laying the foundations for sustainable, long-term diversity, rather than merely box-ticking.

This year we signed the Women in Finance Charter, underlining our support to HM Treasury's objective of increasing the representation of women in senior managerial roles in financial services. Further, we are also signatories of the Insurance Inclusion Pledge, setting out our commitment to improving the workplace experience of our employees.

EQUALITY

There is no place for discrimination or harassment in the workplace, and as well as having a sexual harassment policy in place, we seek to reduce institutional imbalances where they are likely to occur. We use a specially-designed online tool to identify any subliminal gender bias in our job listings, which we then remedy. Building on this, we are developing a report that will allow us to monitor several key candidate variables, so we can better identify any biases.

WHISTLEBLOWING POLICY

We encourage our staff to do the right thing by providing a safe platform and process to do so. It is always acceptable to raise concerns even if it is later found to be a mistake; we prefer our staff to be vigilant.

We inform employees of two different ways to report any suspected wrongdoing – internally (through designated HR channels) and externally (through the Financial Conduct Authority (FCA), the Prudential Regulation Authority (PRA), or the independent charity, Public Concern at Work) – with the reassurance that they will be taken seriously. This policy is a core part of initial training delivered during induction and is repeated regularly throughout the year. Currently there is a 98.5% completion rate for the internal e-course.

DIVERSITY

Diversity and inclusivity are integral to any modern business. To ensure that we are being as inclusive as we can, we have several working groups and forums across the business focusing on identifying and rectifying any forms of stigma or bias, to encourage our staff to feel confident and comfortable in who they are, and to ensure that they are treated fairly whatever their background. Age, race, gender, sexual orientation, and disability are some of the areas we tackle. We are firmly committed to being a diverse and fair organisation, as our work with Stonewall Cymru and Race Council Cymru testifies.

TRAINING AND DEVELOPMENT

We've always been keen to encourage development and promotion from within and, given that so many of our senior managers have been with the company for over 10 years, we really think this pays off.

Our in-house training department, the Admiral Academy, has been steadily growing to meet the demands of our expanding workforce, with thousands of hours of classroom-based classes delivered each year. On top of this, they produce a number of industry-specific e-learning course to ensure knowledge and understanding throughout the workforce. Our Introduction to GDPR, Anti-Bribery and Corruption, and Whistleblowing courses have seen 94%, 96%, and 99% completion rates, respectively.

A willingness to learn and develop independently is a great attribute for any employee, and something we value so much that we implemented our Buy a Book Scheme. Employees submit requests for books that they feel will help them cultivate and grow their careers and we buy them. This year alone we purchased 3,416 books for our staff.

82%

of staff feel they are offered training or development to further themselves professionally.

10,000th Employee

In April, we welcomed our 10,000th employee. Mostofa was our 10,000th worldwide recruit. He joined the Claims department in Cardiff, having worked in the restaurant business for the past 18 years. Our Recruitment team surprised Mostofa in his department to present him with a special 10,000th employee award and doughnuts to share with his new team.

The Strategic Report was approved by the Board of Directors and signed on its behalf by:

David Stevens, CBE

Chief Executive Officer

06 March 2018

Corporate Governance

Introduction from the Chairman

"During the year, the Board reflected on the importance of the Group's culture and held a specific Board session in January 2018 on the trends and observations coming out of the participation by employees across the Group in the Best Place to Work Survey."

DEAR SHAREHOLDER,

I am pleased to present the Group's Corporate Governance Report for 2018 which sets out the Admiral framework of governance and the approach the Board has taken during 2018 to promote the standards of good corporate governance that are rightly expected by our stakeholders.

The revised UK Corporate Governance Code issued in July 2018, which applies to the Group with effect from 1 January 2019, contains significant amendments to the previous version issued in 2016. As a result, the Board has set spent time reviewing how the updated provisions will be implemented and what amendments will be required to enhance our current reporting and processes. We are already well placed to comply with the changes contained in the new Code, however, we will report against the principles and provisions in the new Code in more detail in our 2019 Annual Report and Accounts.

During the year, the Board reflected on the importance of the Group's culture and held a specific Board session in January 2018 on the trends and observations coming out of the participation by employees across the Group in the Best Place to Work Survey. Admiral has a strong and unique culture – a key differentiator from our competitors. This will continue to be a focus of the Board and, consequently, we will allocate Board time to the assessment and monitoring of the Group's culture to ensure that it remains aligned with the Group's purpose and values.

Customer outcomes were also considered by the Board in April 2018. The session focused on the Admiral brand and the development of customer experience and oversight, as well as how the Group's customer journey compared against competitors.

Succession planning remains an area of focus as the Board seeks to ensure that the composition and balance of the Board is reviewed and refreshed where necessary; that continuity is maintained, and that directors with the appropriate skills and experience join the Board to bring fresh perspective and challenge to the Group's strategy in the markets in which it operates. In this context, there were a number of changes to the composition of the Board in 2018. I was pleased to welcome Andy Crossley, who joined the Board as a Non-Executive Director and member of the Audit Committee in February 2018, Mike Brierley, who joined the Board as a Non-Executive Director and member of the Audit Committee in October 2018, and Karen Green, who joined the Board as a Non-Executive Director and Chair of the Audit Committee in December 2018. Karen succeeds Colin Holmes, who stepped down as a Non-Executive Director, Senior Independent Director and Chairman of the Audit Committee in December 2018 after 8 years on the Board. I would like to take this opportunity to thank Colin for his loyal service, wise counsel and excellent contribution to the Admiral Group during the time he has been on the Admiral Board.

An externally facilitated evaluation is due to take place later in 2019 and, therefore, the process of evaluating the Board's performance this year consisted of each Board member completing a questionnaire detailing specific areas of focus for the Board including succession planning and Board composition, the priorities for change, the impact of previous evaluations, and board expertise to meet future challenges, particularly in the digital and technology sectors. The results of the completed questionnaires then formed the basis for discussion when the results of the evaluation and areas for development were discussed and considered by the Board at the meeting in January 2019. A summary of the outcomes of the Board's discussion and consideration of the results of the evaluation are set out in more detail at page 68 of this report.

This Corporate Governance Report is structured in order to demonstrate to shareholders and other stakeholders how the Board has sought during the year to comply with each section of the Code – Leadership; Effectiveness; Accountability; and Relations with Shareholders. Remuneration is dealt with in the separate Remuneration Report and details of the Group's Corporate Social Responsibility (CSR) reporting can be found at pages 58 to 61.

Annette Court
Chairman
6 March 2019

Admiral Group plc

Corporate Governance

Board of Directors

	Annette Court Chairman	**David Stevens, CBE** Chief Executive Officer	**Geraint Jones** Chief Financial Officer	**Mike Brierley** Non-Executive Director	**Karen Green** Non-Executive Director
					
COMMITTEE MEMBERSHIP	C				C
CURRENT APPOINTMENTS	Senior Independent Director of Jardine Lloyd Thompson Group plc.	Trustee of the Waterloo Foundation	–	–	Non-Executive Director of Phoenix Group Holdings plc. Council Member, Lloyd's of London. Deputy Chairman and Acting Chair, Aspen Managing Agency Ltd. Vice President, Insurance Institute of London
BACKGROUND AND EXPERIENCE	CEO of Europe General Insurance for Zurich Financial Services and a member of the Group Executive Committee from 2007-2010. Former CEO of Direct Line Group (formerly RBS Insurance) and member of the RBS Group Executive Management Committee. Previously a member on the Board of the Association of British Insurers (ABI).	David is a founder Director of Admiral and was recruited in 1991 to set up the Admiral business. Prior to joining Admiral David worked at McKinsey & Company, in the Financial Interest Group, and Cadbury Schweppes in the UK and the USA. David has an MBA from INSEAD and he was awarded a CBE in 2010 for services to business and the community in Wales.	Geraint's responsibilities include finance, investments and investor relations. He joined Admiral in 2002 and held a number of senior finance positions including Head of Finance, before being promoted to Deputy Chief Financial Officer in January 2012 and Chief Financial Officer in August 2014. A Fellow of the Institute of Chartered Accountants in England and Wales, Geraint spent the early part of his career as an external auditor at Ernst & Young and KPMG.	Mike has 35 years' experience in Chief Financial Officer (CFO) roles within the financial services industry. Most recently Mike was CFO of Metro Bank PLC between 2009 and 2018, helping lead the business from start-up to a profitable FTSE250 Bank. He spent seven years at Capital One Europe as CFO Europe, CFO UK and Chief Risk Officer Europe. He has also worked as CFO for Royal Trust Bank, Financial Controller at Industrial Bank of Japan, CFO of Gentra Limited and Director, Business Risk at Barclaycard. Mike is a Fellow of the Institute of Chartered Accountants in England and Wales.	Karen Green is the former CEO of Aspen UK, comprising the principal UK insurance and reinsurance companies of Aspen Insurance Holdings. Other senior Aspen positions included Group Head of Strategy, Corporate Development, Office of the Group CEO and a member of the Group Executive Committee for 12 years. Prior to that, she held various corporate finance, M&A and private equity roles at GE Capital Europe and Stonepoint Capital having started her career in investment banking at Baring Brothers and Schroders.
APPOINTED	**Originally appointed to the Board in 2012, subsequently appointed to Chairman role in 2017**	**Originally appointed to the Board in 1999, subsequently appointed to CEO role in 2016**	**Appointed in 2014**	**Appointed in October 2018**	**Appointed in December 2018**

Justine Roberts, CBE
Non-Executive Director

CEO & Founder, Mumsnet.com & Gransnet.com

Advisory board member of Britain Thinks and Portland Communications

Justine founded Mumsnet in 2000 and is responsible for creation, strategic direction and overall management. In May 2011, Justine founded Gransnet, a sister site to Mumsnet, for the over-50s. Before that Justine was a freelance football and cricket journalist for the Times and Daily Telegraph, after working for Deutsche Bank, managing the South African equity operation in US.

Appointed in 2016

Owen Clarke
Non-Executive Director

C

Chairman of Equistone Partners Europe, 'Equistone' (formerly Barclays Private Equity, 'BPE')

Owen was Chief Investment Officer of Equistone from 2011 to 2017. He previously led several management buy-outs for BPE in the insurance and consumer finance sectors, including BPE's participation in the Management Buy Out of Admiral and was a director of Admiral from 1999 to 2004. He also led BPE's own buy out from Barclays to form Equistone in 2011.

Appointed in 2015

Jean Park
Non-Executive Director

C

Non-Executive Director of Murray Income Trust plc.

Non-Executive Director of the National House Building Council

Jean was Group Chief Risk Officer at the Phoenix Group from 2009 until June 2013, during which time she held responsibility for the Group's relationship with the regulator and founded the Board Risk Committee. Previously, she was Risk Management Director of the Insurance and Investments division of Lloyds TSB and, before that, Head of Compliance and Audit at Scottish Widows.

Jean is a Member of the Institute of Chartered Accountants of Scotland.

Appointed in 2014

Manning Rountree
Non-Executive Director

Chief Executive Officer and Director of White Mountains Insurance Group, Ltd.

Director of Build America Mutual Assurance Company

Manning joined White Mountains in 2004 and is the former President of White Mountains Advisors and White Mountains Capital.

Prior to joining White Mountains, Manning spent two years with Putnam Investments and three years with McKinsey & Company.

Appointed in 2015

Andy Crossley
Non-Executive Director

Non-Executive Director and Chair of Audit Committee at Vitality Health and Vitality Life

Andy has 32 years' experience within the financial services sector, most recently as Chief Financial Officer at Domestic & General Group from 2014 to 2017. He spent 14 years at Prudential plc from 2000 as Director, Group Finance; Group Chief Risk Officer; and CFO and Deputy Chief Executive of Prudential UK. He previously held senior manager roles at Legal & General Group plc, where he was Group Financial Controller, and Lloyds Bank plc. Andy is a Fellow of the Institute of Chartered Accountants.

Appointed in 2018

Audit Committee member
Group Risk Committee member
Remuneration Committee member
Nomination and Governance Committee member
C Committee Chair
Senior Independent Director

Corporate Governance

Governance Report

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

During the year under review, the Group complied with all the provisions of the UK Corporate Governance Code 2016 (the Code) other than the exception noted below that we reported in the 2017 Annual Report and Accounts and is applicable for the period between 1 January 2018 and 27 February 2018.

- **Provision C.3.1** – (regarding having at least three independent non-executive directors serving on the Audit Committee) Penny James, who served as an independent non-executive member of the Audit Committee, stepped down as a Non-executive director on 8 September 2017, following a change in her Executive role. From this date up to the appointment of Andy Crossley as an independent non-executive member of the Board and Audit Committee on 27 February 2018, following regulatory approval, the Audit Committee only had two independent non-executive members and did not meet the Code requirements to have at least three independent non-executive members. The Group fully complied with this requirement apart from this period from 8 September 2017 to 27 February 2018 and held four meetings during the period, three of which Andy Crossley attended in 2018.

LEADERSHIP

The Role of the Board

The Board is the principal decision-making forum for the Group providing entrepreneurial leadership, both directly and through its Committees, and delegating authority to the Executive team. The Board is responsible for organising and directing the affairs of the Group in a manner that is most likely to promote its success for the benefit of its members as a whole. The Board is accountable to stakeholders for setting and achieving the Group's strategic objectives; for the creation and delivery of strong sustainable financial and operational performance; for ensuring that in carrying out its duties the Group's legal and regulatory obligations are being met; and for ensuring that it operates within appropriately established risk parameters.

The Group's UK regulated entities are responsible to the Financial Conduct Authority (FCA) and the Prudential Regulatory Authority (PRA) for ensuring compliance with the Group's UK regulatory obligations and that dealings with the FCA and PRA are handled in a constructive, co-operative and transparent manner. Similar provisions apply in respect of the Group's international businesses with regard to the relevant regulatory authorities in those overseas jurisdictions in which the Group also operates.

The Board has adopted a formal schedule of matters reserved for the Board's consideration. This is monitored by the Company Secretary and reviewed by the Board on an annual basis. Specific matters reserved to the Board include the approval of:

- The Group's long-term objectives and corporate strategy;
- Operating and capital budgets, financial results, and any significant changes to accounting practices or policies;
- The Group's capital structure;
- Results and financial reporting;
- The system of internal control and risk management;
- The Group's overall risk appetite;
- Changes to the structure, size and composition of the Board, including new appointments;
- Succession plans for the Board and senior management;
- Dividend policy and proposals for dividend payments;
- Major acquisitions, disposals, and other transactions outside delegated limits;
- The annual review of its own performance and that of its Board Committees;
- Annual review of the Group's Board policies; and
- The review of the Group's overall corporate governance arrangements.

BOARD ACTIVITY DURING 2018

The Board met on seven occasions in 2018 with all these meetings being held over two days and one of the meetings being a separate strategy meeting held offsite.

In addition to standing items considered at each Board meeting, such as updates on the Group's preparations for Brexit, the main items considered by the Board during the year included: ongoing reviews of the Group's UK car insurance business, presentations from the Group's overseas insurance and price comparison businesses, presentations from the Group's loans and household business, updates on succession planning and the review of governance arrangements. The Board also received updates on data and analytics, information security, diversity and understanding the views of customers.

On the agenda for 2019

- Further consideration of customer insight and customer journey;
- Implementation of the recommendations of the external governance review at Group and subsidiary level and requirements of the new Corporate Governance Code;
- Focus on the next generation of talent across the Group to ensure there is a diverse pipeline of talent available for succession planning for senior roles;

- Ensure that the Group's technology and digital capabilities are appropriate as the Group looks to explore opportunities beyond car insurance;
- Focus on enhancing the Group's Cyber and Information Security procedures; and
- Continue to devote Board time to consideration of the views of the Group's key stakeholders in implementing the Group's strategy and ensure there is regular engagement through appropriate channels.

At each scheduled meeting the Board receives updates from the Chief Executive and Chief Financial Officer as to the financial and operational performance of the Group and any specific developments in the areas of the business for which they are directly responsible and of which the Board should be aware. In addition, there is an update provided at each Board on the matters discussed and considered at each of the Group's principal subsidiary Board meetings. An annual schedule of agenda items is reviewed and updated at each meeting to ensure that items are considered at the appropriate point in the financial and regulatory cycle. Meetings are structured so as to allow for consideration and debate of all matters. The head of the Group's European insurance businesses and the CEO of UK Insurance (respectively Milena Mondini de Focatiis and Cristina Nestares) together with the Chief Risk Officer (James Armstrong) are invited to attend every Board meeting and regular Board dinners. This has proved an effective means of ensuring that senior managers below Board level have exposure to and gain experience of the operation of the Board.

In addition to the regular consideration of financial and operating performance and risk management and compliance, the Board received presentations on a variety of topics including updates from the management teams of each of the Group's businesses and regular reviews of Solvency II related activities such as progress of the Internal Model Application Process (IMAP).

In addition to her visits to the Group's UK operations, the Chairman has sought to visit each of the Group's overseas operations this year and Non-Executive Directors are invited to join either her or the Chief Executive on one or more of their overseas visits each year. The Non-Executive Directors and the Chairman met during the year without the Executive Directors being present. Non-Executive Directors also attended briefing sessions in Cardiff on different aspects of the Group's UK business. In order to increase their understanding of the depth and breadth of management across the Group below Board level, the Non-Executive Directors and the Chairman also attended a dinner with members of the Group's senior management team without the Executive Directors being present. When management teams present to the Board on their operations they are also invited to join the Board for dinner which gives the opportunity for informal interaction between Directors and management.

MEETINGS AND ATTENDANCE

Directors are expected to attend all meetings of the Board and the Committees on which they serve and to devote sufficient time to the Group to perform their duties. Where Directors are unable to attend meetings they receive papers for that meeting giving them the opportunity to raise any issues with the Chairman in advance of the meeting. The number of scheduled Board meetings and Committee meetings, of which they are a member, attended by each Director during 2018 is provided in the table below. In addition to the seven scheduled Board meetings held during the year, there was an additional Board meeting held in June 2018 that was called at short notice and was attended by all Board members. Similarly, the nine Audit Committee meetings, set out in the table below, includes two additional Audit Committee meetings that were called at short notice and held in February and August 2018.

Governance Report continued

MEETINGS AND ATTENDANCE CONTINUED

	Board meetings	Audit Committee meetings*6	Group Risk Committee meetings	Nomination and Governance Committee meetings	Remuneration Committee meetings
Total meetings held	**8**	**9**	**5**	**5**	**8**
Annette Court (Chair)*1	8		5	5	4/4 *
David Stevens (Chief Executive Officer)*2	8		1/2		
Geraint Jones (Chief Financial Officer)	8				
Owen Clarke	8	9		5	8
Colin Holmes	8	9		5	
Jean Park	8		5		8
Manning Rountree*3	8		4/5 *		
Justine Roberts	8				8
Andrew Crossley*4	6/6 *	6/6 *			
Michael Brierley*5	1/1 *	2/2 *			

*1. Annette Court stepped down as a member of the Remuneration Committee when Owen Clarke became Chairman of the Remuneration Committee with effect from 14 May 2018.

*2 David Stevens was unable to attend the Group Risk Committee meeting on 16 January 2018 due to his attendance as Group CEO at an internal meeting that could not be rescheduled, David Stevens stepped down as a member of the Group Risk Committee with effect from 29 March 2018 but continues to attend periodically and did so for one of the three remaining meetings in 2018.

*3 Manning Rountree was unable to attend the Group Risk Committee meeting on 15 November 2018 due to a pre-existing business commitment that unfortunately could not be rescheduled to accommodate this Group Risk Committee meeting.

*4 Andy Crossley joined the Group Board and the Audit Committee on 27 February 2018.

*5 Michael Brierley joined the Audit Committee and the Group Board on 5 October 2018.

*6 Karen Green was appointed on 14 December 2018 and did not formally attend any meetings prior to this.

Agendas and papers are circulated to the Board electronically in a timely and secure manner in preparation for Board and Committee meetings. The Board agenda is structured by the Chairman in consultation with the Company Secretary and Chief Executive. Routine Board papers are supplemented by information specifically requested by the directors from time to time. All Board and Committee meetings during the year were held in an open atmosphere conducive to robust and constructive challenge and debate. All Directors have, therefore, been able to bring independent judgement to bear on issues such as strategy, risk management, performance, and resources. Additional meetings are called when required and there is contact between meetings, where necessary, to maintain continuity of the Group's business plan.

THE COMPANY SECRETARY

All the Directors have access to the advice and services of the Company Secretary. He has responsibility for ensuring that Board procedures are followed and for advising the Board, through the Chairman, on governance matters. The Company Secretary provides updates to the Board on regulatory and corporate governance issues, new legislation, and Directors' duties and obligations. The appointment and removal of the Company Secretary is one of the matters reserved for the Board.

BOARD EFFECTIVENESS

This year the Board evaluation consisted of the Chairman, supported by the Company Secretary, compiling a comprehensive questionnaire that was circulated by the Company Secretary for completion by all directors and Board attendees. The focus of the evaluation was on: the performance of the Board and its effectiveness in managing Board time to ensure there was sufficient time to provide strategic and operational oversight of the Group in the context of the various markets in which it operates; succession planning and consideration of the priorities for change as identified by Board members and attendees.

The questionnaire considered:

- Board composition and utilisation of the experience and expertise of board members;
- The Board's understanding of the views and requirements of customers, employees, shareholders, and regulators;

- Board dynamics and the interaction between the Chairman, Non-Executive Directors and management;
- Time management of Board meetings;
- The effectiveness of the Board in considering the Group's risk management framework and internal controls;
- The Board's strategic and operational oversight;
- Succession planning including the oversight of the Group's processes for managing, developing and retaining talent;
- Management of Group subsidiaries;
- Focus of Board meetings; and
- Priorities for change that would improve Board performance.

The results of the review were discussed by the Board in January 2019. It was agreed that good progress had been made in implementing the recommendations identified in the evaluation carried out in 2017, particularly around succession planning and talent development and improvement in the content and quality of Board papers.

Key recommendations identified in the review to enhance the Board's effectiveness included:

- Having more regular sessions for the Board to consider and review customer insight and customer experience;
- Ensuring that there was appropriate time on the Board agenda to understand the views and requirements of key stakeholders, including: major investors, employees and customers;
- Focusing on the technological issues facing the company;
- Continuing to ensure that Board papers are succinct and of the appropriate length so that Board time is focused on effectively challenging and debating the key issues for discussion and approval; and
- Continued oversight of the implementation of the recommendations in the governance review and changes required under the new Code.

Overall the review found that the Board continued to work effectively and that each Director demonstrates full commitment to his/her duties and contributes in an open and transparent way, enabling a detailed level of debate and discussion around material matters affecting the Group.

The performance of the Chief Financial Officer is appraised annually by the Chief Executive Officer, to whom he reports. The Chairman, taking into account the views of the other Directors, reviews the performance of the Chief Executive. The performance of the Chairman is reviewed by the Board led by the Senior Independent Director ("SID"). Following the latest review, the SID considered and discussed with the Chairman the comments and feedback that had been received from the Directors as part of the Chairman's evaluation questionnaire and was able to confirm that the performance of the Chairman is effective and that she demonstrates appropriate commitment to her role.

THE ROLES OF THE CHAIRMAN, SENIOR INDEPENDENT DIRECTOR AND CHIEF EXECUTIVE

The Chairman is primarily responsible for leading the Board, setting its agenda and monitoring its effectiveness. She is supported by the Senior Independent Director, who acts as a sounding board and serves as an intermediary for the other Directors. Neither are involved in the day-to-day management of the Group.

Save for the matters reserved for the Board, the Chief Executive Officer (with the support of the Executive Directors and the Senior Executives) is responsible for proposing the strategy to be adopted by the Group, running the business in accordance with the strategy agreed by the Board and implementing Board decisions.

The Board has approved a statement that sets out the clear division of responsibilities between the Chairman and Chief Executive Officer. This and matters reserved for decision by the Board are reviewed annually.

The Chairman

- Runs the Board and sets its agenda, with an emphasis on strategic issues.
- Ensures the Board has effective decision-making processes and applies sufficient challenge to proposals.
- Ensures the Board has an appropriate balance of skills, knowledge, experience and diversity.
- Leads the induction and development plans for new and existing Board members.
- Communicates with major shareholders and ensures the Board understands their views.
- Ensures the Board receives accurate, timely and clear information.
- Leads the annual Board evaluation.

Senior Independent Director

- Supports the Chairman in the delivery of their objectives.
- Acts as a sounding board for the Chairman and serves as an intermediary for the other Directors.
- Available to shareholders if they have concerns that cannot be resolved through the normal channels.
- Works with the Chairman and other Directors/shareholders to resolve significant issues where necessary.
- Leads the annual performance evaluation of the Chairman.

Corporate Governance

Governance Report continued

The Chief Executive Officer

- Runs the Group's business and delivers its commercial objectives.
- Proposes and develops the Group's strategy, in close consultation with the Chairman and the Board.
- Implements the decisions of the Board and its Committees.
- Ensures operational policies and practices drive appropriate behaviour, in line with the Group's culture.
- Leads the communication programme with shareholders and other key stakeholders, including staff.
- Ensures management provides the Board with appropriate information and necessary resources.

BOARD BALANCE AND INDEPENDENCE

In the context of recent and forthcoming Board changes, careful consideration continues to be given to the composition and balance of the Board. As a result, the Group continues to monitor the need to refresh Board and Committee membership in an orderly manner so as to maintain the continuity of Board process and the strength of personal interaction which underlies the effectiveness of the Board as a team. Following recent appointments, the Board remains satisfied that it has the appropriate balance of skills, experience, independence and knowledge of the Group to enable it and its Committees to discharge their duties and responsibilities effectively, as required by the Code. In addition, the Directors are aware of their legal duties to act in a way they consider, in good faith, will be most likely to promote the success of the Company for its shareholders, as well as considering the interests of other stakeholders.

The table below details the length of service of the Chairman and each of the Non-Executive Directors and illustrates the balance of experience and fresh perspectives.

Director	Date of appointment	Current length of service as a Non-Executive Director at 31 December 2018
Annette Court	21 March 2012	6 years 9 months
Jean Park	17 January 2014	4 years 11 months
Manning Rountree	16 June 2015	3 year 6 months
Owen Clarke	19 August 2015	3 year 4 months
Justine Roberts	17 June 2016	2 year 6 months
Andy Crossley	27 February 2018	10 months
Mike Brierley	5 October 2018	3 months
Karen Green	14 December 2018	-

The Board currently comprises ten Directors, the Chairman (who was independent on appointment), two Executive Directors, and seven independent Non-Executive Directors. As can be seen from the Directors' biographies on pages 64 to 65, the Directors have a broad range of skills and experience and can bring independent judgement to bear on issues of strategy, performance, risk management, resources and standards of conduct which are integral to the success of the Group.

Appointments to the Board are the responsibility of the Board as a whole, acting on the advice and recommendations of the Nomination and Governance Committee. The Nomination and Governance Committee seeks to balance the retirement and recruitment of Non-Executive Directors ahead of their replacement so as to avoid dislocation of Board process by losing experience and skills. Appointments are made on merit and against objective criteria, having due regard to the benefits of diversity, including gender, with a view to ensuring the Board has the appropriate mix of personality, skills, and experience. During the year under review, following a formal, rigorous and transparent process led by the Nomination and Governance Committee and supported by external search consultants, the Board was pleased to appoint as independent Non-Executive Directors: Andy Crossley with effect from 27 February 2018; Mike Brierley with effect from 5 October 2018 and Karen Green with effect from 14 December 2018 both having attended relevant meetings as guests during the year. All of them will be subject to election by shareholders at the forthcoming AGM in accordance with the Group's Articles.

Manning Rountree is the Chief Executive Officer for White Mountains Insurance Group Limited (White Mountains) and acts as Board Observer for White Mountains on the Board of the Group's US price comparison subsidiary, in which White Mountains has a minority shareholding. Given the relatively small size of White Mountains' shareholding in an overseas Group subsidiary company, the Board has determined that Manning Rountree remains independent in character and judgement and that his attendance at Inspop USA LLC Board meetings does not affect his ability to present an objective, rigorous and constructive challenge to the assumptions and viewpoints presented by Management and the Board. A process for managing any potential conflicts has been agreed by the Board such that Manning Rountree will recuse himself from any Group Board discussions where a potential conflict of interest with his role with White Mountains has been identified.

The Board, having given thorough consideration to the matter, considers the seven Non-Executive Directors to be independent and is not aware of any relationships or circumstances, other than the above, which are likely to affect, or could appear to affect, the judgement of any of them. It is the view of the Board that the independent Non-Executive Directors have sufficient time available to perform their duties and are of sufficient calibre and number that their views carry significant weight in the Board's decision making.

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

Colin Holmes was the Senior Independent Non-Executive Director (SID) for the year under review. Owen Clarke was appointed as SID, subject to regulatory approval, when Colin Holmes stepped down as a Non-Executive Director of the Board with effect from 31 December 2018. The Board is satisfied that Owen has the requisite knowledge and experience gained through his Board position, his Chairmanship of the Remuneration Committee, his membership of the Audit and Nomination and Governance Committees. In addition, Owen has financial services experience, gained through his appointment as Chief Investment Officer of Equistone Partners Europe. Owen is available to shareholders if they have concerns that contact through the normal channels of Chairman, Chief Executive, or Chief Financial Officer have failed to resolve or for which such contact is inappropriate. As Chair of the Remuneration Committee, Owen is also available to discuss remuneration matters with shareholders. He is also responsible for leading the Board's discussion on the Chairman's performance and the appointment of a new Chairman, as and when appropriate.

At the Group's AGM on 26 April 2018, new Articles of Association were approved by shareholders which provide that all directors will retire and offer themselves for re-election at each AGM, in accordance with the UK Corporate Governance Code and the Company's current practice. Therefore, all Directors will be submitting themselves for re-election by shareholders at the forthcoming AGM. The Board is satisfied that all are properly qualified for their reappointment by virtue of their skills and experience and their contribution to the Board and its Committees.

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

PROFESSIONAL DEVELOPMENT

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

This induction is supplemented by visits to the Group's head office in Cardiff and certain overseas offices, and meetings with members of the senior management team and their departments. Development and training of Directors is an ongoing process. Throughout their period in office the Directors are regularly updated on the Group's business; legal matters concerning their role and duties; the competitive environments in which the Group operates; and any other significant changes affecting the Group and the industry of which it is a part.

The Board receives presentations from senior managers within the Group on a regular basis and Non-Executive Directors are encouraged to make informal visits to different parts of the Group to meet with local management.

Governance Report continued

ENGAGEMENT WITH SHAREHOLDERS

The Company attaches considerable importance to communications with shareholders and engages with them regularly. Open and frequent dialogue with investors enables them to understand fully the Group's strategy, objectives and governance. The Investor Relations team has day-to-day primary responsibility for managing communications with institutional shareholders through a combination of briefings to analysts and institutional shareholders, both at the half-year and full-year results. A number of analysts and investors visited the Group's Cardiff office during the year to meet with the Executive Directors and senior management in order to get a better understanding of how the Group operates and how it intends to achieve its strategic and operational objectives. Senior executives from the Group's overseas businesses also visit the UK in order to present to, and meet with, analysts and investors. Site visits and individual discussions with the Executive Directors are also arranged throughout the year with individual shareholders. In September 2018, the Group held an EU Investor Day at its offices in Rome which was attended by almost 40 analysts and investors. The purpose of the event was to provide addition information on the Group's strategic objectives of the European insurance businesses. The event was a success with positive feedback received from investors that attended.

In addition, the Chairman had individual meetings during the year with major shareholders and reported to the Board on issues raised with her.

This is supplemented by feedback to the Board on meetings between Management and investors. In addition, the Investor Relations team presented an update to the Board in June 2018 which considered the Group's share price performance in the context of the market in which the Group operates, including regulatory changes, and provided further analysis on particular areas where communication to investors could perhaps be enhanced. The Investor Relations team also regularly produces an Investor Relations Report that is circulated to the Board for their consideration which provides an update on Investor Relations activity in the previous quarter. The Report contains an analysis of share price performance; a summary of analyst reports received during the month and of meetings that have been held with investors and analysts; together with details of any significant changes to the shareholders' register.

The Senior Independent Director has specific responsibility to be available to investors who have any issues or concerns, and in cases where contact with the Chairman, Chief Executive Officer and Chief Financial Officer has either failed to resolve their concerns, or where such contact is inappropriate. No such concerns have been raised in the year under review.

All shareholders are invited to attend the Company's Annual General Meeting (AGM). The Chairs of the Audit, Remuneration, Nomination and Governance and Group Risk Committees attend the AGM along with the other Directors and are available to answer shareholders' questions on the activities of the Committees they chair. Shareholders are also invited to ask questions during the meeting and have an opportunity to meet with Directors after the formal business of the meeting has been concluded. Details of proxy voting by shareholders, including votes withheld, are made available on request and are placed on the Company's website following the meeting.

The Group maintains a corporate website (www.admiralgroup.co.uk) containing a wide range of information of interest to institutional and private investors. The major shareholders of the Company are listed on page 110.

ENGAGEMENT WITH OTHER STAKEHOLDERS

The regular channels of communication with both the FCA and PRA that existed throughout the year were supplemented by the FCA and PRA being invited to attend Board meetings in 2018. The FCA attended the Board in January 2018 and the PRA the Board in August 2018. Both sessions were valuable in giving the Board an opportunity to hear directly the views of both regulators and to understand, and challenge them on, the rationale for their decisions to the extent that they impact the Group.

Understanding the views of customers also remained a key area of focus for the Board. A specific session at the Board in April 2018 considered feedback from customers on the Admiral brand, the customer journey experience and how this could be developed to enhance the experience for the customer.

Mindful of the changes required under the new Code for increased engagement with the workforce, the Group has relaunched its existing Staff Forum which will be called the Employee Consultation Group (ECG). The ECG will consist of elected representatives from across the Group. The Chair is an employee and a staff representative and will attend two Group Board meetings per year. Non-Executive Directors will also be invited to attend each ECG meeting. The purpose of the ECG will be as a forum for staff consultation, gathering staff opinion and fostering a safe environment in which to generate and explore ideas. It is intended that the ECG will be an informal channel that will enable staff to share ideas and concerns with senior management and the Board on a regular basis.

CONFLICTS OF INTEREST

In compliance with the requirements of the Companies Act 2006 regarding Directors' duties in relation to conflicts of interest, the Group's Articles of Association allow the Board to authorise potential conflicts of interest that may arise and to impose such limits as it thinks fit. The Company has put in place a Conflicts of Interest Policy to deal with conflicts of interest and this was reviewed and approved by the Board in June 2018. The Policy sets out the process and procedure by which the Board manages potential conflicts of interest that may arise at Board level and within Board Committees, and within the Group's Subsidiary Boards. Following this review, the Board concluded that the process continued to operate effectively. In addition, each Board member is asked to complete, annually, a conflicts of interest questionnaire that sets out any situation in which they, or their connected persons have, or could have, a direct or indirect interest that could conflict with the interests of the Company. Any current directorships that they, or their connected persons hold, any advisory roles or trusteeships held, together with any companies in which they hold more than 1% of the issued share capital are also disclosed.

BOARD COMMITTEES

The Board has delegated authority to a number of permanent Committees to deal with matters in accordance with written Terms of Reference. The principal Committees of the Board - Audit, Remuneration, Group Risk and Nomination and Governance. Subject to the exception listed above, on page 66, all comply fully with the requirements of the Code.

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

Corporate Governance

The Audit Committee

Statement from Karen Green, Chair of the Audit Committee

"I am pleased to set out in this report an update on the main activities of the Audit Committee in 2018."

DEAR SHAREHOLDER,

This is my first report as Chair of the Audit Committee having taken over from Colin Holmes, who stepped down in December 2018 after serving for eight years on the Board, including seven years as Audit Chair. I would like to thank Colin for his support and commitment to ensuring an efficient handover process and transition of the Chair position to me. To facilitate this, I attended the meetings of the Board and the Audit Committee as a guest from June 2018 and also undertook a programme of visits and meetings at the Company prior to being appointed to the Board and assuming the Chair of the Committee in December 2018.

I am pleased to set out in this report an update on the main activities of the Audit Committee in 2018, which were conducted under the Chairmanship of my predecessor until mid-December, and hence for the majority of the period under review.

During the year the key areas of focus of the Committee have been to provide support to the Board in its oversight of financial reporting and the control environment across the Group. The setting of insurance claims reserves to ensure consistency with the Group's agreed reserving methodology is a key accounting judgement in the Group's financial statements, and the Committee continues to place considerable focus on this subject. The analysis of outstanding claims by Management was reviewed alongside that of the Groups independent actuaries and external auditor. The continued uncertainty around the Ogden discount rate was kept under review by the Committee, along with the potential impact of legislative changes to the way in which the rate is set in the future; the Committee received regular updates on the progression of the Civil Liability Bill and the likely timing of any subsequent change to the Ogden discount rate.

The Committee undertook an evaluation of the performance of the external auditor and concluded that Deloitte was working effectively as external auditor. The Committee spent time considering the audit fee proposed for 2018 and discussed with Deloitte on the rationale for the year on year increase in the fee. The Committee also discussed the position in relation to its external audit services contract and considered the timing of tendering for the external audit.

The Committee also spent time considering the results of Management's impairment testing of the Group's investment in its US subsidiaries, in particular the appropriateness of the underlying assumptions and forecasts used, and the stresses applied to the forecasts.

The Committee had regular updates, including a separate session, on the impact of the introduction of the new IFRS 17: Insurance Contracts accounting standard to ensure that the Group was well prepared and understood the implications for the Group of its introduction in January 2019. The introduction of IFRS 17 has since been deferred to January 2022. The Committee also spent time considering the impact of IFRS 16 leases and the changes to the new UK Corporate Governance Code as they applied to the activities of the Committee.

The Committee also considered and reviewed the Group's whistleblowing policy and the instances of whistleblowing that had been raised across the Group during the year.

In addition, the Committee continued to monitor the appropriateness of the Group's system of risk management and internal control, including the implementation of the Group's Minimum Control Standards' Framework. This was introduced in 2017 to provide for a consistent approach to the control frameworks deployed across the Group as its non-UK motor operations have continued to develop. The Committee maintained a close focus on the UK Motor business and also reviewed overseas subsidiaries and the Group's Loans business.

I hope you find the above summary, and the more detailed report, both useful and informative.

K.A. Green

Karen Green
Chair of the Audit Committee
6 March 2019

MEMBERSHIP

Membership of the Committee at the end of the year was: Karen Green (Chair), Owen Clarke, Andy Crossley and Mike Brierley, who joined the Committee with effect from 5th October 2018 having attended meetings of the Committee and the Board as a guest from August 2018. Two of the committee's members are Fellows of the Institute of Chartered Accountants in England and Wales. Given the insurance and financial services experience of the members of the Committee, the Board considers that they have a broad range of skills, experience and knowledge of the insurance sector, which represents the principal market in which the Group operates, and also the areas of consumer lending in which the Group has a small but emerging business, such that they are able to effectively analyse, challenge and debate the issues that fall within the Committee's remit. The Board is satisfied that the Committee as a whole has competence relevant to the sector in which the Group operates and further considers that a number of members have recent and relevant financial experience. The Company Secretary acts as Secretary to the Committee. The Committee meets at least four times per year and has an agenda linked to events in the Company's financial calendar and other important issues that arise throughout the year, which fall for consideration by the Committee under its remit.

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

Other individuals such as the Chairman of the Board, Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Heads of Compliance and Internal Audit, and representatives of different parts of the Group may be invited to attend all or part of any meeting as and when appropriate. The Chair of the Audit Committee meets privately with the Head of Internal Audit on a regular basis. The external auditor was invited to attend all of the Committee's meetings held in 2018, excepting those agenda items when its own performance/ appointment was to be reviewed and provision of non-audit services discussed. In addition, a private meeting was held between members of the Committee and the auditor. The Chair also had several private meetings with the auditor during the year.

The Audit Committee's primary responsibilities are to:

- Monitor the integrity of the Group's financial statements and any formal announcement relating to the Group's financial performance, reviewing any significant financial reporting judgements which they contain;
- Keep under review the effectiveness of the Company's internal financial controls, internal control and risk management systems;
- Review the Group's procedures for handling allegations from whistleblowers and for detecting fraud;
- Monitor and assess the role and effectiveness of the Group's Internal Audit functions in the context of the Group's overall internal control and risk management systems;
- Consider and make recommendations to the Board, to be put to shareholders for their approval at the AGM, in relation to the appointment, reappointment and removal of the Group's external auditor;
- Review the external auditor's independence and objectivity and the effectiveness of the audit process; and
- Review the policy on the engagement of the external auditor to provide non-audit services, considering the relevant regulatory guidance regarding the provision of non-audit services by the external auditor.

SUMMARY OF KEY ACTIVITIES DURING 2018

The agenda for the meetings taking place during the year are agreed by the Committee Chair and detail the matters to be discussed and considered at each meeting. The agenda are updated regularly to allow for new items to be included.

During the year the Committee reviewed the following:

- The Annual Report and interim results, including key accounting judgements and disclosures;
- The Group Solvency and Financial Condition Report;
- Reports from the Internal Audit departments within the Group on the effectiveness of the Group's risk management and internal control procedures, approval of the 2019 Audit Plans, details of key audit findings, and actions taken by Management to manage and reduce the impact of the risks identified;
- Reports from the external auditor on the principal findings from their review of the Group's systems and controls, and on their key accounting and audit issues and conclusions on the half and full year reporting;
- A report from the Chair of the Group Risk Committee on the principal risks faced by the Group and the work undertaken by the Group Risk Committee to ensure risk is appropriately managed;

Corporate Governance
The Audit Committee continued

- Continued updates on the impact of the Ogden rate change and the potential legislative changes to the method of setting the rate in the future;
- Presentations from independent actuaries to assist the Committee in concluding on the adequacy of the Group's reserves;
- Initial impact assessment of IFRS 17, the updated standard on insurance contract accounting;
- Reports from Deloitte, the external auditor, on their proposed audit scope, plan and findings;
- Proposed external audit fee and the drivers of the year on year increase;
- Confirmation of the external auditor's independence;
- Performance and effectiveness of the Internal Audit department;
- Significant findings from reports from Internal Audit including Management responses to the conclusions set out in the reports;
- The effectiveness of the Group's Whistleblowing Policy which sets out the arrangements for raising and handling allegations from whistle blowers and receiving regular reports on instances of whistleblowing that have been raised;
- Reports on the controls in place in respect of the Group's overseas subsidiaries and in relation to cyber security;
- The Committee also had presentations and discussions on a range of other important issues including: the impact of implementing IFRS 9 and IFRS 15, the expected impact of accounting changes due to IFRS 16, an update on the embedding of the Group Minimum Control Standards Framework and Solvency II Technical Provisions and other Solvency II reporting;
- The timing and process for tendering for the external audit;
- Its own Terms of Reference;
- Its own effectiveness; and
- Meetings held with the External Auditors without Management being present.

SIGNIFICANT ISSUES CONSIDERED BY THE COMMITTEE IN RELATION TO THE FINANCIAL STATEMENTS

After discussion with both Management and the external auditor, the Audit Committee determined that the key risks of misstatement of the Group's financial statements related to insurance liabilities and profit commissions.

These issues were discussed with Management during the year and with the external auditor at the time the Committee reviewed and agreed the external auditor's Group audit plan; when the external auditor reviewed the interim financial statements in August 2018 and also at the conclusion of the external audit of these full year financial statements.

VALUATION OF INSURANCE CLAIMS RESERVES

Given the important judgements involved in estimating outstanding claims, the Committee continued to spend significant time reviewing and challenging the approach and methodology adopted by Management in setting reserves for insurance liabilities in the financial statements to ensure that it remained consistent with the Group's stated reserving approach to set claims reserves at a prudent level.

The Committee held separate meetings with the Group's external actuaries, Lane Clarke and Peacock (LCP) at which there was challenge and debate on the best estimates developed by the external actuaries. At these meetings Management provided further information on the reserving levels proposed and were challenged by the Committee as to their adequacy and level of inherent prudence.

Given the continued uncertainty around changes to the Ogden discount rate, the Committee kept developments in this area under review to ensure that it was well prepared to manage any impact on its reserves. The Committee received regular updates on the progression of the Civil Liability Bill intended to reform whiplash claims and the calculation of the Ogden discount rate through the various Parliamentary stages and the associated timing considerations for any future changes to the Ogden rate. The Civil Liability Bill was passed on 21 November 2018 and received Royal Assent on 20 December 2018. The latest date for the new Ogden discount rate to be announced is 6 August 2019. The Committee has considered and is satisfied that, despite the considerable uncertainty that remains in relation to the new rate, a 0% Ogden rate reflects an appropriate best estimate assumption for the 2018 financial statements.

Whilst acknowledging that the setting of reserves for claims which will settle in the future, is a complex and judgmental area and having had the opportunity at the separate meetings referred to above to consider and question the recommended best estimates, the Committee is satisfied that an appropriate process has been followed and that there has been sufficient scrutiny, challenge and debate to give confidence that the reserving levels set provide an appropriate margin above best estimates, noting the continued high level of prudence that remains within the reserves.

The Committee also received an update from the auditor regarding the procedures it had used to test Management's methodology in setting the reserves and considered the auditor's assertion that it had challenged the reserving approach taken by Management and was satisfied with Management's assumptions and that the Group's approach to setting reserves was in compliance with current accounting standards.

IMPAIRMENT TESTING ON THE GROUP'S INVESTMENT IN SUBSIDIARIES

The Committee reviewed and challenged the results of Management's impairment testing of the Group's investment in subsidiaries, performed where indicators of impairment were present. An impairment of £32.9 million has been recognised in relation to the Group's investment in its US price comparison business, Compare.com.

The impairment reflected the reduction of the previous carrying amount of £66 million of the Group's investment to its recoverable amount, being its value in use. The Committee reviewed and challenged the cash-flows supporting the value in use calculations, including the underlying financial forecasts supporting the cash-flows and the stresses applied to Compare.com's long term plan, which were revised following a review in the second half of 2018. Key assumptions within the financial forecasts and cash-flows were challenged, including the discount rate and currency rates applied to the cash-flows.
The Committee also heard from its auditor on the results of its audit tests performed on the impairment analysis.

The Committee was comfortable that Management performed a thorough and robust process in line with the relevant accounting standard and agreed with the proposed reduction in carrying value of the investment.

PROFIT COMMISSION

The Committee considered the impact on profit commission income of future changes in claims reserves 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. The Committee remained satisfied that profit commission was correctly accounted for by the Group and was in accordance with the contractual arrangements that were in place.

The Audit Committee considered the auditor's overall findings on this area which indicated that it considered the profit commission recognised was appropriate in the context of the financial statements as a whole.

MISSTATEMENTS

No material unadjusted audit differences were reported by the external auditor. The Committee confirms that it is satisfied that the auditor has fulfilled its responsibilities with diligence and professional scepticism.

After reviewing the presentations and reports from Management and consulting where necessary with the auditor, the Committee is satisfied that the financial statements appropriately address the critical judgements and key estimates (both in respect to the amounts reported and the disclosures).

The Committee is also satisfied that the significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised, challenged and are sufficiently robust.

NON-AUDIT FEES

The Committee reviewed and approved its policy on non-audit services in February 2018 and was satisfied that it was aligned with current regulatory guidance. Under the policy, the Group's statutory auditor would only be engaged to carry out non-audit work in exceptional circumstances or where there was a regulatory or tax authority request and where agreed by the Committee.

Unless required by law, regulatory or tax authority non-audit services will: a) be subject to prior approval from the Committee and b) in aggregate, shall not cost more than 70% of the average statutory audit fee for the past three financial years. In considering whether to approve such non-audit services, the Committee shall ensure that:

- There is no direct effect, or in the view of an objective, reasonable and informed third party, would have an inconsequential effect, on the audit services on the Group's financial statements;
- The estimation of the effect on the financial statements is comprehensively documented and explained in a report to the Committee;
- The non-audit services provided comply with the principle of independence; and
- The audit firm must not place significant reliance on the output of the non-audit services for the audit work.

Corporate Governance
The Audit Committee continued

The Committee will continue to monitor regulatory developments in this area to ensure that its policy on non-audit fees adheres to current guidance and best practice.

EFFECTIVENESS OF THE EXTERNAL AUDIT PROCESS

The Committee undertakes an annual review to assess the independence and objectivity of the external auditor and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements, the progress achieved against the agreed audit plan, and the competence with which the auditor handled the key accounting and audit judgments. Following this review the Committee concluded that the auditor, Deloitte LLP, remained independent and provided a service that was robust and fit for purpose.

AUDIT FEE

During 2018, the Committee reviewed and approved the audit fee proposal for the 2018 year-end Group audit. The agreed fee for the audit and other assurance-related services for 2018 is £869,000. This compares to a fee agreed for 2017 of £490,000.

The Committee approved the fee increase having discussed the rationale for the costs proposed given the growth in and changes to the Group, and also any potential inefficiencies within the audit process.

AUDIT TENDER

The Group last completed an audit tender in 2016 when, following the completion of a transparent and independent audit tender process, Deloitte LLP were recommended to shareholders as the Group's auditor at the AGM in April 2016 and a resolution passed to that effect.

During the year, the Committee reviewed the arrangements with the current external auditor and considered whether it was appropriate to initiate a tender process in order that the current arrangements could be reviewed against those offered by other audit firms in the market. The Committee concluded that it would initiate a tender process in 2020 for an appointment (or reappointment) to be made with effect from 2021, coinciding with the rotation of the current audit partner. However, the Committee will keep under review the results of the various reviews and consultations on the audit services market and may reconsider the tender timetable and process if appropriate. As the Committee has primary responsibility for conducting the tender process and making recommendations to the Board, regarding the appointment, reappointment and removal of the external auditor, the Committee will lead the proposed tender process. The Committee intends to engage with the Group's major shareholders to get their views on the firms that will be invited to participate in the tender and the timetable that has been agreed for the tender process.

The Committee confirms it is in compliance with the provisions of the Statutory Audit Services for Large Companies Market Investigation Order 2014 with regard to the requirement for formal tendering every ten years and partner rotation every five years.

INTERNAL AUDIT

Except for two additional Audit Committee meetings that were called at short notice and held in February and August 2018, the Group Head of Internal Audit attended all Audit Committee meetings and provided a range of presentations and papers to the Committee, through which the Committee monitors the effectiveness of the Group's internal controls. The Committee reviewed and approved the Group Internal Audit Terms of Reference which set out the role; objectives; reporting lines and accountability; authority; independence; and objectivity of the Internal Audit function. The role and competence of each Internal Audit function across the Group was also assessed and considered by the Committee. The Group Head of Internal Audit continues to have responsibility to ensure the quality of the Internal Audit activities in the Group's overseas locations.

Following the external quality assessment of Internal Audit carried out last year, the recommendations to enhance further the efficiency and effectiveness of the internal audit function that came out of that review were considered and implemented.

Members of the Committee also receive all issued audit reports, enabling them to challenge the reports' content and related recommendations. The Committee approves the Internal Audit programmes at the start of each calendar year whilst the effectiveness and workload of the Internal Audit functions and the adequacy of available resources are monitored throughout the year. The former Chair of the Committee also regularly met with the Group Head of Internal Audit during the year.

In accordance with agreed parameters, the overseas operations in Spain, Italy and the US have their own locally-based internal auditors, who report to their respective country heads. All reports are evaluated by the Group Head of Internal Audit to ensure the quality and effectiveness of the reported findings. In addition, the UK Internal Audit department carries out high level governance reviews of all foreign operations, assessing the internal control frameworks and system of risk management. The overseas internal auditors attend Committee meetings periodically and the Committee received an update from the internal auditor of the Group's insurance business in Italy on the activities of the audit function and the audit reports and recommendations that had been issued. The CEO from the Group's loans business also attended a Committee meeting to provide an update on the interaction with Group Internal Audit and the key findings and recommendations from audits completed on the loans business.

COMMITTEE EFFECTIVENESS REVIEW

As part of the Committee's detailed annual review of its performance and processes, each Committee member completed a comprehensive questionnaire designed to provide objective assessment of the Committee's performance, including its effectiveness in monitoring internal and external audit. The Committee discussed the results of the review at the meeting in December and it was concluded that, overall, the Committee and the audit process were effective; that the Committee had full access to all the information it required; that the Committee had appropriate Terms of Reference; and that it was adequately discharging its responsibilities.

Corporate Governance

The Group Risk Committee

Statement from Jean Park, Chair of the Group Risk Committee

"The Committee oversaw the successful implementation of the Group conduct risk framework with positive results."

DEAR SHAREHOLDER,

During the year the Committee reviewed the Board's risk strategy and risk appetite across the Group. This included updates on the UK and international businesses as a key part of the Group's Enterprise Risk Management Framework ('ERMF'). A further refresh to the suite of Key Risk Indicators with associated triggers and limits was completed. These updates have improved the effectiveness of the Committee by placing greater focus on the main risks affecting the business.

The Group implemented the enhanced project governance framework, enabling the Committee to focus on the projects which are material to the Group. The Committee oversaw the key developments to major projects, with regular updates provided throughout the year. Several reviews were actioned as requested by the Committee. In particular, the Group IT strategy and IT security programmes have been regularly reviewed and challenged throughout 2018, as well as the work to ensure the Group was compliant for the GDPR go-live date in May. The Committee also devoted time to the work on Brexit which resulted in the successful establishment of two new legal entities, ensuring the European business continues to be written within the Group.

A significant amount of time has continued to be dedicated to developing the Group's Partial Internal Model for quantifying the Group's risk exposure. Having approved a change to the model scope in late 2017, much of 2018 focussed on reviewing and challenging the new components of the Partial Internal Model. The Committee continues to engage with the relevant regulators as a key demonstration of the Group's ongoing use of the model and in preparation for the formal IMAP application.

The Group continues to maintain a regulatory capital add-on to cover risks not captured within the standard formula. The Group also continues to make use of Undertaking Specific Parameters (USP's) and the Volatility Adjustment (VA) across its entities, where appropriate. The Committee has also reviewed the Group's proposed dividend level, capital plan and capital buffer in line with the capital policy. The review considered a number of scenarios including the ongoing uncertainty associated with the Ogden rate.

The Committee challenged and reviewed the setting of and outputs from the regular stress and scenario testing and reverse stress testing. The output was incorporated into the Own Risk and Solvency Assessment ('ORSA') report for 2018, which the Committee also reviewed and recommended to the Board for approval.

The Committee continues to focus on key operational risks that affect the Group. The governance of the risk event process has been enhanced, providing greater assurance to the Committee regarding the management of major risk events. The Committee has continued to spend time reviewing any major risk events reported during the year as per the Group Risk Management Policy.

The development and growth of the Loans business continues to be monitored by the Committee, with a focus on the strategic options to fund the growing business in 2018 and beyond.

The Committee oversaw the successful implementation of the Group conduct risk framework with positive results. The ongoing focus on monitoring and reporting customer outcome risks has included enhanced reporting to demonstrate compliance against the Group minimum standards. This builds on the levels of compliance resources and monitoring that all Group firms must apply to their respective regulatory obligations.

I look forward to continuing the good work this year.

Jean C Park

Jean Park
Chair of the Group Risk Committee
6 March 2019

Summary of Key Activities in 2018

DURING THE YEAR THE COMMITTEE…

- Reviewed the Group's updated risk strategy, risk appetite and associated triggers and limits in the context of the Group's agreed strategic objectives
- Reviewed the Group's proposed dividend level, capital plan and capital buffer in line with the capital policy
- Reviewed the updated USP application submitted to the Gibraltar regulator
- Considered the adequacy of risk mitigation measures and contingency plans including a review of the Group's reinsurance provisions
- Received regular risk monitoring reports on performance of Key Risk Indicators within the overall risk management framework
- Received regular updates in relation to key programmes of work including IT Strategy, IT Security, GDPR and Brexit as part of the Group's enhanced project governance framework
- Recieved an additional, out of cuycle, short ORSA report as part of a review into the risks associated with Loans business
- Received regular monitoring reports on customer outcome risk and complaint handling and reviewed updates to the Group Minimum Standards and Policy Framework
- Reviewed the Group's regulatory capital add-on application as part of Solvency II capital requirements
- Through stress and scenario testing and reverse stress testing, considered in-depth analysis of a number of the Group's most significant risk areas, including the potential risks arising from Brexit
- Recommend to the Board approval of the 2018 ORSA Report prior to submission to the regulator and approved the ORSA policy
- Received updates on the impact of a number of notifiable risk events throughout 2018
- Received regular updates in relation to ongoing and potential legal and regulatory changes, including the Civil Liability Bill and the potential change to the Ogden discount rate

Corporate Governance

The Group Risk Committee continued

COMPOSITION OF THE GROUP RISK COMMITTEE

Membership at the end of the year was: Annette Court, Jean Park (Chair) and Manning Rountree. The Company Secretary acts as Secretary to the Committee.

The Committee met 5 times during the year.

DUTIES AND RESPONSIBILITIES OF THE GROUP RISK COMMITTEE

The duties and responsibilities of the Committee are set out in Terms of Reference that were reviewed during the year and approved by the Board in September 2018.

The responsibilities of the Committee can be summarised as:

- Oversee the development, implementation and maintenance of the Group's overall Risk Management Framework and ensure that it is in line with emerging regulatory, corporate governance and best practice guidelines;
- Monitoring the Group's prudential risk exposure, which includes ensuring that the Group's capital resources and liquidity profile are appropriate to its needs whilst meeting minimum regulatory requirements, including overseeing and challenging the design and execution of the Group's stress and scenario testing;
- Monitoring the Group's current and future conduct risk exposure;
- Ensuring the adequacy and effectiveness of the Group's data protection systems and controls;
- Monitoring the adequacy and effectiveness of the Group's Compliance functions;
- Reviewing the Group's compliance with Solvency II;
- Reviewing compliance with Group policies;
- Considering and recommending to the Board for approval the Group's risk appetite, including any changes to the appetite for each material type of risk faced by the Group;
- Approving the annual plans for the Group Risk and Compliance functions which include reviewing regulatory developments and regular meetings with the PRA and FCA;
- Review the ORSA report each year with recommendations being provided to the Group Board for approval;
- Review and approve the Solvency II Actuarial Function Reports on Reinsurance and Underwriting each year; and
- Review and approve the Remuneration report from the CRO to the Remuneration Committee.

The Committee Chairperson reports formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities, as set out in previously circulated minutes to the Board. The Committee Chairperson also reports on the activities of the Committee in a formal written report that is submitted to and discussed by the Board annually.

The work of the Committee is supported by more detailed work undertaken by executive Risk Management Committees in each of the Group's operational entities. At each meeting, the Risk Management Committees consider significant movements in the operation's risk profile, any risks that have arisen and any emerging risks. Risk Management Committees also assess and monitor any regulatory issues, ensuring that their resolution and the action taken are appropriately recorded. The Risk Management Committees receive regular information on Conduct Risk, such as complaint handling reports and other related management information. The Group Risk Management function reviews and collates information from across the group for consideration by the GRC.

INTERNAL CONTROL AND RISK MANAGEMENT STATEMENT

The Board is ultimately responsible for the Group's system of risk management and internal control and, through the Audit Committee, has reviewed the effectiveness of this system.

The system of risk management and internal control over insurance, operational, market, credit and group risks is designed to manage rather than eliminate the risk of failure to achieve business objectives and breaches of risk appetites and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board is of the view that there is an ongoing process for identifying, evaluating and managing the Group's risks and internal controls; that it has been in place for the year ended 31 December 2018; and that, up to the date of approval of the Annual Report and Accounts, it is regularly reviewed by the Board and accords with the internal control guidance for Directors provided in the UK Corporate Governance Code.

The Board confirms that it has performed a robust assessment of the Group's principal risks. These risks, along with explanations of how they are being managed and mitigated, are included in the strategic report on page 52.

The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The Board meets at least seven times a year to discuss the direction of the company and provide oversight of the Group's risk management and internal control systems. The role and responsibilities of the Board are documented within their Terms of Reference and these are reviewed annually.

A key element of the control system is that the Board meets regularly with a formal schedule of matters reserved to it for decision and has put in place an organisational structure with clearly defined lines of responsibility including those matters reserved for its subsidiary boards.

As described above, in order to ensure these responsibilities are properly discharged, the Board has delegated to the Audit Committee to keep under review the adequacy and effectiveness of the Company's internal financial controls, internal control and risk management systems.

The Board has delegated the development, implementation and maintenance of the Group's overall risk management framework to the Group Risk Committee ("GRC"). The GRC reports on its activities to the Board and the Audit Committee, supporting the overall assurance provided by the Audit Committee that the Group's internal control, risk management and compliance systems continue to operate effectively.

The Group has a 'three lines of defence' approach to Internal Control, including those controls that relate to the financial reporting process. The Board recognises that the day-to- day responsibility for implementing policies lies with the senior management, the 'first line of defence', whose operational decisions must take into account risk and how this can be controlled effectively.

The 'second line of defence' describes the Committees and functions that are in place to provide an oversight of the effective operation of the internal control framework. The Group Risk Department and the Compliance functions are part of the second line of defence.

The Group Risk Department defines and prescribes the insurance, operational, market, credit and group risk assessment processes for the business. It performs second line reviews, including of the capital modelling and business planning processes, and undertakes regular reviews of all risks in conjunction with Management, with the results of these reviews recorded in risk registers collated centrally on the Group risk management system. Furthermore, Group Risk records any actual losses or near misses that occur as a consequence of the crystallisation of risk and analyses the sufficiency of the action taken to avoid reoccurrence.

The Chief Risk Officer has responsibility for ensuring that managers are aware of their risk management obligations, providing them with support and advice, and ensuring that risk management strategies are properly communicated. Reports are produced showing the most significant risks identified and the controls in place. Internal Audit uses the risk registers to plan and inform their programme of audits around the most significant risks to the Group to ensure that the prescribed controls are in place and are operating effectively.

The Group Compliance function provide oversight and review of the first line of defence's compliance with designated control activities, providing regular reports to the Group Risk Committee.

The 'third line of defence' describes the independent assurance provided by the Audit Committee and the Group Internal Audit function that reports to that Committee. Internal Audit undertakes a programme of risk-based audits covering all aspects of both the first and second lines of defence. The findings from these audits are reported to all three lines, i.e. Management, the executive and oversight Committees, and the Audit Committee.

The subsidiary boards, Group Risk Committee, UK Risk Management Committee and other UK and overseas Risk Committees receive reports setting out key performance and risk indicators and consider possible control issues brought to their attention by early warning mechanisms that are embedded within the operational units. They, together with the Audit Committee, also receive regular reports from the Internal Audit function, which include recommendations for improvement of the control and operational environment. The Chair of the Group Risk Committee provides a comprehensive written report to the Board of the activities carried out by the Committee on an annual basis. In addition, the Board receives reports from the Chair of the Audit Committee as to its activities, together with copies of the minutes from the subsidiary board meetings and the GRC and Audit Committee.

The Audit Committee's ability to provide the appropriate assurance to the Board depends on the provision of periodic and independent confirmation, primarily by Internal Audit, that the controls established by Management are operating effectively and where necessary provides a high-level challenge to the steps being taken by the GRC to implement the risk management strategy.

Corporate Governance
The Group Risk Committee continued

VIABILITY

In accordance with provision C.2.2 of the 2016 UK Corporate Governance Code, the Directors have assessed the prospect of the Company over a longer period than the 12 months required by the 'Going Concern' provision. The Board reviews five year financial projections twice each year and approves a one year financial budget for the forthcoming twelve months. They conducted this review for a period of three years to July 2021. An 'Own Risk and Solvency Assessment' (ORSA) process is undertaken annually, which sets out a detailed consideration of the main risks facing the Group over a three-year time horizon and also considers current and projected levels of solvency and liquidity over the period. The ORSA is the main source of evidence used by the Board to assess viability, given the additional uncertainty inherent in projecting beyond a three year period, and as such the assessment of viability has been performed over a three year period.

The principal risks and uncertainties faced by the Group are set out on pages 52 to 57 and note 7h to the financial statements sets out the Group's objectives, policies and procedures for managing financial assets and liabilities.

Quantitative and qualitative assessments of risks are performed as part of the ORSA process. The quantitative assessment (in line with the Group's capital and solvency projections) considers how the regulatory capital requirements, economic capital needs, own funds and the solvency position of the Company is projected to change over the three year time horizon. It also includes a series of stress tests which assess the Group's principal risks and uncertainties, identifying and quantifying the operational, financial and solvency impacts of these stresses alongside potential mitigating factors and management actions. Reverse stress tests are also considered as part of the ORSA process to assess the potential risks to Admiral's viability.

The results of the stress tests form part of the process to set the Group's capital risk appetite, which ensures that a buffer on top of the Group's regulatory capital requirement is held to protect its capital position against shocks and stresses. As part of the ORSA process, key strategic decisions including the setting of dividend payments considers the solvency impact against the capital risk appetite. Refer to the Strategic report for information on sensitivities to the reported 2018 solvency ratio position.

The threat of Brexit to the viability of the insurance and price comparison businesses in Europe has been mitigated through the restructuring of those businesses and the establishment of new insurance and intermediary companies in Spain. Portfolio transfers have been implemented to ensure ongoing services for existing and future customers in Europe. In the UK, preparations are well advanced for the provision of Green Cards to customers for travel in Europe, supply chain changes and communications to customers. We remain reliant on the regulatory assurances given regarding the timely conclusion of Brexit negotiations and associated UK law changes by government in order to continue business in the UK and Gibraltar, without the need to implement planned mitigating actions.

Based on the results of this analysis, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over this three year period.

The Nomination and Governance Committee

Statement from Annette Court, Chairman of the Nomination and Governance Committee

"Implementation of the recommendations contained in the external review of the Group's governance arrangements remained a key area of focus for the Committee during the year."

Dear Shareholder,

The Committee received regular updates from management on the implementation of the recommendations and considered and approved, in November 2018, the closure of the internal project that had been formed to implement the actions that had come out of the external review and which were designed to strengthen the Group's existing governance arrangements. This will be followed up by a review of how this is operating in practice in 2019.

In keeping with its remit to review regularly the composition and experience of the Board, succession planning at Group and subsidiary level occupied most of the Committee's time during the year. Following a robust and transparent recruitment process led by the Committee, Mike Brierley joined the Board as a Non-Executive Director and member of Audit Committee in October 2018. Mike was also appointed Chairman of the Group's subsidiary, Admiral Financial Services Limited (AFSL), which is the company through which the Group's loans business is written.

With Colin Holmes stepping down from the Board and as Audit Committee Chair in December 2018, the process of recruiting a replacement began earlier in the year. The Committee carried out an assessment of the requirements for the role and initiated a comprehensive recruitment process to identify the person with the requisite skill set and experience to fulfil the role. Following completion of this process, Karen Green was appointed as Non-Executive Director and Chair of the Audit Committee with effect from December 2018. The appointment of both Mike and Karen further enhances the range of skills, breadth of experience and diversity around the Board table. The Committee will keep under review whether it is appropriate in the next 12 to 24 months to begin the search for another Director with digital expertise.

Following the issue of the revised Corporate Governance Code in July 2018, the Committee spent time considering the enhanced reporting requirements that will be applicable for the Committee next year, when reporting on the Committee's activities in 2019, particularly as regards the Group's policy on diversity and inclusion, gender balance of the Group's senior management and their direct reports and the approach to succession planning.

In line with the requirements of Solvency II, the Senior Insurance Manager Regime, and in accordance with the Group's Fit and Proper Policy, I also carried out the process of assessment for every person who performs a key function to ensure they meet the requirements in terms of qualifications, capability, honesty and integrity.

Annette Court
Chairman of the Nomination and Governance Committee
6 March 2019

Corporate Governance

The Nomination and Governance Committee continued

MEMBERSHIP

The membership of the Committee at the year-end was Annette Court (Chair), Owen Clarke and Justine Roberts, who was appointed following Colin Holmes stepping down from the Committee in December 2018. The Company Secretary acts as Secretary to the Committee. The Committee invites the Chief Executive and/or the Chief Financial Officer to attend meetings when it deems appropriate. The Committee met formally on five occasions in 2018. In addition, members of the Committee corresponded and met informally on a number of occasions to consider and meet with individuals that the Committee had identified as possible candidates to join the Board.

BOARD COMPOSITION AND CHANGES

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

Following the appointment of Andy Crossley in February 2018 and in line with the Group's policy of recruiting well ahead of impending retirements to maintain consistency of Board dynamics, the Committee developed appropriate specifications for two new Non-Executive Director roles and identified the required skills and experience required. The Board initiated a search for two new Non-Executive Directors in 2018. The firm engaged external recruitment consultants, Russell Reynolds Associates (RRA), to lead the recruitment process for Karen and Mike. RRA has no connection to the Group.

Following this process, the Committee identified Mike Brierley as best placed to fill the role of Non-Executive Director and Chairman of AFSL and Karen Green as Non-Executive Director and Audit Committee Chair.

Mike Brierley has 35 years' experience in Chief Financial Officer (CFO) roles within the financial services industry. Most recently Mike was CFO of Metro Bank plc between 2009 and 2018, helping lead the business from start-up to a profitable FTSE 250 bank. He has been a director of Barclaycard responsible for business risk and, between 1999 and 2006, held a variety of roles with Capital One Bank (Europe) plc including CFO Europe, CFO UK and Managing Vice President and Chief Enterprise Risk Officer Europe. Mike is a Fellow of The Institute of Chartered Accountants in England and Wales (FCA).

Karen Green has substantial financial services experience including investment banking, private equity and insurance, most recently as the Chief Executive of Aspen UK, which comprised the UK insurance and reinsurance companies of Aspen Insurance Holdings for over 6 years. She also held a number of other senior positions at Aspen including Group Head of Strategy, Corporate Development and Office of the Group CEO. Prior to that, she held various senior corporate finance, M&A and private equity roles at GE Capital Europe and then MMC Capital (now Stonepoint Capital) having started her career as an investment banker at Baring Brothers and then Schroders. She is currently a Non-Executive Director of Phoenix Holdings Group plc, the Council of Lloyd's of London and Deputy Chair and Acting Chair of Aspen Managing Agency Ltd.

Each Committee member met separately with Mike and Karen and agreed that they would bring invaluable experience to the Board. The Board approved the Committee's recommendations and following regulatory approval Mike was formally appointed to the Board with effect from 5 October 2018 and Karen with effect from 14 December 2018.

SUCCESSION PLANNING AND TALENT MANAGEMENT

Talent management continues to be a key area of focus and the Board, at its meeting in June 2018, considered talent management within the Group and identified where there were individuals who, with further experience and guidance, might be capable of moving into particular senior management roles. There have also been several Non-Executive-Director-only sessions during which the Group's internal talent management capabilities have been discussed and considered. The Committee remains satisfied that succession plans for Directors and senior management are in place to ensure the continued ability of the Group to implement strategy and compete effectively in the markets in which it operates.

GENDER AND DIVERSITY

Given women constitute 40% of our plc Board, the Group has already exceeded the target set by both Lord Davies in his report; Women on Boards, and the Hampton Alexander Review (that builds on the Davies Review), which encourages FTSE 350 companies to achieve at least 33% women on Boards by 2020. The Group is close (29%) to meeting the Hampton Alexander Review target of 33% women's representation across Executive Committees below Board level and direct reports to those Committees, as shown by the gender diversity table on page 108. In June 2018 the Board reviewed the requirements of the Parker Review's final report on ethnic diversity. The Board considered the composition of its Group and subsidiary Boards, the initiatives that are being implemented to increase diversity and discussed how measures to develop a diverse pipeline of talent as regards Board appointments could be developed and monitored. However, the Group remains strongly supportive of the principle of boardroom diversity, of which gender and ethnicity are important, but not the only, aspects. What is important is diversity of thought, experience and approach and each new appointment must complement what already exists at the Board table. Accordingly, appointments will always be made on merit against objective criteria, including diversity and gender, and not just to achieve an externally prescribed number.

In addition, in 2018 the Group signed up to the Women in Finance Charter which is a government initiative to see gender balance at all levels across financial services firms and encourages participating firms to support the progression of women into senior roles in the sector by focusing on the executive pipeline and the mid-tier level of management. The Group is committed to meeting the target of 40% women in the Senior Executive team by December 2023.

In 2018 the Chairman and CEO also signed up to the 30% Club, which aims to develop a diverse pool of talent for all businesses through the efforts of its Chair and CEO members who are committed to better gender balance at all levels of their organisations with a minimum target of 30% women at senior management level by 2020.

The Group remains committed to providing equal opportunities, eliminating discrimination, and encouraging diversity amongst its workforce both in the UK and overseas. A breakdown of the gender of Directors and senior employees at the end of the financial year together with details of the Group's Equality, Diversity and Dignity at Work Policy are set out in the Directors' Report on page 108.

The Group's gender pay gap is already materially lower than the UK average and the industry average for the financial services sector, however, the Group remains committed to reducing it further through a number of initiatives that are being introduced to address the current imbalance of men and women at differing levels of the business.

Pride

Our continued sponsorship of Pride Cymru, South Wales' biggest celebration of LGBT+ equality and diversity, illustrates our celebration of the LGBT+ community and our recognition of the contribution they have made to Admiral. We have sponsored Pride Cymru in some way since 2004 and we have participated in the annual Pride march for the last three years.

Many of our staff attend this event and memories and photos from the event are shared in Column, our monthly newsletter and on Atlas, inspiring our staff to take pride in diversity. In 2018 over 30 staff, plus families and friends, represented Admiral in the parade before the event and our choir and an Admiral staff member's band performed on the stage.

Rhys, from our training department regularly attends the event. Here is what he had to say, "I love that the company I work for sponsors Pride Cymru and I'm really proud that we celebrate sexual diversity." And a member of staff who represented Admiral at this year's parade said, "I loved walking with my friends from my Admiral family and I was very proud to carry the Admiral banner. It was good to support such a fantastic cause".

Staff were inspired to form a LGBT+ network off the back of our participation in the parade when last year, those representing Admiral in the parade decided to keep in touch and they regularly organise meet ups and events together.

Corporate Governance

The Remuneration Committee

A Statement to Shareholders from the Chairman of the Remuneration Committee

"Admiral has a remuneration structure which reinforces our unique culture and creates strong alignment with our shareholders."

DEAR SHAREHOLDER,

I am pleased to introduce the Directors' Remuneration Report for the year ended 31 December 2018, which has been prepared by the Remuneration Committee (the Committee) and approved by the Board.

2018 has been a positive year for Admiral Group. Earnings per share in the year were 137.1 pence (2017: 117.2 pence) and return on equity was 56% (2017: 55%). Total dividends for the financial year (including the proposed final dividend of 66.0 pence per share) will be 126.0 pence per share.

Remuneration in 2018

Admiral has a remuneration structure which reinforces our unique culture and creates strong alignment with our shareholders:

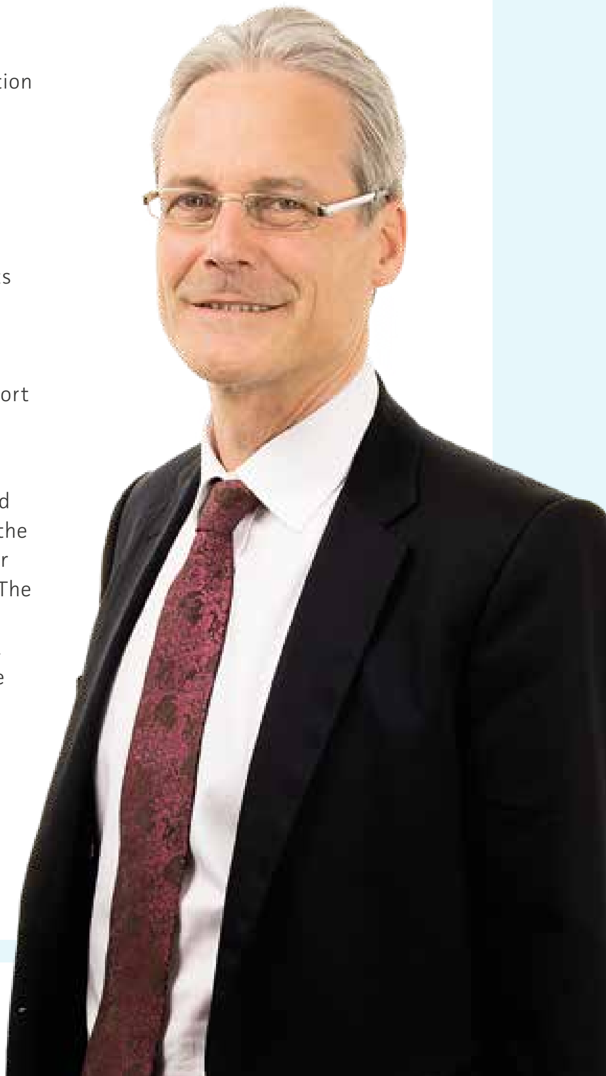
- Base salaries are targeted at the lower end of our peer group, and executives are encouraged to build up significant shareholdings in the Group to maximise shareholder alignment.
- Our main incentive plans are a Share Incentive Plan ('SIP'), which encourages wide share ownership across our employees, and the Discretionary Free Share Scheme ('DFSS'), which incentivises Earnings per Share growth, Return on Equity and Total Shareholder Return vs. the FTSE 350 (excluding investment companies) over a three-year period.
- We do not pay annual cash bonuses and instead have in place a bonus structure (the 'DFSS Bonus') that is directly linked to the number of DFSS awards held and actual dividends paid out to shareholders.

Our remuneration structure is aligned to our philosophy around the efficient use of capital and distribution of profit. It focuses heavily on reinforcing 'collective' performance through the use of the DFSS and DFSS bonus, but also reflects individual and business unit performance through the allocation of awards and the application of adjustments to their vesting.

At the 26 April 2018 AGM, we asked shareholders to approve a new Remuneration Policy, which included updates to align with evolving best practice and regulatory requirements and to improve the alignment of the CFO's remuneration with both the market and other senior Admiral executives, as well as our Annual Report on Remuneration.

We were pleased to note that the majority of our shareholders approved both resolutions with a 99% vote for the Remuneration Policy and 90% vote for the Annual Report on Remuneration. The approved Remuneration Policy came into effect from the date of the AGM. In line with this policy, the Committee made the following decisions:

- Geraint Jones received his award of 5,000 salary shares, equivalent to £98,225. In line with policy, these shares will vest after three years subject to continued employment. An additional two-year holding period will apply and malus and clawback provisions will apply during the vesting and holding periods. Further details on these shares can be found on page 91;



- In September 2018, Geraint Jones was also granted an award under the DFSS of 50,000 shares, equivalent to £1,020,000 or 416% of salary. This award will vest on three-year EPS growth vs. LIBOR, TSR vs. FTSE 350 (excluding investment companies) and ROE. David Stevens again declined to be included given his significant shareholding. Further details on this award can be found on page 101;
- Based on performance to 31 December 2018, 87.6% of the DFSS award granted in 2016 will vest. The EPS condition was partially achieved, vesting at 75.5% of this element and the ROE condition was also partially achieved, vesting at 87.5% of this element. The TSR condition fully vested at 100% of the element. This means that Geraint Jones will receive 43,800 vested DFSS shares. The Committee reviewed this vesting outcome and concluded that it was appropriate. The Committee made no adjustment for the EPS enhancement during the period from the partial reversal of the provisioning for the Ogden rate change two years ago as this approach is consistent with that taken previously by the Committee for the vesting of the 2014 DFSS awards where no adjustment was made to neutralise the substantial negative impact on 2016 EPS from the initial provision for the Ogden rate change;
- Last year, we stated that the DFSS bonus for the CFO would include a +/- 20% adjustment based on performance against a set of risk metrics. The Committee invested considerable time in reviewing appropriate measures and targets for determining any adjustments, which would also apply for the wider senior management population in 2019, and the Committee concluded that the adjustment would be first introduced for the 2019 DFSS bonus. This decision was taken as the risk metrics were still being developed in 2018 and consistency with the wider senior management population was preferred; and
- David Stevens's salary was increased by 2.5% to £416,048 effective from 1 September 2019 and the cash element of Geraint Jones's salary was also increased by 2.5% to £251,125, effective from 1 January 2019. These increases are below the average increase across the Group for 2018.

During the year ended 31 December 2018, additional to its regular activities, the Committee also:

- Developed and implemented a malus and clawback framework;
- Established a fixed/variable pay policy for staff in control functions;
- Reviewed the DFSS vesting and bonus arrangements for Executive Directors, senior management and relevant staff (Material Risk Takers) covered under Solvency II;
- Agreed changes to the DFSS vesting conditions for our European Insurance businesses, Elephant Auto and Compare.com so that vesting is linked to business unit, rather than Group, performance;
- Reviewed remuneration arrangements for Confused and the other European price comparison businesses, replacing DFSS awards with bonuses focused on both profitability and growth;
- Reviewed executive and workforce remuneration trends and changes to the UK Corporate Governance Code and best practice guidelines;
- Reviewed alignment of the Group's current remuneration structure with the Living Wage;
- Reviewed Admiral's Gender Pay reporting stats; and
- Agreed the basis for linking the CEO's remuneration to gender-diversity targets.

The Committee strongly believes that the Remuneration Policy and structure remains fit for purpose, aligning executives to the collective culture at Admiral and to shareholders' interests.

The Annual Report on Remuneration (subject to an advisory vote) will be put to our shareholders at the AGM on 25 April 2019. We do hope that you vote in favour of the report. I am available to meet and discuss our Remuneration Policy and Annual Report on Remuneration with shareholders.

Owen Clarke
Chairman of the Remuneration Committee
6 March 2019

Corporate Governance

Directors' Remuneration Policy

COMPLIANCE STATEMENT

This Remuneration Report has been prepared according to the requirements of the Companies Act 2006 (the Act), Regulation 11 and Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and other relevant requirements of the FCA Listing Rules. In addition, the Board has applied the principles of good corporate governance set out in the UK Corporate Governance Code (the Code) and has considered the guidelines issued by its leading shareholders and bodies such as ISS, the Investment Association, and the Pensions and Lifetime Savings Association. The Committee has decided to implement early the changes to Schedule 8 on UK remuneration reporting requirements which is required from FY2019 and includes both the disclosure of discretion used by the Remuneration Committee in the Annual Statement and CEO pay ratios.

Unless otherwise stated, information contained within this Remuneration Report is unaudited.

The following Remuneration Policy was approved, and therefore came into effect, at the April 2018 AGM. There have been two minor changes to the Remuneration Policy since the 2018 AGM. These changes are in the Remuneration Policy table and are updates to the malus and clawback provisions for the Discretionary Free Share Scheme (DFSS) and DFSS bonus awards to reflect the malus and clawback policy developed in 2018.

KEY PRINCIPLES OF ADMIRAL REMUNERATION ARRANGEMENTS

The Group is committed to the primary objective of maximising shareholder value over time in a way that also promotes effective risk management and excellent customer outcomes, and ensuring that there is a strong link between performance and reward. This is reflected in the Group's stated Remuneration Policy of paying competitive, performance-linked and shareholder-aligned total remuneration packages comprising basic salaries coupled with participation in performance-based share schemes to generate competitive total reward packages for superior performance. The Board is satisfied that the adoption of this Policy continues to meet the objectives of attracting and retaining executives of the highest quality across the Group.

The Committee reviews the remuneration framework and packages of the Executive Directors and the most senior managers and recognises the need to ensure that the Remuneration Policy is firmly linked to the Group's strategy, including its risk management approach. In setting the Policy and making remuneration decisions, the Committee takes into account pay and conditions elsewhere in the Group. The main principles underlying the Remuneration Policy are:

- Competitive total package – the Group aims to deliver total remuneration packages that are market-competitive, taking into account the role, job size, responsibility, and the individual's performance and effectiveness. Prevailing market and economic conditions and developments in governance are also considered, as are general salary levels throughout the organisation;
- Significantly share-based – our base salaries are targeted towards the lower end of market, but are combined with meaningful annual share awards that vest on long-term performance to ensure strong alignment with shareholders and the long-term interests of the Group. Executives are also encouraged to build up significant shareholdings in the Group to maximise shareholder alignment;
- Long-term perspective – a significant part of senior executives' remuneration is based on the achievement of stretching performance targets that support the delivery of the Group's strategy and shareholder value. The extended performance and vesting horizons promote a long-term perspective that is appropriate to the insurance sector;
- Effective risk management – incentives are designed to ensure they do not encourage excessive risk-taking. They are aligned with the delivery of positive customer outcomes and reinforce the Group's risk policy;
- Open and honest culture – the Group has a strong culture of focussing on collective success, whilst still recognising individual contribution to the Group's performance, and this is reflected in our remuneration structure across the business; and
- Transparency to stakeholders – the remuneration structure is designed to be simple and easy to understand, and all aspects are clear to employees and openly communicated to employees, shareholders, and regulators.

REMUNERATION POLICY TABLE

This table describes the key components of the remuneration arrangements for Executive Directors.

<table>
<tr><th>Purpose and link to strategy</th><th>Operation</th><th>Opportunity and performance metrics</th></tr>
<tr><td colspan="3">Base Salary</td></tr>
<tr><td>To attract and retain talent by setting base salaries at levels appropriate for the business.</td><td>Salaries are reviewed annually or following a significant change in responsibilities.
Salary levels/increases take account of:
• Scope and responsibility of the position.
• Individual performance and effectiveness, and experience of the individual in the role.
• Average increase awarded across the Group.
The CFO receives an annual award of 'salary' shares in addition to his cash salary. The salary share award vests after three years subject to continued employment, and an additional two-year holding period applies, during which time shares may not be sold, save to meet income tax, NI or other regulatory obligations. Malus and clawback provisions apply during the vesting and holding periods. The salary share award is not included in base salary when calculating the CFO's pension benefit.</td><td>Any salary increases are applied in line with the outcome of the review.
In respect of existing Executive Directors, it is anticipated that increases in cash salary, or in the number of salary shares, will normally be in line with the increase for the general employee population over the term of this Policy. More significant increases may be awarded in certain circumstances including, but not limited to: where there has been a significant increase in role size or complexity, to apply salary progression for a newly appointed Executive Director, or where the Executive Director's salary has fallen significantly behind market.
Where increases are awarded in excess of that for the general employee population, the Committee will provide the rationale in the relevant year's Annual Report on Remuneration.</td></tr>
<tr><td colspan="3">Pension</td></tr>
<tr><td>To provide retirement benefits.</td><td>The Group operates a Personal Pension Plan, a Defined Contribution Scheme.
This is available to all employees following completion of their probationary period.</td><td>In the UK, the Group matches employee contributions up to a maximum of 6% of base salary subject to an overall maximum employer contribution of £15,000, or provides the equivalent value in cash. Base salary is the only element of remuneration that is pensionable.</td></tr>
<tr><td colspan="3">Other Benefits</td></tr>
<tr><td>To provide competitive benefits.</td><td>Includes (but not limited to):
• Death in service scheme.
• Private medical cover.
• Permanent health insurance.
• Relocation, at the Committee's discretion.
All benefits are non-pensionable.</td><td>Benefits may vary by role.
None of the existing Executive Directors received total taxable benefits exceeding 5% of base salary during the most recent financial year, and it is not anticipated that the cost of benefits provided will exceed this level over the term of this Policy.
The Committee retains the discretion to approve a higher cost in exceptional circumstances (e.g. relocation), or in circumstances driven by factors outside the Company's control (e.g. material increases in healthcare insurance premiums).</td></tr>
</table>

Admiral Group plc

Corporate Governance
Directors' Remuneration Policy continued

Purpose and link to strategy	Operation	Opportunity and performance metrics
Discretionary Free Share Scheme (DFSS)		
To motivate and reward longer term performance, aid long term retention of key executive talent, use capital efficiently, grow profits sustainably and further strengthen the alignment of the interests of shareholders and staff.	Executive Directors may be granted awards annually at the discretion of the Committee. David Stevens has declined to participate given his significant shareholding. Awards may be in the form of nil or nominal priced options or conditional shares. Awards vest after a minimum of three years subject to Group performance and continued employment. For DFSS awards made in 2018 and subsequent years, a two-year holding period applies to vested awards, during which time Executive Directors may not sell the vested awards except to cover tax liabilities. Awards are subject to malus and clawback provisions, i.e. forfeiture or reduction of unvested awards and recovery of vested awards needs to be awards. Events which may lead to the malus and clawback are set out in the Group's Malus and Clawback Framework and include material financial misstatement, responsibility for conduct which results in significant loss, material failure of risk management and misconduct. The Remuneration Committee has discretion to adjust the formulaic vesting outcome to ensure the final outcome is a fair and true reflection of underlying business performance.	Maximum opportunity: £2,000,000. For awards above £1,000,000 a maximum of 600% of base salary (excluding any salary shares) applies. Threshold performance will result in vesting of up to 25% of the maximum award. Vesting of DFSS awards is subject to the Group's performance over a three-year performance period. The performance measures may include EPS, ROE and relative TSR, or other measures selected by the Committee, as appropriate. Measures will typically be weighted equally unless the Committee determines otherwise to reflect strategic priorities. Details of the measures, weightings and performance targets used for specific DFSS grants are included in the relevant year's Annual Report on Remuneration.
DFSS Bonus		
To further align incentive structures with shareholder interests through the delivery of dividend equivalent bonuses.	To incentivise shareholder value creation, in particular in the form of dividends, management participate in a bonus scheme which directly links their awards to dividends paid to shareholders. Bonus is calculated to be equivalent to dividends that would have been payable during the year on all outstanding DFSS shares awarded but not vested, including salary shares for the CFO. The DFSS bonus is subject to a ±20% adjustment based on performance against a set of risk metrics. The metrics will be set each year for all significant areas of the business with specified targets to determine the amount of any DFSS bonus adjustment. It is anticipated that many of these measures will be directly related to customer outcomes. Whilst the bonus may be adjusted upwards or downwards by up to 20% in any given year, it is not anticipated that the adjustment will increase the CFO's remuneration on average over the long term. The DFSS bonus is subject to malus and clawback provisions, i.e. forfeiture or reduction of unvested awards and recovery of vested awards needs to be awards. Events which may lead to the malus and clawback are set out in the Group's Malus and Clawback Framework and include material financial misstatement, responsibility for conduct which results in significant losses, material failure of risk management and misconduct.	Maximum opportunity: sum equal to the dividends payable during the year on awarded but unvested DFSS shares, subject also to a possible 20% enhancement based on the Committee's assessment of the risk metrics scorecard. No bonus is payable unless dividends are payable on Admiral shares.

Purpose and link to strategy	Operation	Opportunity and performance metrics
Approved Free Share Incentive Plan (SIP)		
To encourage share ownership across all employees using HMRC approved schemes.	All UK employees participate in the SIP (except David Stevens, who has declined to participate). Grants are made twice a year based on the results of each half year and vest after three years subject to continued employment.	The SIP is an all-employee scheme and Executive Directors participate on the same terms as other employees. The acquisition of shares is therefore not subject to the satisfaction of a performance target. Maximum opportunity is in line with HMRC limits.
Shareholding Requirement		
To align interests of Executive Directors with shareholders.	Guideline to be met within five years of the later of the introduction of the guidelines and an Executive Director's appointment.	300% of base salary (base salary excludes any salary shares).

The Committee is satisfied that the above Remuneration Policy is in the best interests of shareholders and does not promote excessive risk-taking. The Committee retains discretion to make changes required to satisfy legal or regulatory requirements and other non-significant changes to the Remuneration Policy without reverting to shareholders.

NOTES TO THE REMUNERATION POLICY TABLE

Payments from Existing Awards

Executive Directors are eligible to receive payment from any award made prior to the approval and implementation of the Remuneration Policy. This includes all outstanding awards under the previous 2015 Remuneration Policy, or any awards made prior to appointment to the Board. Details of any such payments will be set out in the Annual Report on Remuneration as they arise.

Selection of Performance Measures

Vesting under the DFSS is currently linked to EPS vs. LIBOR, ROE, and relative TSR. EPS vs. LIBOR has been selected as a performance measure as the Committee feels it is a strong indicator of both long-term shareholder return and the underlying financial performance of the business. It is transparent and visible and provides good line-of-sight to executives. ROE has been selected as the Committee believes that a returns metric reinforces the focus on capital efficiency and delivery of strong returns for our shareholders, thereby further strengthening the alignment of incentives with Admiral's strategy. The third DFSS measure is relative TSR vs. the FTSE 350 (excluding investment companies). This has been selected to reflect value creation for Admiral's shareholders as compared with the general market. The specific performance measures and their respective weightings in respect of each DFSS award may vary to reflect the strategic priorities at the time of the award.

Performance targets are set taking into account broker forecasts for Admiral and its insurance peers, the Company's strategic priorities and the economic environment in which the Company operates. The Committee believes that the performance targets set are stretching and motivational, and that maximum outcomes are available only for outstanding performance.

Remuneration Policy for Other Employees

The Company's approach to annual salary reviews is consistent across the Group, with consideration given to the role size, experience required, individual performance and pay levels in comparable companies.

In general, the Remuneration Policy which applies to other senior executives is consistent with that for Executive Directors. Remuneration is typically linked to Company and individual performance in a way that reinforces shareholder value creation.

Approximately 3,945 employees from across the Group, as well as the CFO, participate in the DFSS. The Committee recommends for approval by the Board DFSS awards for those executives within its remit and on an aggregate basis for all other participants in the DFSS. For the CFO, all DFSS share awards are subject to performance conditions. For other senior managers and employees at lower organisational levels, a proportion of awards (ranging from 50% to two-thirds) is subject to performance, with performance conditions either in line with those described above, or set based on key performance drivers of the individual's relevant business unit, and the remainder has no performance conditions attached other than the requirement that the recipient remains an employee of the Group at the date of vesting. Award sizes vary by organisational level and an assessment of both financial and non-financial individual and business unit performance.

All holders of DFSS awards receive the DFSS bonus. Most overseas employees receive an equivalent award to the UK SIP awards which comes within the DFSS scheme and these awards have no performance measures attached.

All UK employees are eligible to participate in the SIP on the same terms.

Corporate Governance

Directors' Remuneration Policy continued

Remuneration Arrangements for David Stevens (Founding Director)

David Stevens is a founding Director, and he and the Committee continue to hold the view that his significant shareholding provides sufficient alignment of his interest in the performance of the Group with the interests of other shareholders. In light of this, David Stevens' remuneration package consists only of a cash salary, benefits such as private medical cover, permanent health insurance and death in service cover, and matching pension contributions from the Company under the Group's Personal Pension Plan. David Stevens has not participated, nor is it intended that he participates, in any Group share schemes.

SERVICE CONTRACTS AND LEAVER/CHANGE OF CONTROL PROVISIONS

The Company's Policy is to limit termination payments on termination to pre-established contractual arrangements. In the event that the employment of an Executive Director is terminated, any compensation payable will be determined in accordance with the terms of the service contract between the Company and the employee, as well as the rules of any incentive plans. Under normal circumstances, Executive Directors are entitled to receive termination payments in lieu of notice based on base salary and compensation for loss of benefits. The Company has the ability to pay such sums in instalments, requiring the Executive Director to mitigate loss over the relevant period. The notice period for all Executive Directors is one year.

Executive Director	Date of appointment
David Stevens	22 October 1999
Geraint Jones	13 August 2014

There is no provision in the Executive Directors' contracts for compensation to be payable on early termination of their contract over and above the notice period element. The Executive Directors' service contracts are available to view at the Company's registered office.

When considering termination payments, the Committee reviews all potential incentive outcomes to ensure they are fair to both shareholders and participants. The table below summarises how the awards under the DFSS and DFSS bonus scheme are typically treated in specific circumstances, with the final treatment remaining subject to the Committee's discretion:

Plan	Scenario	Treatment of awards	Timing of vesting
DFSS	Resignation.	Awards lapse.	n/a
	Death, injury or disability, redundancy, retirement or any other reasons the Committee may determine.	Any unvested award will be pro-rated for time with reference to the proportion of the vesting period remaining at termination, and performance, unless the Committee determines otherwise.	Normal vesting date.
	Change of control.	Any unvested award will be pro-rated for time with reference to the proportion of the vesting period remaining at change of control, and extent to which the Committee determines that the performance conditions have been met or are likely to be met at the point of change of control, unless the Committee determines otherwise.	Immediately.
DFSS bonus	Resignation.	n/a	n/a
	Death, injury or disability, redundancy, retirement or any other reasons the Committee may determine.	Not payable after the event.	n/a
	Change of control.	Not payable after the event.	n/a

Plan	Scenario	Treatment of awards	Timing of vesting
Salary shares (CFO only)	Resignation.	Awards lapse.	n/a
	Death, injury or disability, redundancy, retirement or any other reasons the Committee may determine.	Any unvested award will be pro-rated for time with reference to the proportion of the vesting period remaining at termination, unless the Committee determines otherwise[1].	Normal vesting date, with Committee discretion to accelerate.
	Change of control.	Any unvested award will be pro-rated for time with reference to the proportion of the vesting period remaining, at the point of change of control, unless the Committee determines otherwise.	Immediately.

1. Note: the good leaver provisions for the salary shares disclosed in the 2017 Policy Report had a typographical error which mistakenly referred to 'performance' being assessed on leaving; as such shares have no performance conditions attached such wording has been removed from the table for clarity.

For all leavers (with the exception of in the event of termination for cause), in respect of vested DFSS and vested salary share awards that are still subject to a holding period, awards will normally be released in full at the end of the holding period, though the Committee has discretion to determine otherwise, taking into account the circumstances at the time.

NON-EXECUTIVE DIRECTORS

The Company has entered into letters of appointment with its Non-Executive Directors (NEDs). Summary details of terms and notice periods are included below.

NED	Term	Initial date of appointment	Commencement of current contract	Notice period
Annette Court	3 years	21 March 2012	26 April 2017	Three months
Mike Brierley	3 years	5 October 2018	5 October 2018	One month
Owen Clarke	3 years	19 August 2015	19 August 2018	One month
Andy Crossley	3 years	27 February 2018	27 February 2018	One month
Karen Green	3 years	14 December 2018	14 December 2018	One month
Jean Park	3 years	17 January 2014	17 January 2017	One month
Justine Roberts	3 years	17 June 2016	17 June 2016	One month
Manning Rountree	3 years	16 June 2015	16 June 2018	One month

The NEDs are not eligible to participate in the DFSS or DFSS bonus scheme and do not receive any pension contributions.

Details of the Policy on NED fees are set out in the table below:

Purpose and link to strategy	Operation	Opportunity and performance metrics
To attract and retain NEDs of the highest calibre with experience relevant to the Company.	Fees are reviewed annually. The Group Chairman fee is determined by the Committee after consultation with the Executive Directors. The NED fees are determined by the Group Chairman together with the Executive Directors. Additional fees are payable for acting as Senior Independent Director or as Chair or member of a Board Committee as appropriate, and may be payable as appropriate in relation to other additional responsibilities (e.g. attending meetings overseas). Fees are paid in a mix of cash and Company shares for the Company Chair, and in cash for other Non-Executive Directors. The Board retains discretion to vary the mix or determine that fees are paid entirely in cash or Company shares.	Fee levels are set by reference to NED fees at companies of a similar size and complexity. It is anticipated that NED fee increases will normally be in line with the increase for the general employee population over the term of this Policy. In the event that there is a material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil an NED role, the Board has discretion to make an appropriate adjustment to the fee level. The maximum aggregate annual fee for NEDs is capped at the limit provided for in the Company's Articles of Association.

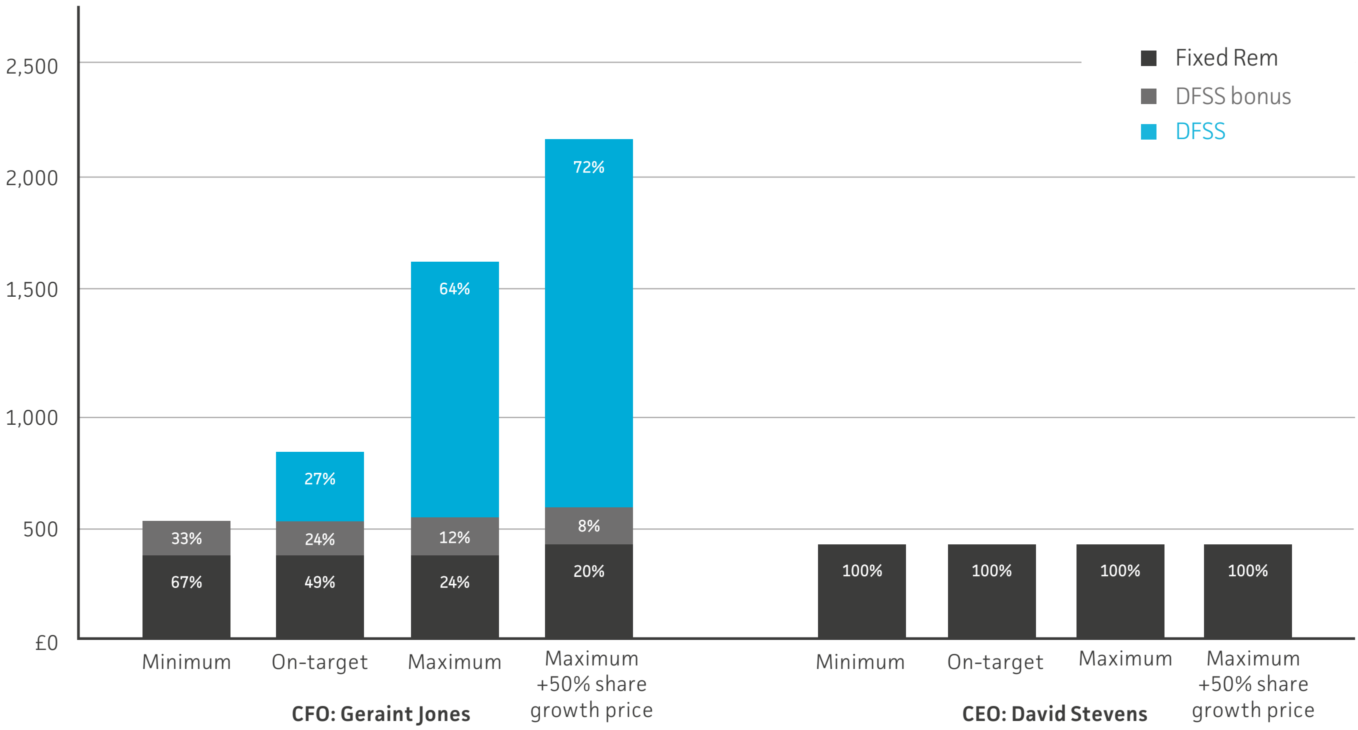
Corporate Governance

Directors' Remuneration Policy continued

PAY-FOR-PERFORMANCE: SCENARIO ANALYSIS

The following charts provide an estimate of the potential future reward opportunities for the Executive Directors, and the potential split between the different elements of pay under three different performance scenarios: 'Minimum', 'On-target' and 'Maximum'.

As described above, Admiral's DFSS bonus is directly aligned with dividends received by our shareholders, with a final adjustment for risk. Whilst the CFO's final DFSS bonus outcome may be adjusted upwards or downwards for risk by up to 20% in any given year, it is anticipated that the average adjustment over the long term will be close to 0%. The figures shown in the chart below for the CFO's DFSS bonus therefore include the value of the actual DFSS bonus paid in 2018 as an illustration of the value he might receive. Under all scenarios, potential reward opportunities are based on the Remuneration Policy, applied to salaries as at 1 January 2019.



The value of DFSS awards is calculated based on the average share price in the last three months of 2018 (£20.07) and the number of DFSS shares awarded in 2018 (50,000 shares) and salary shares expected to be awarded in 2019 (5,000 shares).

We have included in the charts above an additional scenario consistent with the remuneration reporting regulations which will come into effect for accounting periods starting 1 January 2019. This scenario 'Maximum with share price growth' is based on the same assumptions as used in the 'Maximum' scenario but also assuming the share price increases by 50% (as prescribed by the regulations).

Component	'Minimum'	'On-target'	'Maximum'	'Maximum with share price growth'
Base salary	• Annual cash salary and salary shares (CFO only) for 2019			• Same as other scenarios but with 50% share price appreciation on salary shares
Pension	• £15,000 annual contribution for CFO and CEO			
Benefits	• Taxable value of annual benefits provided			
DFSS	• 0% vesting	• 20% average vesting	• 100% vesting	• 100% vesting plus 50% share price appreciation
DFSS bonus	• Based on DFSS bonus paid in 2018			

APPROACH TO REMUNERATION RELATING TO NEW EXECUTIVE DIRECTOR APPOINTMENTS

External Appointments

In the case of appointing a new Executive Director, the Committee may make use of any of the existing components of remuneration as set out in the Policy Table. The Committee's policy is to set the remuneration package for a new Executive Director in accordance with the approved Remuneration Policy at the time of the appointment.

In determining the appropriate remuneration for a new Executive Director, the Committee will consider all relevant factors to ensure that arrangements are in the best interests of the Company and its shareholders. Where an individual is appointed on an initial base salary that is below market, any shortfall may be managed with phased increases over a period of time, subject to the individual's performance and development in the role. This may result in above-average salary increases during this period.

The Committee may also make an award in respect of a new Executive Director appointment to 'buy out' incentive arrangements forfeited on leaving a previous employer. In doing so, the Committee will consider relevant factors including any performance conditions attached to the forfeited awards and the likelihood of those conditions being met to ensure that the value of the buy-out award is no greater than the fair value of the awards it replaces. The Committee may also avail itself of Listing Rule 9.4.2 R if appropriate in respect of buy-out incentive arrangements.

Internal Appointments

Remuneration for new Executive Directors appointed by way of internal promotion will similarly be determined in line with the Policy for external appointees, as detailed above. Where an individual has contractual commitments made prior to their promotion to the Board, the Company will continue to honour these arrangements. Incentive opportunities for below-Board employees are typically no higher than for Executive Directors, but measures may vary if necessary.

OTHER DIRECTORSHIPS

Executive Directors are permitted to accept appointments as Non-Executive Directors of companies with prior approval of the Group Chairman. Approval will be given only where the appointment does not present a conflict of interest with the Group's activities, and where the wider exposure gained will be beneficial to the development of the individual.

CONSIDERATIONS OF CONDITIONS ELSEWHERE IN THE GROUP

The Committee considers the pay and employment conditions elsewhere in the Group when determining remuneration for Executive Directors.

CONSIDERATIONS OF SHAREHOLDER VIEWS

When determining remuneration, the Committee takes into account best practice guidelines issued by institutional shareholder bodies. The Committee is open to feedback from shareholders on the Remuneration Policy and will continue to monitor trends and developments in corporate governance and market practice to ensure the remuneration structure for our Executive Directors remains appropriate.

CONSIDERATIONS OF REGULATORY REQUIREMENTS

The Committee regularly reviews the Remuneration Policy and structure in the context of Solvency II remuneration guidance. The Chief Risk Officer periodically attends Committee meetings as part of this process and provides support to the Committee in understanding any risk-related implications of remuneration decisions. Whilst the Remuneration Policy includes several features which help ensure compliance with current regulatory guidance, the Committee reserves the discretion to adjust the Remuneration Policy, and its execution, to take into account any developments in such regulatory guidance.

Corporate Governance

Annual Report on Remuneration

This section of the report provides details of how Admiral's Remuneration Policy was implemented in 2018 and how the Remuneration Committee intends to implement the Remuneration Policy in 2019.

REMUNERATION COMMITTEE MEMBERSHIP IN 2018

The Board sets the Group's Remuneration Policy and, through the authority delegated to it by the Board, the Committee is responsible for making recommendations to the Board on the structure and implementation of the Remuneration Policy across the Group with consideration to the prevailing economic climate within the economies in which the Group operates. Its remit includes recommending the remuneration of the Group Board Chairman, the Executive Directors and the Company Secretary; approving the remuneration of senior management; and reviewing the composition of and awards made under the performance-related incentive schemes.

At the end of 2018 the Committee consisted of Owen Clarke, Jean Park and Justine Roberts. The Committee met 8 times during the year.

The Group Chairman, CEO, CFO and Chief Risk Officer are invited to meetings where the Committee considers it appropriate to obtain their advice on Group strategy and performance and Senior Executive pay strategy. The members of the Committee do not have any personal financial interests (other than shareholdings), or any conflicts, that relate to the business of the Committee. The Committee members do not have any day-to-day involvement in the running of the Group.

ADVISOR TO THE COMMITTEE

During the year, in order to enable the Committee to reach informed decisions on Executive remuneration, advice on market data and trends was obtained from independent consultants, Mercer Kepler. Mercer Kepler reports directly to the Committee Chairman, and is a signatory to and abides by the Code of Conduct for Remuneration Consultants (which can be found at www.remunerationconsultantsgroup.com). Other than advice on remuneration, no other services were provided by Mercer Kepler to the Company. The fees paid to Mercer Kepler in respect of work carried out in 2018 (based on time and materials) totalled £54,956 excluding expenses and VAT.

The Committee undertakes due diligence periodically to ensure that Mercer Kepler remains independent of the Company and that the advice provided is impartial and objective. The Committee is satisfied that the advice provided by Mercer Kepler is independent.

The Company Secretary also circulates market survey results as appropriate.

SUMMARY OF SHAREHOLDER VOTING AT THE 2018 AGM

The table below shows the results of the binding vote on the 2018 remuneration policy and the advisory vote on the 2017 Annual Report on Remuneration at the 2018 AGM.

		For	Against	Total votes cast	Abstentions
2018 Remuneration Policy	**Total number of votes**	214,282,051	2,306,994	216,589,045	136,242
	% of votes cast	98.93%	1.07%		
2017 Annual Report on Remuneration	**Total number of votes**	190,878,704	20,357,584	211,236,288	5,479,236
	% of votes cast	90.36%	9.64%		

TOTAL SINGLE FIGURE OF REMUNERATION FOR EXECUTIVE DIRECTORS (AUDITED)

The table below sets out the total single figure remuneration received by each Executive Director for the year ended 31 December 2018 and 31 December 2017.

Executive Director		1. Base salary	2. Benefits	3. Pension	4. SIP	5. DFSS	6. DFSS bonus	Total remuneration
Geraint Jones	2018	£343,225	£488	£14,700	£3,600	£878,905	£180,000	£1,420,918
	2017	£245,000	£604	£8,996	£3,600	£772,720	£153,525	£1,184,445
David Stevens*1	2018	£399,301	£488	£3,873	n/a	n/a	n/a	£403,662
	2017	£390,824	£404	£3,791	n/a	n/a	n/a	£395,019

*1 David Stevens does not participate in any incentive plan given his significant shareholdings.

The figures have been calculated as follows:

1. Base salary/fee: amount earned for the year. For Geraint Jones, this also includes 2,500 salary shares awarded on 9 March 2018, and 2,500 awarded on 24 August 2018. These have been valued using closing share price at date of grant of £18.70 and £20.59 respectively.
2. Benefits: the taxable value of annual benefits received in the year.
3. Pension: the value of the Company's contribution during the year.
4. SIP: the face value at grant.
5. DFSS: the value at vesting of shares vesting on performance over the three-year periods ending 31 December 2018 and 31 December 2017. For the 2018 figures, given that vesting occurs after the 2018 Directors' Remuneration Report is finalised, the figures are based on the average share price in the last three months of 2018 (£20.07). The 2017 figures have been trued up based on the actual share price on vest (£20.80). For 2018, an unfavourable movement of £31,552 is included in the DFSS value, attributable to a reduction in the share price over the vesting period. For 2017, £220,300 of the DFSS value is attributable to share price appreciation over the vesting period.
6. DFSS bonus: the bonus equivalent to dividends that were paid during the year on all outstanding DFSS shares awarded but not yet vested.

Corporate Governance
Annual Report on Remuneration continued

TOTAL SINGLE FIGURE OF REMUNERATION FOR NON-EXECUTIVE DIRECTORS (AUDITED)

The table below sets out the total single figure remuneration received by each NED for the year ended 31 December 2018 and 31 December 2017.

	Total fees	
Director	**2018**	**2017**
Annette Court[1]	£319,438	£217,121
Owen Clarke	£88,100	£77,438
Colin Holmes	£91,525	£89,250
Jean Park[2]	£101,500	£113,750
Justine Roberts	£60,500	£59,229
Manning Rountree	£73,100	£70,350
Andy Crossley[3,8]	£92,522	n/a
Michael Brierley[4,8]	£47,125	n/a
Alastair Lyons[5]	n/a	£115,656
Penny James[6]	n/a	£48,575
Karen Green[7]	£33,171	n/a

1. Annette Court was appointed Chairman of the Board with effect from 26 April 2017 on an annual fee of £300,000 (split £210,000 cash and £90,000 to be used to buy shares – the share fee). For 2018, the fee was increased to £307,500 (£215,250 cash, £92,250 share fee). Due to the timing of the cash payments for the share fee for 2017, the 2017 fee includes only one instalment of £45,000, representing the fee for 6 months. As Annette was in the role of Chairman for 8 months, an additional cash payment of £15,000 representing 2 months of the 2017 fee was paid alongside the first 2018 instalment. A payment of £3,062, in respect of Annette's annual fee for 2018, was paid in 2019.
2. Jean Park's fees for 2017 and 2018 include additional fees relating to her position as Chair of the Group Risk Committee and is in recognition of the increased time commitment required of her as a consequence of Solvency II regulations and the Internal Model Application Process. The 2017 fees also include an amount relating to this role for 2016, which was paid during 2017.
3. Andy Crossley was appointed to the Board on 27 February 2018.
4. Michael Brierley was appointed to the Board on 5 October 2018 and his fee includes fees paid for Board and Committee attendance prior to his formal appointment.
5. Alastair Lyons retired from the Board with effect from 26 April 2017.
6. Penny James retired from the Board with effect from 8 September 2017.
7. Karen Green was appointed to the Board on 14 December 2018 and her fee includes fees paid for Board and Committee attendance from June 2018 prior to her formal appointment.
8. The 2018 fees for Andy Crossley and Michael Brierley include additional fees in relation to their positions as Chairman of the Admiral Financial Services Limited and EUI Limited Board of Directors respectively.

INCENTIVE OUTCOMES FOR FINANCIAL YEAR TO 31 DECEMBER 2018 (AUDITED)

DFSS Awards Vesting on Performance to 31 December 2018

In September 2016, Geraint Jones was granted an award under the DFSS of 50,000 shares with a value at the date of award of £1,039,500 (based on a grant date share price of £20.79), equivalent to 495% of salary at date of grant.

Vesting of the award was based 100% on the achievement of performance conditions, being EPS growth vs. LIBOR, TSR vs. FTSE 350 (excluding investment companies), and ROE, weighted equally and all measured over the three-year period 1 January 2016 to 31 December 2018. Over this period, the returns to our shareholders were strong, with TSR in the top of the second quartile versus FTSE350 companies and with ROE of 50%. The combination of these shareholder returns and EPS growth contributed to a vesting level of 87.6%.

The Committee reviewed this vesting outcome and concluded that it was appropriate. In particular, the Committee considered the EPS performance over the period, taking into account the positive impact of the partial reversal of the provisioning for the Ogden rate change two years ago, and concluded that no adjustment should be made to ensure consistency of approach with that taken previously by the Committee for the vesting of the 2014 DFSS awards (where no adjustment was made to neutralise the substantial negative impact on 2016 EPS from the initial provision for the Ogden rate change).

The table below details the Company's performance against targets and the resulting vesting outcome.

Performance measure	Performance range: Threshold	Performance range: Maximum	Performance range: Vesting schedule	Actual outturn	Vesting outcome (% of maximum)
EPS growth vs. LIBOR (weighted 33%)	Growth in line with LIBOR	Growth of 36 points (equivalent to 10% p.a.) in excess of LIBOR	10% for achieving threshold with straight line relationship to 100% for maximum performance	26.2% points in excess of LIBOR	75.5%
TSR vs. FTSE 350 (excluding investment companies) (33%)	Median	Upper quartile	25% for median, with straight line relationship to 100% for upper quartile	74th percentile	100%
Return on Equity (ROE) (33%)	25%	55%	25% for achieving threshold with straight line relationship to 100% for maximum performance	50.0%	87.5%
Total vesting					87.6%

Based on performance, the total amount that will vest to Geraint Jones in September 2019 will therefore be 87.6% of his award (i.e. 43,800 shares), subject to his continued employment on the vesting date.

Vested DFSS awards are subject to clawback provisions. Events which may lead to the application of clawback are set out in the Group's Malus and Clawback Framework and include material financial misstatement, responsibility for conduct which results in significant losses, material failure of risk management and misconduct.

DFSS BONUS IN RESPECT OF 2018

In line with the Remuneration Policy, the Group paid a bonus to all holders of DFSS shares in 2018, which was equivalent to the dividend payable on all outstanding DFSS shares awarded but not yet vested. The Committee continues to believe that having a bonus equivalent to the dividend flow received by investors further aligns the incentive structure with shareholders. The 2018 Remuneration Policy was updated to include a +/- 20% adjustment to the DFSS Bonus based on performance of a set of risk metrics. The Committee invested considerable time in reviewing appropriate measures and targets for determining any adjustments which would also apply for the wider senior management population in 2019, and the Committee concluded that the adjustment would be first introduced for the 2019 DFSS bonus. This decision was taken as the risk metrics were still being developed during 2018 and consistency with the wider senior management population was preferred.

In 2018, Geraint Jones received a DFSS bonus of £180,000 (2017: £153,525). David Stevens did not receive a DFSS bonus as he does not participate in the DFSS.

DFSS bonus payments are subject to malus and clawback provisions.

SCHEME INTERESTS GRANTED IN 2018 (AUDITED)

DFSS

In September 2018, Geraint Jones was granted an award under the DFSS of 50,000 shares with a value at the date of award of £1,020,000 (based on share price of £20.40), equivalent to 416% of base salary. The three-year period over which performance will be measured is 1 January 2018 to 31 December 2020. The award is eligible to vest on the third anniversary of the date of grant (i.e. September 2021), subject to performance and to continued employment. Vested awards will be subject to an additional two-year post-vest holding period. David Stevens again declined to be included given his significant shareholding.

The award will vest on three-year EPS growth vs. LIBOR, TSR vs. FTSE 350 (excluding investment companies), and ROE, weighted equally. The performance conditions are summarised in the table below.

Performance measure	Performance range: Threshold	Performance range: Maximum	Vesting
EPS growth vs. LIBOR	Growth in line with LIBOR	Growth of 36 points (equivalent to 10% p.a.) in excess of LIBOR	10% for achieving threshold with straight line relationship to 100% for maximum performance
TSR vs. FTSE 350 (excluding investment companies)	Median	Upper quartile	25% for median, with straight line relationship to 100% for upper quartile
Return on Equity (ROE)	25%	55%	25% for achieving threshold with straight line relationship to 100% for maximum performance

Corporate Governance

Annual Report on Remuneration continued

SCHEME INTERESTS GRANTED IN 2018 (AUDITED) CONTINUED

DFSS continued

DFSS awards are subject to clawback and malus provisions, i.e. forfeiture or reduction of unvested awards and recovery of vested awards. Events which may lead to the application of malus or clawback are set out in the Group's Malus and Clawback Framework and include material financial misstatement, responsibility for conduct which results in significant losses, material failure of risk management and misconduct.

SIP

In March and August 2018, Geraint Jones was granted awards under the SIP of 96 shares with a face value of £1,795, and 87 shares with a face value of £1,791 respectively. The shares will vest on 9 March 2020 and 24 August 2020 respectively subject to continued employment only. David Stevens again declined to be included given his significant shareholding.

EXIT PAYMENTS (AUDITED)

No exit payments were made to an Executive Director during the year.

PAYMENTS TO PAST DIRECTORS (AUDITED)

No payments were made to a past Director during the year.

IMPLEMENTATION OF REMUNERATION POLICY FOR 2019

Executive Directors

Salary, Pension and Benefits

Salaries for the Executive Directors in 2019 will be determined in line with the proposed Remuneration Policy, subject to shareholder approval. David Stevens' salary will be increased by 2.5% effective 1 September 2019. For 2019, the CFO's cash salary will be £251,125, an increase of 2.5% effective 1 January 2019, and he will continue to be granted an award of 5,000 salary shares, unchanged from 2018. The salary share award will vest after three years subject to continued employment. An additional two-year holding period will apply, during which time shares may not be sold, save to meet income tax, NI or other regulatory obligations. Malus and clawback provisions will apply during the vesting and holding periods. The salary share award is not included in base salary when calculating the CFO's pension benefit.

The Executive Directors will continue to participate in the Group Personal Pension Plan, where employee contributions are matched up to a maximum 6% of base salary with a cap on the maximum employer contribution of £15,000 p.a. The Company will offer individuals a choice between pension contributions and cash in lieu. Both Executive Directors will continue to receive benefits in line with the Policy.

DFSS

As in prior years, the Committee intends to make an award under the DFSS to Geraint Jones in September 2019. In advance of each DFSS cycle, the Committee reviews the appropriateness of the performance measures and corresponding targets. The Committee will determine the award size to be attached to the 2019 DFSS award closer to the award date (expected to be in September 2019), and will disclose this in the 2019 Annual Report on Remuneration. It is currently anticipated that the vesting of 2019 DFSS award for the CFO will continue to depend on three-year EPS growth vs. LIBOR, TSR vs. FTSE 350 (excluding investment companies), and ROE as well as additional non-financial customer and risk metrics. The Committee believes that the additional emphasis on risk and customer will help to reinforce our focus on risk management and our customers, whilst also more clearly demonstrating alignment of Group remuneration practices with the requirements of Solvency II. As per award size, the Committee will determine the performance conditions and targets to be attached to the 2019 DFSS award closer to the award date, and will disclose them in the 2019 Annual Report on Remuneration.

DFSS bonus

As in prior years, Geraint Jones will be eligible to receive a DFSS bonus in 2019. The bonus is calculated to be equivalent to dividends that would have been payable during the year on all outstanding DFSS shares and any salary shares awarded but not vested. The DFSS bonus will include a ±20% adjustment based on performance against a set of risk metrics. The details of the risk metrics and any adjustment applied will be provided in the 2019 Annual Report on Remuneration.

Chairman and Non-Executive Directors

Fees for the Board Chairman and other Non-Executive Directors were last reviewed in January 2019, with increases effective from 1 January 2019. The fees are as follows:

	2019 fee (p.a.)	2018 fee (p.a.)
Chairman	£315,187[1]	£307,500[1]
NED base fee	£60,500	£60,500
Additional fee for chairing:		
• Audit Committee	£21,000	£21,000
• Group Risk Committee	£41,000[3]	£41,000[2]
• Remuneration Committee	£15,000	£15,000
• Nomination and Governance Committee	£10,000	£5,250
Additional fee for membership of:		
• Audit Committee	£12,600	£12,600
• Group Risk Committee	£12,600	£12,600
• Remuneration Committee	£5,000	–
• Nomination Committee	£5,000	–
Additional fee for being Senior Independent Director	£11,025	£11,025

1. The 2019 fee for the Board Chairman increased by 2.5% from £307,500 to £315,187 (inclusive of committee membership or committee chair fees) and comprises a cash fee of £220,631 and a share fee of £94,556 with which the Chairman is required under a Share Agreement entered into with the Group to use the net proceeds in two equal instalments to purchase Group shares after the Group's Full Year Results and Half Year Results are announced each year.
2. The fee payable to Jean Park, Chair of the Group Risk Committee, includes an additional fee of £20,000 per annum, with effect from 1 January 2017 until 31 December 2018, in recognition of the increased time commitment required of her as a consequence of the Solvency II regulations and Internal Model Application Process.
3. The fee payable to Jean Park with effect from 1 January 2019 will include an additional fee of £20,000 per annum in continued recognition of the continued increased time commitment required as a consequence of the Solvency II regulations and Internal Model Application Process.

PERCENTAGE CHANGE IN CEO REMUNERATION

The table below shows the percentage change in CEO remuneration from 2017 compared to the average percentage change in remuneration for all other employees. The analysis is based on a consistent set of employees, i.e. the same individuals appear in the 2017 and 2018 populations. As the CEO does not participate in the DFSS bonus scheme, to provide a meaningful comparison we have also included data for the CFO who receives DFSS awards.

	CEO			CFO			Other employees
	2018	2017	% change	2018	2017	% change	% change
Salary	£399,301	£390,824	+2%	£343,225	£245,000	+41%	+5%
Taxable benefits	£488	£404	+21%	£488	£604	-19%	-10%
DFSS bonus[1]	–	–		£180,000	£153,525	+17%	+5%

1. DFSS bonus change represents the change in dividends paid, which is the driver of the level of bonus payable to holders of unvested DFSS shares.
2. The employee salary change figure of 5% reflected increases, particularly in respect of employee basic pay, that were made to recognise movements in the Minimum Wage and adjustments to reflect local market pressures.

CEO AND CFO PAY RATIO

The UK Government has introduced legislation that will require all companies with more than 250 employees to publish the ratio of the CEO's pay, using his single figure remuneration, to that of the 25th percentile, median and 75th percentile total remuneration of the full time equivalent employees.

Whilst the legislation does not require Admiral to comply until the 2019 Annual Report, the Committee is cognisant of the interest in this area and has concluded that "early" disclosure in this Annual Report is helpful. Furthermore, given our CEO does not participate in the DFSS, the Committee has also provided the equivalent pay ratios against the CFO single figure remuneration, which includes salary, pension, benefits, DFSS Bonus and vested DFSS awards for the year. The table below sets out the pay ratios for CEO and CFO for the period ended 31 December 2018.

Corporate Governance

Annual Report on Remuneration continued

CEO AND CFO PAY RATIO CONTINUED

Financial year 2018	Method	Lower quartile	Median quartile	Upper quartile
CEO pay ratio	Option A	18:1	15:1	11:1
CFO pay ratio		62:1	54:1	38:1

The CEO pay ratio will likely be relatively stable from one year to the next given David Stevens' pay does not include any variable components. The CFO pay ratio, however, will vary from year to year as Geraint Jones' remuneration package is heavily weighted to variable and equity-based components.

The Lower Quartile and Median employees were not in receipt of DFSS Bonus and/or DFSS vesting in the year.

The legislation provides three options to calculate the pay ratio; Option "A", which involves calculating the actual full time equivalent (FTE) remuneration for all relevant employees for the fiscal year in question, has been used for the calculation above, consistent with the Government's and investor bodies' preferred approach. The employee data has been reviewed and we are satisfied that it fairly reflects pay at the relevant quartiles. No adjustments have been applied in determining the employee pay levels which are set out below.

	CEO	CFO	P25 (lower quartile)	P50 (median)	P75 (upper quartile)
Salary	£399,301	£343,225	£16,850	£21,000	£21,750
Total Remuneration[1]	£403,662	£1,420,918	£22,751	£26,361	£37,055

1. The single figure of remuneration for the CEO and CFO includes actual salary and pension costs paid during 2018, in line with The Companies (Miscellaneous Reporting) regulations 2018. For other employees, salary and pension costs are included on an FTE basis, in line with the legislation. While the basis of calculation differs between CEO/CFO and other employees, management considers this a fair comparison of remuneration.

RELATIVE IMPORTANCE OF SPEND ON PAY

The table below shows the percentage change in dividends and total employee remuneration spend from the financial year ended 31 December 2017 to the financial year ended 31 December 2018.

	2018 £m	2017 £m	% change
Distribution to shareholders	357	320	+12%
Employee remuneration	382	324	+18%

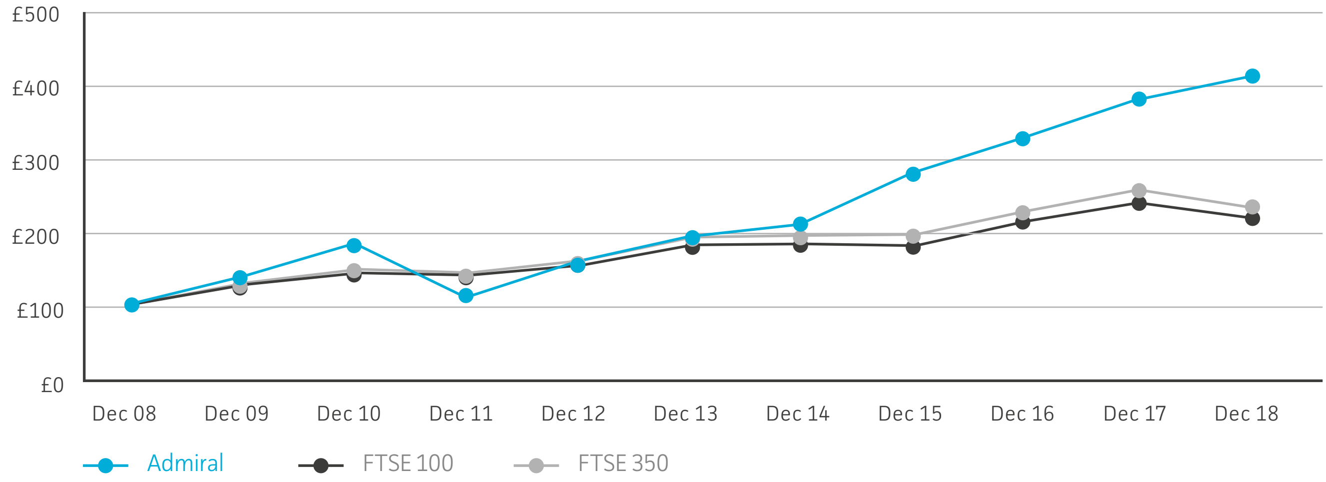
The Directors are proposing a final dividend for the year ended 31 December 2018 of 66 pence per share bringing the total dividend for 2018 to 126 pence per share (2017: 114 pence per share).

PAY FOR PERFORMANCE

The following graph sets out a comparison of Total Shareholder Return (TSR) for Admiral Group plc shares with that of the FTSE 100 and FTSE 350 indices, of which the Company is a constituent, over the ten-year period to 31 December 2018. The Directors consider these to be the most appropriate indices against which the Company should be compared. TSR is defined as the percentage change over the period, assuming reinvestment of income.

10-YEAR TSR PERFORMANCE: ADMIRAL VS. FTSE 100 AND FTSE 350 INDICES

Growth in the value of a hypothetical £100 holding over the 10 years to 31 December 2018.



CEO	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**		**2017**	**2018**
Incumbent	**Henry Engelhardt**	**Henry Engelhardt**	**Henry Engelhardt**	**Henry Engelhardt**	**Henry Engelhardt**	**Henry Engelhardt**	**Henry Engelhardt**	**Henry Engelhardt[1]**	**David Stevens[2]**	**David Stevens**	**David Stevens**
CEO single figure of remuneration	£328,027	£343,106	£358,199	£373,759	£387,546	£393,260	£397,688	£148,776	£246,023	£395,019	£403,662
DFSS vesting outcome (% of maximum)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

CFO	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**		**2015**	**2016**	**2017**	**2018**
Incumbent	**Kevin Chidwick**	**Kevin Chidwick**	**Kevin Chidwick**	**Kevin Chidwick**	**Kevin Chidwick**	**Kevin Chidwick[3]**	**Geraint Jones[4]**	**Geraint Jones**	**Geraint Jones**	**Geraint Jones**	**Geraint Jones**
CFO single figure of remuneration	£632,312	£1,269,535	£1,048,130	£1,431,218	£1,444,443[5]	£1,204,164[5]	£363,551	£539,704	£599,139	£1,184,445[6]	£1,420,918
DFSS vesting outcome (% of maximum)	98%	100%	100%	100%	100%	70%	85%	69%	50% and 0%	74.2%	87.6%

1. Henry Engelhardt stepped down from the Board on 13 May 2016. His 2016 remuneration includes salary and benefits in respect of his service as CEO.
2. David Stevens was appointed as the CEO on 13 May 2016. His 2016 remuneration includes salary, pension and benefits in respect of his service as CEO.
3. Kevin Chidwick left the Board on 13 August 2014 to focus on his new role as CEO of Elephant Auto. His 2014 remuneration includes salary, pension and benefits in respect of his service as CFO, his full year DFSS and his full year DFSS bonus.
4. Geraint Jones was appointed to the Board as CFO on 13 August 2014. His 2014 remuneration includes salary, pension and benefits in respect of his service as CFO, his full year DFSS and his full year DFSS bonus.
5. These figures include reimbursement of £177,104 and £165,000 in 2014 and 2013, respectively, for expenses incurred in respect of the previous CFO's relocation.
6. This figure has been trued up since the 2017 report for the value of the 2015 DFSS based on the actual share price on vest (£20.80).
7. 87.6% of Geraint Jones' 2016 DFSS award will vest in September 2019 subject to his continued employment on the vesting date.

Admiral Group plc

Corporate Governance

Annual Report on Remuneration continued

There are no annual bonus outcomes to report in the table as the Admiral DFSS Bonus is not structured as a traditional annual bonus scheme and consequently a vesting outcome (as a percentage of max) is meaningless.

DILUTION

The Company currently uses newly issued shares to fund the DFSS and SIP. The Company has controls in place to ensure that shares awarded under the incentive schemes operated by the Company within any rolling ten-year period do not exceed 10% (on a net basis) of the number of ordinary shares in the capital of the Company in issue at the time of each award. As at the end of 2018, assuming full vesting of outstanding awards, the maximum number of shares granted under the DFSS and SIP was 100% of shares outstanding. It is currently anticipated that a combination of attrition and actual vesting will result in dilution of less than 10%. As required by the rules of our share schemes, the Company will in any event ensure that the actual dilution level does not exceed 10% in any rolling ten-year period by funding of any vested (and future) DFSS and SIP awards as appropriate with market-purchased shares.

INTERESTS HELD BY DIRECTORS (AUDITED)

The Company has adopted Executive Director shareholding guidelines whereby all Executive Directors are required to acquire and retain a beneficial shareholding in the Company equal to at least 300% of base salary (excluding salary shares, where applicable), which can be built up over a period of five years from the later of the introduction of the guidelines and the individual's date of appointment. All Executive Directors currently hold shares in excess of the guideline.

As at 31 December 2018, the Directors held the following interests:

	Shares held					
Director	**Beneficially owned outright**	**Subject to continued employment only**	**Subject to performance conditions**	**Shareholding requirement (% of salary)**	**Current shareholding (% of salary)**	**Requirement met?**
Geraint Jones	61,819[1]	43,800	100,000	300%	>300%	Yes
David Stevens	9,082,950	n/a	n/a	300%	>300%	Yes
Annette Court	6,410					
Owen Clarke	142,852					
Colin Holmes	23,500					
Jean Park	4,000					
Justine Roberts	–					
Manning Rountree	–					
Andy Crossley	–					
Mike Brierley	1,384					
Karen Green	–					

1. Total includes SIP shares both matured and awarded.
2. Total reflects shares from the 2016 DFSS award (performance test has been applied, and award is due to vest in September 2019).

There have been no changes to Directors' shareholdings since 31 December 2018.

None of the Directors had an interest in the shares of any subsidiary undertaking of the Company or in any significant contracts of the Group.

CURRENT CFO GERAINT JONES' INTERESTS IN SHARES UNDER THE DFSS AND SIP AND SALARY SHARE AWARDS (AUDITED)

Type	At start of year	Awarded during year	Vested/ matured during year	At end of year	Price at award (£)	Value at award date (£)	Value at 31 Dec 2018 or maturity (£)	Date of award	Final vesting/ maturity date
DFSS	50,000	–	37,150	–	£14.87	£743,500	£772,720[1,2]	29/09/2015	29/09/2018
DFSS	50,000	–	–	50,000	£20.79	£1,039,500	£1,023,500	26/09/2016	26/09/2019
DFSS	50,000	–	–	50,000	£18.10	£905,000	£1,023,500	26/09/2017	26/09/2020
DFSS	–	50,000	–	50,000	£20.40	£1,020,000	£1,023,500	26/09/2018	26/09/2021
Salary Share	–	2,500	–	2,500	£18.70	£46,750	£51,175	09/03/2018	09/03/2021
Salary Share	–	2,500	–	2,500	£20.59	£51,475	£51,175	24/08/2018	24/08/2021
SIP	101	–	101	–	£14.88	£1,503	£1,917[1]	13/03/2015	13/03/2018
SIP	118	–	118	–	£15.21	£1,795	£2,452[1]	24/08/2015	24/08/2018
SIP	92	–	–	92	£19.47	£1,791	£1,883	11/03/2016	11/03/2019
SIP	87	–	–	87	£20.51	£1,784	£1,781	02/09/2016	02/09/2019
SIP	95	–	–	95	£19.08	£1,813	£1,945	17/03/2017	17/03/2020
SIP	85	–	–	85	£21.08	£1,792	£1,740	18/08/2017	18/08/2020
SIP	–	96	–	96	£18.70	£1,795	£1,965	09/03/2018	09/03/2021
SIP	–	87	–	87	£20.59	£1,791	£1,781	24/08/2018	24/08/2021

1. Value at maturity.
2. The vesting percentage for performance-related awards made in 2014 was 74.2%. The award made to Geraint Jones in September 2015 was 100% performance-related, which resulted in the lapsing of 12,850 shares. The value at maturity relates only to shares vested.

The closing price of Admiral shares on 31 December 2018 was £20.47 per share.

By order of the Board,

Owen Clarke
Chairman of the Remuneration Committee
6 March 2019

Corporate Governance
Directors' Report

The Directors present their Annual Report and the audited financial statements for the year ended 31 December 2018.

STATUTORY DISCLOSURES

Group results and dividends

The profit for the year, after tax but before dividends, amounted to £390.5 million (2017: £331.6 million).

The Directors declared and paid dividends of £332.7 million during 2018 (2017: £300.3 million) – refer to note 12b for further details.

The Directors have proposed a final dividend of £188 million (66 pence per share) payable on 31 May 2019.

Employee policies

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

Diversity, ethics and human rights

Admiral Group respects and values the individuality and diversity of every employee. The Group's Equality, Diversity and Dignity at Work policy ensures that every employee is treated equally and fairly and that all employees are aware of their obligations. The Group is fully committed to the health and safety and the human rights of its employees regardless of their background. In addition, the Group maintains a number of employee codes of conduct regarding appropriate ethical standards in the workplace.

The Group's principles of respect for human rights, diversity, health and safety and workplace ethical standards not only apply to staff directly employed by Admiral, but also to staff employed by the Group's outsourced partner in Bangalore, India. To meet this commitment, Admiral Group maintains regular contact with its outsourcer's management team and the Group's senior managers visit the outsourcer on a regular basis, whilst the Group also provides training and development to ensure that the team uphold these principles. In addition, Admiral Group has appointed a manager based permanently at the outsourced operation, who is responsible for ensuring that the Group's principles are adhered to by the outsourced partner, and that the wellbeing of outsourced staff is monitored.

Anti-Bribery

The Group's Bribery policy strictly prohibits the solicitation or the acceptance of any bribe, whether cash or inducement, to or from any person or company, wherever they are situated and whether they are a public official or body or private person or company, by any individual employee, Board member, agent or other person or body on the Group's behalf.

Gender diversity

The table below provides a breakdown of the gender of Company Directors and employees at the end of the financial year:

	Male	Female
Company Directors*1	6	4
Other senior managers*2	41	22
All employees	5,260	5,586

Disabled employees

Admiral Group gives full and fair consideration to applications for employment made by those with disabilities, having regard to their particular aptitudes and abilities. Admiral Group's UK businesses are Disability Confident Employers. This means they are recognised as going the extra mile to make sure disabled people get a fair chance.

The Group will support any employee who is disabled or has a life-threatening illness and help them to contribute to the Group as long as their health allows.

Managers in the Group are sensitive to health concerns and special needs and will not knowingly allow any employee with a disabling or life threatening illness to suffer from discrimination at work. The Group provides staff with access to the EAP Care First confidential helpline which offers advice and support on a range of health issues.

Communication

There are a wide range of communication tools used by the Group to communicate with employees, which assists in the understanding of business goals and objectives, including: the staff portal (Atlas), internal newsletters, videos, team briefings, suggestion schemes, staff forums, updates on the staff share scheme and the annual Staff General Meeting (SGM). In the 2018 annual staff survey, 84% of staff were happy with the amount of information they receive about the Company (2017: 83%).

Notes

*1 Company Directors consists of the Board of Directors, as detailed on pages 64 to 65.

*2 Other senior managers is as defined in the Companies Act 2006 (Strategic Report and Directors' Report) and includes persons responsible for planning, directing or controlling the activities of the Company, or a strategically significant part of the Company, other than Company Directors. Any other Directors of undertakings included in the consolidated accounts that are not considered strategically significant have not been included.

The transparency of our communication philosophy extends to senior managers and Directors, who sit amongst their teams which encourages a dialogue between staff of all levels of seniority across all areas of our business. Furthermore, our Chief Executive Officer (CEO) operates an 'open door' policy so if any member of our staff wants to ask him a question, they can email him directly through our 'Ask David' intranet initiative. Our senior managers and Directors also participate in regular online chats with staff.

Contractual arrangements

The Group considers its co-insurance and reinsurance contracts, as described in the Strategic Report, to be essential to the running of the Group's business. No other contractual arrangements are considered to be essential.

Financial instruments

The objectives and policies for managing risks in relation to financial instruments held by the Group are set out in note 7 to the financial statements.

Directors and their interests

The present Directors of the Company are shown on pages 64 to 65 of this Report, whilst Directors' interests in the share capital of the Company are set out in the Remuneration Report on pages 98 to 107.

Greenhouse gas emissions

The annual level of greenhouse gas emissions, resulting from activities for which the Group is responsible, was 3,926 CO_2e (2017: 3,642 CO_2e), equivalent to 0.39 tonnes (2017: 0.42 tonnes) per employee*3. In accordance with GHG Protocol Scope 2 guidance released 20 January 2015, Admiral is exempt from reporting greenhouse gas emissions from electricity supply to the three largest UK offices which meets the GHG Protocol Corporate Standard. Note that L'olivier in France and, Elephant, in the USA, have been unable to provide data for 2018 data and are excluded from the results in this and future reports until they are able to do so. LeLynx in France is also excluded but is immaterial to the overall view due to its size.

The data has been prepared with reference to the WRI/WBCSD Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition) and in accordance with the guidance for corporate reporting issued by the Department for Environment, Food and Rural Affairs (DEFRA).

There are no material exclusions from this data. Exclusions included figures for air conditioning from all sites because the information was not available from the managing agents of the Group's multiple office locations.

Detailed information on the Group's environmental performance and the methodology for the measurement of greenhouse gas emissions is available on the corporate website, www.admiralgroup.co.uk.

Going concern

Under Provision C.1.3 of the 2016 UK Corporate Governance Code, the Board is required to report on whether the business is a going concern. In considering this requirement, the Directors have taken into account the following:

- The Group's projections for the next 12 months and beyond, in particular the profit forecasts, regulatory capital surpluses and levels and sources of liquidity;
- The risks included on the Group's risk register that could impact on the Group's financial position and performance, levels of liquidity and solvency over the next 12 months; and
- The risks on the Group's risk register that could be a threat to the Group's business model and capital adequacy.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The Strategic Report also includes the Group's principal risks and uncertainties. In addition, the governance report includes the Directors' statement on the viability of the Group over a three year period.

Following consideration of the above, the Directors have reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report, and that it is therefore appropriate to adopt the going concern basis in preparing the financial statements.

*3 Average employee number excludes employees from offices for which data could not be collected.

Admiral Group plc

Corporate Governance

Directors' Report continued

SHARE CAPITAL, AGM AND RELATED MATTERS

Major Shareholders

Other than as stated below, as far as the Company is aware, there are no persons with significant direct or indirect holdings in the Company. Information provided to the Company pursuant to the Financial Conduct Authority's (FCA) Disclosure and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website.

At 31 January 2019, the Company had received notifications in accordance with the FCA's DTRs of the following notifiable interests in the voting rights in the Company's issued share capital:

	Number of shares	%
Munich Re	29,349,400	10.1%
Henry Engelhardt & Diane Briere de l'Isle	29,305,472	10.1%
BlackRock Inc	14,298,745	4.9%
N.M. Rothschild & Sons Ltd.	12,861,068	4.8%
Fidelity Management & Research Company	12,337,444	4.2%
Moondance Foundation	11,400,000	3.9%

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

Additional information for shareholders

Where not provided previously in this Directors' Report, the following provides the additional information required for shareholders as a result of the implementation of the Takeovers Directive into UK law.

At 31 December 2018, the Company's issued share capital comprised a single class of shares referred to as ordinary shares. Details of the share capital and shares issued during the year can be found in note 12d.

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

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

- Certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws); and
- Pursuant to the Listing Rules of the FCA whereby certain employees of the Company require the approval of the Company to deal in the Company's securities.

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

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

There are a number of agreements that alter or terminate upon a change of control of the Company following a takeover bid, such as commercial contracts. None are considered to be significant in terms of their impact on the business of the Group as a whole except for the long term co-insurance agreement in place with Munich Re. Details relating to the Group's co-insurance and reinsurance agreements with Munich Re agreement are contained in the Strategic Report.

Power to issue shares

At the last Annual General Meeting, held on 26 April 2018, authority was given to the Directors to allot unissued relevant securities in the Company up to a maximum of £95,904, equivalent to one third of the issued share capital as at 20 March 2018. This authority expires on the date of the Annual General Meeting to be held on 25 April 2019 and the Directors will seek to renew this authority for the following year.

A further special resolution passed at that meeting granted authority to the Directors to allot equity securities in the Company (up to a maximum of 5% of the issued share capital of the Company) for cash, without regard to the pre-emption provisions of the Companies Act 2006. This authority also expires on the date of the Annual General Meeting to be held on 25 April 2019 and the Directors will seek to renew this authority for the following year.

In line with the new principles published by the Pre-Emption Group in March 2015, and their template resolutions published in May 2016, allowing a company the ability to seek authority over a further 5% of the issued ordinary share capital on a non-pre-emptive basis subject to certain conditions, it is the intention of the Company, at the AGM on 25 April 2019, to seek this additional authority by special resolution and will confirm in the Notice of AGM that such additional shares are only issued in connection with a specified acquisition or capital investment.

Appointments of Directors

The Company's Articles of Association (the Articles) give the Directors power to appoint and replace Directors. Under the Terms of Reference of the Nomination and Governance Committee, any appointment must be recommended by the Nomination and Governance Committee for approval by the Board of Directors. At the Group's AGM on 26 April 2018, new Articles of Association were approved by shareholders which provide that all Directors will retire and offer themselves for re-election at each AGM, in accordance with the UK Corporate Governance Code and the Company's current practice. Therefore, all Directors will be submitting themselves for re-election by shareholders at the forthcoming AGM.

Articles of Association

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

Power of the Directors

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

Directors' indemnities and insurance

Directors' and Officers' insurance cover is in place for all Directors to provide cover against certain acts or omissions on behalf of the Company. A Deed Poll of Indemnity was executed in October 2015, indemnifying each of the Directors, and Company Secretary, in relation to certain losses and liabilities that they might incur in the course of acting as Directors of the Company. The Deed Poll of Indemnity is categorised as qualifying third party indemnity provisions as defined by section 234 of the Companies Act 2006 and remains in force for all past and present Directors of the Company.

The Board is of the view that it is in the best interests of the Group to attract and retain the services of the most able and experienced Directors by offering competitive terms of engagement, including the granting of such indemnities. Neither the Deed Poll of Indemnity nor insurance cover would provide any coverage in the event that a Director is proved to have acted fraudulently or dishonestly.

Annual General Meeting (AGM)

It is proposed that the next AGM be held at City Hall, Cardiff on Thursday 25 April 2019 at 2.00pm, notice of which will be sent to shareholders with the Annual Report.

REPORTING, ACCOUNTABILITY AND AUDIT

UK Corporate Governance Code

Admiral is subject to the UK Corporate Governance Code (the Code), published by the Financial Reporting Council (FRC) in April 2016 and available on their website, www.frc.org.uk. The Company's Annual Report and Accounts, taken as a whole, addresses the requirements of the 2016 Code.

During the year to 31 December 2018, the Company has in all respects complied with the provisions of the 2016 Code except with regard to non-compliance with the provisions as set out in the Corporate Governance Report at page 66.

The Directors confirm that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRS's as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards, including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRS's as adopted by the EU; and
- for the parent company financial statements, state whether applicable UK Accounting Standards, including FRS 101 Reduced Disclosure Framework, have been followed, subject to any material departures disclosed and explained in the parent company financial statements.

Corporate Governance

Directors' Report continued

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

The Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

The Company's auditor, Deloitte LLP, has indicated willingness to continue in office and resolutions to reappoint it and to authorise the Directors to fix its remuneration will be proposed at the Annual General Meeting.

By Order of the Board,

Mark Waters
Company Secretary
6 March 2019

Geraint Jones
Chief Financial Officer
6 March 2019

Independent Auditor's Report

to the Members of Admiral Group Plc

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion:

- **the financial statements of Admiral Group plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;**
- **the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;**
- **the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.**

We have audited the financial statements which comprise:

- the Consolidated and Parent Company Income Statements;
- the Consolidated and Parent Company Statements of Comprehensive Income;
- the Consolidated and Parent Company Statements of Financial Position;
- the Consolidated Cash Flow Statement;
- the Consolidated and Parent Company Statements of Changes in Equity;
- the related notes 1 to 13 to the Group financial statements, excluding the capital adequacy disclosures in note 12e calculated in accordance with the Solvency II regime which are marked as unaudited; and
- the related notes 1 to 12 to the Parent Company financial statements.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Valuation of gross insurance claims reserves; and • Revenue recognition - profit commission income. The key audit matters identified are the same as the prior year.
Materiality	The materiality that we used for the group financial statements was £20.7 million, which was determined with reference to profit before tax.
Scoping	We identified nine reporting components which we determined should be subjected to audits for group reporting purposes this year. Further specific audit procedures were completed in respect of eight further components which, although not financially significant, did present some specific audit risks which needed to be addressed. The components within the scope of our audit procedures account for 96% of the group's profits and losses before tax, 95% of revenue and 94% of the group's net assets.
Significant changes in our approach	The main changes in component scoping since 2017 are to subject the group's underwriting division in Spain and the group's subsidiary Admiral Financial Services Limited ("AFSL") to full scope audits. Whilst the Spanish underwriting division is not considered significant to the group as a whole in 2018, it does represent a significant portion of the group's European underwriting activity and therefore we have determined that treating it in this way is the most appropriate approach. AFSL includes the group's loans portfolio, which has grown to a size that we consider to represent a significant component of the group in 2018.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the directors' statement in note 2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 52 to 57 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 52 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 84 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of gross insurance claims reserves	
Key audit matter description	The group's gross insurance claims reserves total £2,740 million (2017 year-end: £2,403 million). The judgements which are made by management in determining the total valuation of claims reserves are by far the most significant, in terms of their impact on the group's financial position. Setting these claims reserves is an inherently subjective exercise and small changes in underlying assumptions such as average frequency or average severity may have a material impact on the overall year end result reported. We therefore consider that this account balance contains potential fraud risks. Specifically, our significant areas of focus are management's assumptions underpinning the modelled frequency and severity of large bodily injury claims arising in the UK Car Insurance business. These particular claims result in higher individual claims reserves and are more judgmental, in terms of the development of the ultimate losses, due to the longer-term nature of the group's exposure (compared to property damage claims). In line with the group's accounting policy, management adds a margin to the actuarial best estimate to arrive at the booked gross claims reserves. This margin reflects the inherent uncertainty in estimating the ultimate losses on claims, over and above that which can be projected actuarially based on underlying claims development data. This is a significant area of management judgement and, therefore, a focus of our audit. Specifically, the consistency of the level of prudence within the margin for the UK Car Insurance reserves, related to large bodily injury claims, is our key area of focus in respect of the margins included. The uncertainty associated with future changes in the Ogden discount rate is a key area of judgement and effects both the derivation of the best estimate assumptions and the margin required to achieve the desired level of confidence in the booked reserves. The impact of royal assent to the Civil Liability Bill on the estimate of future rate changes is specifically considered in responding to the areas of focus set out above. Refer to page 76 in the audit committee report where this is included as a significant issue and note 3 and note 5d in the financial statements which refer to this matter.
How the scope of our audit responded to the key audit matter	We have assessed the design and implementation and tested the operating effectiveness of relevant controls relating to the key actuarial assumptions identified and the setting of the reserve margin. These controls include those concerning the oversight and challenge of management's external actuarial expert by management and the Audit Committee. We reviewed the reports from management's external expert actuary and involved our own Deloitte actuarial experts to support our challenge of management's assumptions. We performed procedures to assess the objectivity and competence of management's expert. We benchmarked management's frequency assumptions against available industry working party data and considered the comparison in the context of the risk profile of Admiral's portfolio and the year-on-year changes in these assumptions. We undertook a graphical analysis of incurred development patterns to assess and challenge management's severity assumptions. We benchmarked the average cost per claim assumptions against available third party industry data in the context of this incurred development analysis. We gave specific consideration to the Ogden discount rate assumption selected by management, inspected the evidence to support a change in assumption for 2018 and benchmarked the selected rate against that selected by a range of industry peers. We challenged management's qualitative and quantitative justifications for the margin held over the actuarial best estimate reserves through review of management's accounting judgement papers and claims distribution model. We analysed the consistency of prudence within the booked margin against previous reporting periods in the context of the underlying uncertainty in incurred claims development and challenged management's justification for the booked position.
Key observations	Based on the procedures described above, we consider that the booked reserves remain appropriate and in line with the group's prudent accounting policy.

Independent Auditor's Report continued

to the Members of Admiral Group Plc

Key audit matters continued

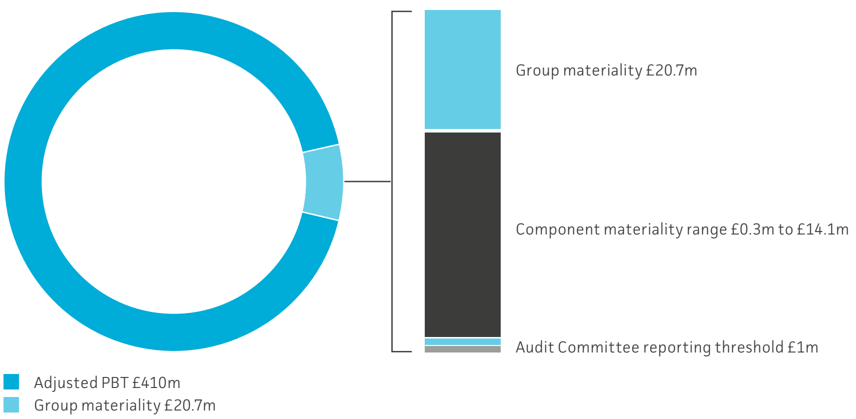
Revenue recognition – profit commission income	
Key audit matter description	The auditing standards prescribe that a risk of fraud in revenue recognition should be presumed for all trading groups and companies. We therefore performed an assessment of the group's classes of revenue transactions to identify the areas where there was a potential for fraud through possible manipulation of this balance. In our view, the UK car insurance profit commission income earned by the group, which, on a consolidated basis, consists of amounts due from the group's co-insurer of £95.1 million (2017: £64.7 million), represents a revenue class for which there is an incentive to fraudulently overstate the amounts recorded. Accordingly, we have determined that the accuracy of profit commission income due from the group's co-insurance arrangement includes elements which constitute a significant risk of material misstatement for the group financial statements and therefore identified this as a key audit matter. The risk is particularly acute where there have been changes to the terms of the profit commission arrangements or other one-off adjustments which therefore mean that the calculation to be performed is not uniform across all underwriting years – i.e. where the same underwriting result within two different periods could give rise to different levels of profit commissions for each because of variances in the applicable contracted terms. The accuracy of the calculation in respect of these changes is the specific risk area which we determined represents a significant risk of misstatement. Refer to page 77 in the audit committee report where this is included as a significant issue, and note 3 and note 5c in the financial statements which refer to this matter.
How the scope of our audit responded to the key audit matter	We have assessed the design and implementation and tested the operating effectiveness of relevant controls associated with the accuracy of the calculation. These controls are designed to ensure that the inputs to the calculation are accurate and include a review by management to check that any requisite changes have been reflected in the form of the detailed calculation. We have inspected the applicable co-insurance contracts to evaluate the form and content of management's calculation and performed a substantive analytical review to respond to the key audit matter. We developed an independent expectation of the commission income, based upon our understanding of the contracts and using the loss ratios audited as part of our insurance reserves testing. We compared our expectation to the amount recorded by management in the context of an appropriate threshold of variance.
Key observations	Based on the procedures described above, we consider the profit commission income to be appropriately stated.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£20.7 million (2017: £20.1 million)	£1.8 million (2017: £3.8 million)
Basis for determining materiality	5% of profit before tax, adjusted for the movement due to the change in the Ogden rate assumption (2017: 5% of profit before tax).	3% of net assets (2017: 3%)
Rationale for the benchmark applied	We consider profit before tax to be the critical benchmark of the performance of the group and consider this benchmark to be suitable having compared to other benchmarks: our materiality equates to 1% of gross earned premium and 3% of equity (2017: 1% of gross earned premium and 2% of equity). We adjusted our materiality basis to exclude the impact of the Ogden discount rate change in order to remove year on year volatility. The actual profit recorded for the year is greater than the profit before tax prior to the release of reserves resulting from the change in Ogden rate assumption, as set out on page 24.	The parent company primarily exists as the holding company which carries investments in group subsidiaries and is the issuer of listed securities. We consider that net assets is the critical benchmark for the company.



We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of group materiality for the 2018 audit (2017: 70%).

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1 million (2017: £1 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent Auditor's Report continued

to the Members of Admiral Group Plc

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

The nine financially significant components of the group which were identified in our audit planning are the UK branches of Admiral Insurance (Gibraltar) Limited, Admiral Insurance Company Limited, EUI Limited and Inspop.com Limited, the Italian branch of Admiral Insurance Company Limited, the Italian branch of Admiral Insurance (Gibraltar) Limited, the Spanish branch of Admiral Insurance Company Limited, Admiral Financial Services Limited and the Admiral Group plc parent entity itself.

In 2017, we identified seven of these as significant reporting components. The changes in component scoping since 2017 are in classifying the group's underwriting division in Spain and the group's subsidiary Admiral Financial Services Limited as significant reporting components.

Each of these components was subjected to a full-scope audit for group reporting purposes, completed to individual component materiality levels which ranged from £0.3 million to £14.1 million (2017: £0.76 million to £13.2 million) dependent upon the relative significance of each individual component.

Additionally, we have completed specific audit procedures, designed to address specific audit risks, for eight further components, including Elephant Insurance Company, a subsidiary entity in the USA.

We engaged local component auditors, being Deloitte member firms in the USA, Italy and Spain, to perform the audit work and specified audit procedures in these respective territories on our behalf. We directed and supervised the work of the component auditors, including through visits to the components and component auditors in Rome, Madrid, Seville and Richmond and remote communication and review of their work.

For the remaining components, which were not subject to audit or specified audit procedures, we performed analysis at an aggregated group level to re-assess our evaluation that there were no significant risks of material misstatement presented by any of these components. The components within the scope of our audit procedures account for 96% of the group's profits and losses before tax, 95% of revenue and 94% of the group's net assets (2017: 93% of profits and losses before tax, 90% of revenue and 90% of net assets).

Revenue		Profit before tax		Net assets	
Full audit scope	86%	Full audit scope	93%	Full audit scope	81%
Specified audit procedures	9%	Specified audit procedures	3%	Specified audit procedures	13%
Review at group level	5%	Review at group level	4%	Review at group level	6%

Profit before tax coverage is stated in absolute terms – i.e. based on contribution to group profit less group loss.

Other information

We have nothing to report in respect of these matters.

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit;
- *Audit committee reporting* – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit, and the audit committee, including obtaining and reviewing supporting documentation, concerning the group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- discussing among the engagement team including significant component audit teams and involving relevant internal specialists, including tax and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas:
  - valuation of gross insurance claims reserves; and
  - revenue recognition – profit commission income.
- obtaining an understanding of the legal and regulatory frameworks that the group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the group. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, and relevant tax legislation. In addition, compliance with terms of the group's regulatory solvency requirements were fundamental to the assessment of the group's ability to continue as a going concern.

Audit response to risks identified

As a result of performing the above, we identified the valuation of gross insurance claims reserves and revenue recognition in respect of profit commission income as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the audit committee and legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, the Financial Conduct Authority and the Prudential Regulation Authority; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: • we have not received all the information and explanations we require for our audit; • adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or • the parent company financial statements are not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**
Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by shareholders' approval at the Annual General Meeting on 28 April 2016 to audit the financial statements for the year ending 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 3 years, covering the years ending 31 December 2016 to 31 December 2018.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Mark McQueen

Mark McQueen (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
6 March 2019

Consolidated income statement

For the year ended 31 December 2018

	Note	Year ended 31 December 2018 £m	31 December 2017 £m
Insurance premium revenue		2,079.6	1,729.9
Insurance premium ceded to reinsurers		(1,407.8)	(1,110.8)
Net insurance premium revenue	5	671.8	619.1
Other revenue	8	449.2	399.9
Profit commission	5	93.2	67.0
Interest income	8	15.0	1.6
Interest expense	6	(3.6)	(0.4)
Net interest income from loans		11.4	1.2
Investment return	6	36.0	41.7
Net revenue		1,261.6	1,128.9
Insurance claims and claims handling expenses		(1,513.8)	(1,308.8)
Insurance claims and claims handling expenses recoverable from reinsurers		1,163.7	961.7
Net insurance claims		(350.1)	(347.1)
Operating expenses and share scheme charges	9	(842.8)	(753.5)
Operating expenses and share scheme charges recoverable from co- and reinsurers	9	418.8	386.6
Net operating expenses and share scheme charges		(424.0)	(366.9)
Total expenses		(774.1)	(714.0)
Operating profit		487.5	414.9
Finance costs	6	(11.3)	(11.4)
Profit before tax		476.2	403.5
Taxation expense	10	(85.7)	(71.9)
Profit after tax		390.5	331.6
Profit after tax attributable to:			
Equity holders of the parent		395.1	334.2
Non-controlling interests (NCI)		(4.6)	(2.6)
		390.5	331.6
Earnings per share			
Basic	12	137.1p	117.2p
Diluted	12	136.8p	117.0p
Dividends declared and paid (total)	12	332.7	300.3
Dividends declared and paid (per share)	12	118.0p	107.5p

Consolidated statement of comprehensive income

For the year ended 31 December 2018

	Year ended	
	31 December 2018 £m	**31 December 2017 £m**
Profit for the period	390.5	331.6
Other comprehensive income		
Items that are or may be reclassified to profit or loss		
Movements in fair value reserve	(24.0)	12.4
Deferred tax charge in relation to movement in fair value reserve	0.7	(4.1)
Exchange differences on translation of foreign operations	2.2	(8.0)
Movement in hedging reserve	(0.3)	–
Other comprehensive income for the period, net of income tax	(21.4)	0.3
Total comprehensive income for the period	369.1	331.9
Total comprehensive income for the period attributable to:		
Equity holders of the parent	373.7	334.8
Non-controlling interests	(4.6)	(2.9)
	369.1	331.9

Consolidated statement of financial position

As at 31 December 2018

	Note	As at 31 December 2018 £m	31 December 2017 £m
ASSETS			
Property and equipment	11	28.1	31.3
Intangible assets	11	162.0	159.4
Deferred income tax	10	0.2	0.3
Reinsurance assets	5	1,883.5	1,637.6
Insurance and other receivables	7	1,082.0	939.7
Loans and advances to customers	7	300.2	66.2
Financial investments	7	2,969.7	2,697.8
Cash and cash equivalents	7	376.8	326.8
Total assets		6,802.5	5,859.1
EQUITY			
Share capital	12	0.3	0.3
Share premium account		13.1	13.1
Other reserves		31.4	52.4
Retained earnings		713.5	580.3
Total equity attributable to equity holders of the parent		758.3	646.1
Non-controlling interests		12.8	9.7
Total equity		771.1	655.8
LIABILITIES			
Insurance contracts	5	3,736.4	3,313.9
Subordinated and other financial liabilities	7	444.2	224.0
Trade and other payables	7, 11	1,801.5	1,641.6
Current tax liabilities	10	49.3	23.8
Total liabilities		6,031.4	5,203.3
Total equity and total liabilities		6,802.5	5,859.1

The accompanying notes form part of these financial statements.

These financial statements were approved by the Board of Directors on 6 March 2019 and were signed on its behalf by:

Geraint Jones
Chief Financial Officer
Admiral Group plc

Company Number: 03849958

Consolidated cash flow statement

For the year ended 31 December 2018

	Note	Year ended 31 December 2018 £m	31 December 2017 £m
Profit after tax		390.5	331.6
Adjustments for non-cash items:			
– Depreciation	11	12.0	10.1
– Amortisation of software	11	15.5	13.8
– Movement in provision for loans and advances to customers	7	8.9	1.3
– Share scheme charges	9	49.8	35.6
– Loans: interest income receivable	8	(15.0)	(1.6)
– Loans: interest income received		13.6	1.6
– Investment return	6	(36.0)	(41.7)
– Finance costs, including interest expense on funding for loans	6	14.9	11.8
– Taxation expense	10	85.7	71.9
Change in gross insurance contract liabilities		422.5	564.4
Change in reinsurance assets		(245.9)	(511.2)
Change in insurance and other receivables		(145.0)	(154.3)
Change in loans and advances to customers		(242.9)	(65.2)
Change in trade and other payables, including tax and social security		159.9	349.5
Cash flows from operating activities, before movements in investments		488.5	617.6
Purchases of financial instruments		(1,830.2)	(549.2)
Proceeds on disposal/maturity of financial instruments		1,573.4	311.8
Interest and investment income received		8.0	8.0
Cash flows from operating activities, net of movements in investments		239.7	388.2
Taxation payments		(55.6)	(55.9)
Net cash flow from operating activities		184.1	332.3
Cash flows from investing activities:			
Purchases of property, equipment and software		(23.9)	(22.7)
Net cash used in investing activities		(23.9)	(22.7)
Cash flows from financing activities:			
Non-controlling interest capital contribution		19.3	1.8
Proceeds on issue of financial liabilities		220.2	–
Finance costs paid, including interest expense paid on funding for loans		(14.1)	(11.6)
Repayment of finance lease liabilities		–	0.1
Equity dividends paid	12	(332.7)	(300.3)
Net cash used in financing activities		(107.3)	(310.0)
Net increase/(decrease) in cash and cash equivalents		52.9	(0.4)
Cash and cash equivalents at 1 January		326.8	326.6
Effects of changes in foreign exchange rates		(2.9)	0.6
Cash and cash equivalents at end of period	7	376.8	326.8

Consolidated statement of changes in equity

For the year ended 31 December 2018

	Attributable to the owners of the Company								
	Share capital £m	Share premium account £m	Fair value reserve £m	Hedging reserve £m	Foreign exchange reserve £m	Retained profit and loss £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2017	0.3	13.1	28.1	–	23.7	505.7	570.9	10.8	581.7
Profit/(loss) for the period	–	–	–	–	–	334.2	334.2	(2.6)	331.6
Other comprehensive income									
Movements in fair value reserve	–	–	12.4	–	–	–	12.4	–	12.4
Deferred tax charge in relation to movement in fair value reserve	–	–	(4.1)	–	–	–	(4.1)	–	(4.1)
Currency translation differences	–	–	–	–	(7.7)	–	(7.7)	(0.3)	(8.0)
Total comprehensive income for the period	–	–	8.3	–	(7.7)	334.2	334.8	(2.9)	331.9
Transactions with equity holders									
Dividends	–	–	–	–	–	(300.3)	(300.3)	–	(300.3)
Share scheme credit	–	–	–	–	–	37.9	37.9	–	37.9
Deferred tax credit on share scheme credit	–	–	–	–	–	2.8	2.8	–	2.8
Contributions by NCIs	–	–	–	–	–	–	–	1.8	1.8
Total transactions with equity holders	–	–	–	–	–	(259.6)	(259.6)	1.8	(257.8)
As at 31 December 2017	0.3	13.1	36.4	–	16.0	580.3	646.1	9.7	655.8
Balance at 1 January 2018	0.3	13.1	36.4	–	16.0	580.3	646.1	9.7	655.8
Initial application of IFRS 9	–	–	0.4	–	–	(0.4)	–	–	–
Adjusted balance at 1 January 2018	0.3	13.1	36.8	–	16.0	579.9	646.1	9.7	655.8
Profit/(loss) for the period	–	–	–	–	–	395.1	395.1	(4.6)	390.5
Other comprehensive income									
Movements in fair value reserve	–	–	(24.0)	–	–	–	(24.0)	–	(24.0)
Deferred tax charge in relation to movement in fair value reserve	–	–	0.7	–	–	–	0.7	–	0.7
Movement in hedging reserve	–	–	–	(0.3)	–	–	(0.3)	–	(0.3)
Currency translation differences	–	–	–	–	2.2	–	2.2	–	2.2
Total comprehensive income for the period	–	–	(23.3)	(0.3)	2.2	395.1	373.7	(4.6)	369.1
Transactions with equity holders									
Dividends	–	–	–	–	–	(332.7)	(332.7)	(0.4)	(333.1)
Share scheme credit	–	–	–	–	–	56.7	56.7	–	56.7
Deferred tax credit on share scheme credit	–	–	–	–	–	3.3	3.3	–	3.3
Changes in ownership interests without a change in control	–	–	–	–	–	11.2	11.2	8.1	19.3
Total transactions with equity holders	–	–	–	–	–	(261.5)	(261.5)	7.7	(253.8)
As at 31 December 2018	0.3	13.1	13.5	(0.3)	18.2	713.5	758.3	12.8	771.1

Notes to the Financial Statements

For the year ended 31 December 2018

1. GENERAL INFORMATION

Admiral Group plc is a company incorporated in England and Wales. Its registered office is at Tŷ Admiral, David Street, Cardiff, CF10 2EH and its shares are listed on the London Stock Exchange.

The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The Company has elected to prepare its Parent Company financial statements in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101).

The Group has branches in Spain, Italy, France, Canada and India as part of its international insurance and price comparison businesses.

Adoption of new and revised standards

The Group has adopted the following IFRS and interpretations during the year, which have been issued and endorsed by the EU:

- IFRS 9 "Financial Instruments".
- IFRS 15 "Revenue from Contracts with Customers".
- Amendments to IFRS 2 "Classification and Measurement of Share-based payment transactions".

The application of these amendments has not had a material impact on the Group's results, financial position and cash flows. Further information on the impact of the transition to IFRS 9 and IFRS 15 is provided below.

IFRS 9

During the year the Group has applied IFRS 9 Financial Instruments with a date of initial application of 1 January 2018, which resulted in changes in accounting policies and the potential for adjustments to the amounts previously recognised in the financial statements in respect of financial instruments.

As permitted by the transitional provisions of IFRS 9 the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition would be recognised in the opening retained earnings and other reserves of the current period.

The adoption of IFRS 9 has resulted in changes to the Group's accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group. Further details of the specific IFRS 9 accounting policies applied in the period (as well as previous IAS 39 accounting policies applied in the comparative period) are described in more detail in note 7.

a) Impact of transition

A reconciliation of the opening retained earnings and fair value reserve under IAS 39 and IFRS 9 is provided below:

	Note	Impact of adopting IFRS 9 on opening balance sheet £m
Fair value reserve		
Recognition of expected credit losses under IFRS 9 for financial assets at FVOCI, net of tax	7c	0.4
Impact at 1 January 2018		**0.4**
Retained profit and loss		
Recognition of expected credit losses under IFRS 9 for financial assets at FVOCI, net of tax	7c	(0.4)
Impact		**0.4**

1. GENERAL INFORMATION CONTINUED

Adoption of new and revised standards continued

b) Classification and measurement of financial instruments

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are as follows:

	IAS 39		IFRS 9	
	Measurement Category	Carrying Amount (£m)	Measurement Category (£m)	Carrying Amount (£m)
Financial Assets				
Government gilts	Available for sale (FVOCI)	173.8	FVOCI	173.8
Debt securities	Available for sale (FVOCI)	1,319.7	FVOCI	1,319.7
Deposits with credit institutions	Loans and receivables (Amortised cost)	130.0	Amortised cost	130.0
Money-market funds	FVTPL	1,069.3	FVTPL (mandatory)	1,069.3
Equity instruments	FVTPL	2.6	FVOCI (designated)	2.6
Cash and cash equivalents	Loans and receivables (Amortised cost)	326.8	Amortised cost	326.8
Trade and other receivables	Loans and receivables (Amortised cost)	202.1	Amortised cost	202.1
Derivative financial instruments	FVTPL	2.4	FVTPL	2.4
Insurance receivables	Loans and receivables (Amortised cost)	737.6	Amortised cost	737.6
Loans and advances to customers	Loans and receivables (Amortised cost)	66.2	Amortised cost	66.2

It can be seen from the above that there is no difference in the carrying amount of financial instruments under IAS 39 and IFRS 9. The classification of all financial assets has also remained consistent other than equity investments which have been elected to be treated as FVOCI as permitted under IFRS 9. The basis for the classification of the financial assets is set out in note 7c. There is no material impact to the income statement as a result.

There were no changes to the classification and measurement of financial liabilities. Financial liabilities consist of subordinated notes, trade and other payables, loan backed securities through the Group's special purpose entity ("SPE"), and a credit facility. These are measured at amortised cost under IAS 39 and this has not changed under IFRS 9.

c) Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Group applies the impairment requirements of IFRS 9, see note 7.

IFRS 15

During the year the Group has applied IFRS 15 Revenue from Contracts with Customers with a date of initial application of 1 January 2018. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Group has opted to apply IFRS 15 retrospectively using the cumulative effect method i.e. by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity as at 1 January 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. No differences in the accounting treatment between these standards have been identified in relation to the Group's revenue.

The Group has not identified any impact on the consolidated financial statements for the year ending 31 December 2018 as a result of adopting IFRS 15 and therefore no transition adjustment is presented. The disclosures required by IFRS 15 are set out in note 8 to the financial statements.

Standards endorsed but not yet effective

As at 31 December 2018, the following standards had been endorsed by the EU but are not yet effective:

- IFRS 16 Leases (effective date 1 January 2019).

IFRS 16 Leases was issued in early 2016 and is effective from 1 January 2019. The standard specifies how firms will recognise, measure, present and disclose leases. It presents a single lessee accounting model and requires that assets and liabilities be recognised in the Consolidated statement of financial position, other than in the cases where leases are of low value or of a short-term nature of 12 months or less.

The Group has opted to apply the modified retrospective approach to transition that is permitted under IFRS 16. Impact assessments performed during 2018 conclude that:

- Property leases represent the most significant class of lease held by the Group that will be impacted by the new standard.
- There will be no adjustment to IFRS equity at the transition date of 1 January 2019.
- The presentation of the Consolidated statement of financial position will be significantly impacted, with material lease liabilities and 'Right of Use' assets being included for the first time. The total lease liability is expected to be in the region of £140 million to £160 million, with a corresponding 'Right of Use' asset.

The profile of lease related expense recognised in the Consolidated income statement is not expected to change materially.

Standards yet to be endorsed by the EU

There are a number of standards, amendments to standards and interpretations that were issued by 31 December 2018 but have either yet to be endorsed by the EU, or were endorsed shortly after the year end. The following IFRSs have been issued but have not been applied by the Group in these financial statements:

- IFRS 17 Insurance Contracts.
- Annual improvements to IFRS standard 2015-2017 cycle.
- Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures".
- Amendment to IFRS 3 "Business Combinations".
- Amendments to IAS 1 and IAS 7 "Definition of Material".

IFRS 17 – Insurance contracts

IFRS 17 Insurance Contracts was issued in May 2017. The standard will replace IFRS 4, establishing new principles for the recognition, measurement, presentation and disclosure of Insurance contracts within the scope of the standard. The current IASB effective date is 1 January 2021, although the IASB has proposed a delay of one year to the effective date to 1 January 2022.

The Group is currently assessing the impact of IFRS 17 on its results and financial position, along with any impacts of the other standards and amendments which have yet to be endorsed.

2. BASIS OF PREPARATION

The accounts have been prepared on a going concern basis. In considering this requirement, the Directors have taken into account the following:

- The Group's projections for the next 12 months and beyond, in particular the profit forecasts, regulatory capital surpluses and levels and sources of liquidity.
- The risks included on the Group's risk register that could impact on the Group's financial performance, levels of liquidity and solvency over the next 12 months.
- The risks on the Group's risk register that could be a threat to the Group's business model and capital adequacy.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The Strategic Report also includes the Group's principal risks and uncertainties. In addition, the Governance report includes the Directors' statement on the viability of the Group over a three year period.

Notes to the Financial Statements continued

For the year ended 31 December 2018

2. BASIS OF PREPARATION CONTINUED

Following consideration of the above, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future, a period not less than 12 months from the date of this report, and that it is therefore appropriate to adopt the going concern basis in preparing the financial statements.

Further information regarding the Company's business activities, together with the factors likely to affect its future development, performance and position, is set out in the Strategic Report. Further information regarding the financial position of the Company, its cash flows, liquidity position and borrowing facilities are also described in the Strategic Report. In addition, notes 7 and 12 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

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

The financial statements are prepared on the historical cost basis, except for the revaluation of financial assets classified as fair value through profit or loss or as available for sale. The Group and Company financial statements are presented in pounds sterling, rounded to the nearest £0.1 million.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The Group has securitised certain loans and advances to customers by the transfer of the loans to a special purpose entity ("SPE") controlled by the Group. The securitisation enables a subsequent issuance of debt by the SPE to investors who gain the security of the underlying assets as collateral. The SPE is fully consolidated into the Group financial statements under IFRS 10, as the Group controls the entity in line with the above definition.

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

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In applying the Group's accounting policies as described in the notes to the financial statements, management has primarily applied judgement in the following areas:

- Classification of the Group's contracts with reinsurers as reinsurance contracts:

A contract is required to transfer significant insurance risk in order to be classified as such. Management reviews all terms and conditions of each such contract, and if necessary obtains the opinion of an independent expert at the negotiation stage in order to be able to make this judgement. All reinsurance contracts (both excess of loss and quota share contracts) held by the Group have been assessed and it has been concluded that all contracts transfer significant insurance risk and have therefore been classified and accounted for as reinsurance contracts within these financial statements.

- Consolidation of the Group's special purpose entity ("SPE"):

During the year the Group set up an SPE in relation to the Admiral Loans business, whereby the Group has securitised certain loans by the transfer of the loans to the SPE. The securitisation enables a subsequent issue of debt by the SPE to investors who gain the security of the underlying assets as collateral.

The accounting treatment of the SPE has been assessed and it has been concluded that it should be fully consolidated into the Group's financial statements under IFRS 10. This is due to the fact that despite not having legal ownership, the Group has control of the SPE, being exposed to the returns and having the ability to affect those returns through its power over the SPE.

The SPE has therefore been fully consolidated into the Group's financial statements.

There are two further significant accounting estimates within the financial statements that also require management to apply judgement:

- Calculation of insurance claims reserves:

The Group's reserving policy requires management to set insurance claims reserves for the purpose of the financial statements, above the projected best estimate outcome, to allow for unforeseen adverse claims development. Management applies judgement in determining where, above the projected best estimate outcome the insurance claims reserves should sit, in line with the Group's reserving methodology. Refer to the section on estimation techniques below, and the analysis of Insurance risk in note 5 to the financial statements for further detail on the development of the Group's reserving methodology applied during the period and the calculation of the projected best estimate outcome.

- Recognition of deferred tax assets relating to unused tax losses:

Management applies judgement in determining the probability of future taxable profits of an entity against which to utilise accumulated losses in determining the recognition of deferred tax assets. In applying this judgement, management makes an assessment of the reliability of approved business plan projections using both qualitative and quantitative factors including the age and status of the business, the Group's previous experience in similar markets, historic performance against business plans and the application of a number of stress and sensitivity tests to the projections.

Key sources of estimation uncertainty

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 been incurred prior to the balance sheet date and remain unsettled at the balance sheet date.

The Group's reserving policy requires management to reserve above the projected best estimate, or ultimate, outcome, to allow for unforeseen adverse claims development. There are two key areas of estimation uncertainty: the actuarial best estimate and the margin held above this best estimate.

Best estimate

The key area where estimation techniques are used is in the ultimate projected 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 Group's independent actuarial advisors project the best estimate claims reserves using a variety of different recognised actuarial projection techniques (for example incurred and paid chain ladder and an average cost of claim approach) to allow an actuarial assessment of their potential outcome. This includes 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 Group's reserving methodology which determines the basis for setting this reserve estimate has been developed and enhanced in the period in line with new information that has become available in relation to both the projected best estimate reserve and the reserve uncertainty through the Group's development of its internal capital model.

Margin

A wide range of factors inform management's recommendation in setting the margin held above actuarial best estimates, which is subject to approval from the Group's Reserving and Audit Committees, including:

- Reserve KPIs such as the level of margin as a percentage of the ultimate reserve.
- Results of stress testing of key assumptions underpinning key actuarial assumptions within best estimate reserves.
- A review of a number of individual and aggregated reserve scenarios which may result in future adverse variance to the ultimate best estimate reserve.
- Qualitative assessment of the level of uncertainty and volatility within the reserves and the change in that assessment compared to previous periods.

In addition, the internal reserve risk distribution is used to determine the approximate confidence level of the recommended booked reserve position which enables comparison of the reserve strength to previous periods and demonstration of the compliance with IFRS 4.

For further detail on objectives, policies and procedures for managing insurance risk, refer to note 5 of the financial statements.

Future changes in claims reserves also impact profit commission income, as the measurement 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.

Notes to the Financial Statements continued

For the year ended 31 December 2018

4. GROUP CONSOLIDATION AND OPERATING SEGMENTS

4a. Accounting policies

(i) Group consolidation

The consolidated financial statements comprise the results and balances of the Company and all entities controlled by the Company, being its subsidiaries and special purpose entity (together referred to as the Group), for the year ended 31 December 2018 and comparative figures for the year ended 31 December 2017. The financial statements of the Company's subsidiaries and its special purpose entity are consolidated in the Group financial statements.

The Company controls 100% of the voting share capital of all its principal subsidiaries, except Admiral Law Limited, BDE Law Limited, Inspop USA LLC, the indirect holding in comparenow.com Insurance Agency LLC, Rastreator.com Limited, the indirect holding in Comparaseguros Correduría de Seguros, S.L., Sociedad Unipersonal, Preminen Price Comparison Holdings Limited and the indirect holding in Preminen Dragon Price Comparison Limited.

The SPE is fully consolidated into the Group financial statements under IFRS 10, whereby the Group has control over the SPE.

The Parent Company financial statements present information about the Company as a separate entity and not about its Group. In accordance with IAS 24, transactions or balances between Group companies that have been eliminated on consolidation are not reported as related party transactions in the consolidated financial statements.

(ii) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in pounds sterling, rounded to the nearest £0.1 million, which is the Group's presentation currency.

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

Non-monetary items measured at cost are translated at their historic rate and non-monetary items held at fair value are translated using the foreign exchange rate on the date that the fair value was established.

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

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transaction).
- All resulting exchange differences are recognised in other comprehensive income and in a separate component of equity except to the extent that the translation differences are attributable to non-controlling interests.

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

4b. Segment reporting

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

UK Insurance

The segment consists of the underwriting of car insurance, van insurance, household insurance, travel insurance and other products that supplement these insurance policies within the UK. It also includes the generation of revenue from additional products and fees from underwriting car insurance in the UK. The Directors consider the results of these activities to be reportable as one segment as the activities carried out in generating the revenue are not independent of each other and are performed as one business. This mirrors the approach taken in management reporting.

International Car Insurance

The segment consists of the underwriting of car insurance and the generation of revenue from additional products and fees from underwriting car insurance outside of the UK. It specifically covers the Group operations Admiral Seguros in Spain, ConTe in Italy, L'olivier – assurance auto in France and Elephant Auto in the US. None of these operations are reportable on an individual basis, based on the threshold requirements in IFRS 8.

Price Comparison

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

Other

The 'Other' segment is designed to be comprised of all other operating segments that do not meet the threshold requirements for individual reporting. It includes the Admiral Loans business and the Group's commercial van insurance broker, Gladiator.

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

An analysis of the Group's revenue and results for the year ended 31 December 2018, by reportable segment, is shown below. The accounting policies of the reportable segments are materially consistent with those presented in the notes to the financial statements for the Group.

	Year ended 31 December 2018					
	UK Insurance £m	International Car Insurance £m	Price Comparison £m	Other £m	Eliminations*2 £m	Total £m
Turnover*1	2,575.7	538.7	151.0	17.5	(19.3)	3,263.6
Net insurance premium revenue	523.9	147.9	–	–	–	671.8
Other Revenue and profit commission	389.5	18.6	151.0	13.3	(18.6)	553.8
Investment return	32.3	1.3	–	–	(0.7)	32.9
Net revenue	945.7	167.8	151.0	13.3	(19.3)	1,258.5
Net insurance claims	(242.5)	(107.6)	–	–	–	(350.1)
Expenses	(146.5)	(61.3)	(144.4)	(26.9)	19.3	(359.8)
Segment profit/(loss) before tax	556.7	(1.1)	6.6	(13.6)	–	548.6
Other central revenue and expenses, including share scheme charges						(64.2)
Investment return						3.1
Finance costs						(11.3)
Consolidated profit before tax						476.2
Taxation expense						(85.7)
Consolidated profit after tax						390.5
Other segment items:						
– Intangible and tangible asset additions	43.0	29.8	2.0	2.2	–	77.0
– Depreciation and amortisation	49.7	26.4	1.1	0.8	–	78.0

*1 Turnover is an Alternative Performance Measure and consists of total premiums written (including co-insurers' share) and Other Revenue. Refer to the glossary and note 13 for further information.

*2 Eliminations are in respect of the intra-group trading between the Group's price comparison and UK and International insurance entities and intra-group interest.

4. GROUP CONSOLIDATION AND OPERATING SEGMENTS CONTINUED

4b. Segment reporting continued

Revenue and results for the corresponding reportable segments for the year ended 31 December 2017 are shown below.

	Year ended 31 December 2017					
	UK Insurance £m	International Car Insurance £m	Price Comparison £m	Other £m	Eliminations*2 £m	Total £m
Turnover*1	2,354.0	449.8	143.6	10.8	(19.8)	2,938.4
Net insurance premium revenue	491.6	127.5	–	–	–	619.1
Other Revenue and profit commission	316.8	16.7	143.6	10.8	(19.8)	468.1
Investment return	32.6	0.6	–	–	–	33.2
Net revenue	841.0	144.8	143.6	10.8	(19.8)	1,120.4
Net insurance claims	(250.1)	(97.0)	–	–	–	(347.1)
Expenses	(124.3)	(62.1)	(138.2)	(8.4)	19.8	(313.2)
Segment profit/(loss) before tax	466.6	(14.3)	5.4	2.4	–	460.1
Other central revenue and expenses, including share scheme charges						(53.7)
Investment return						8.5
Finance costs						(11.4)
Consolidated profit before tax						403.5
Taxation expense						(71.9)
Consolidated profit after tax						331.6
Other segment items:						
– Intangible and tangible asset additions	37.3	30.5	0.9	–	–	68.7
– Depreciation and amortisation	44.4	26.8	1.0	0.1	–	72.3

*1 Turnover is an Alternative Performance Measure and consists of total premiums written (including co-insurers' share) and Other Revenue. Refer to the glossary and note 13 for further information.

*2 Eliminations are in respect of the intra-group trading between the Group's price comparison and UK and International insurance entities.

Segment revenues

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

The total of Price Comparison revenues from transactions with other reportable segments is £19.3 million (2017: £19.8 million) which has been eliminated on consolidation. There are no other transactions between reportable segments.

Revenues from external customers for products and services are consistent with the split of reportable segment revenues as shown on page 133.

Information about geographical locations

All material revenues from external customers, and net assets attributed to a foreign country, are shown within the International Car Insurance reportable segment shown on the previous pages. The revenue and results of the three international Price Comparison businesses, Rastreator, LeLynx and compare.com 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 2018 are as follows:

	As at 31 December 2018					
	UK Insurance £m	International Car Insurance £m	Price Comparison £m	Other £m	Eliminations £m	Total £m
Property and equipment	22.0	3.7	2.4	–	–	28.1
Intangible assets	64.9	30.8	1.3	65.0	–	162.0
Reinsurance assets	1,540.6	343.1	–	(0.2)	–	1,883.5
Insurance and other receivables	1,389.5	191.7	36.7	17.0	(552.9)	1,082.0
Financial investments	2,590.6	182.8	20.0	–	–	2,793.4
Loans and advances to customers	–	–	–	300.2	–	300.2
Cash and cash equivalents	152.9	78.9	28.8	32.9	–	293.5
Reportable segment assets	5,760.5	831.0	89.2	414.9	(552.9)	6,542.7
Insurance contract liabilities	3,197.9	538.9	–	(0.4)	–	3,736.4
Trade and other payables	1,672.4	163.2	35.0	383.7	(452.8)	1,801.5
Other financial liabilities	–	–	–	240.1	–	240.1
Reportable segment liabilities	4,870.3	702.1	35.0	623.4	(452.8)	5,778.0
Reportable segment net assets	890.2	128.9	54.2	(208.5)	(100.1)	764.7
Unallocated assets and liabilities						6.4
Consolidated net assets						771.1

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 Insurance, Price Comparison and International Car Insurance segments is not allocated in arriving at segment profits. This is consistent with regular reporting to the Board of Directors.

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

4. GROUP CONSOLIDATION AND OPERATING SEGMENTS CONTINUED

4b. Segment reporting continued

The segment assets and liabilities at 31 December 2017 are as follows:

	As at 31 December 2017					
	UK Insurance £m	International Car Insurance £m	Price Comparison £m	Other £m	Eliminations £m	Total £m
Property and equipment	24.8	5.2	1.3	–	–	31.3
Intangible assets	68.9	25.4	1.5	63.6	–	159.4
Reinsurance assets	1,364.3	273.1	–	0.2	–	1,637.6
Insurance and other receivables	1,137.9	169.9	35.0	10.9	(347.8)	1,005.9
Financial investments	2,411.5	50.1	3.8	–	–	2,465.4
Cash and cash equivalents	169.1	103.1	27.2	20.6	–	320.0
Reportable segment assets	5,176.5	626.8	68.8	95.3	(347.8)	5,619.6
Insurance contract liabilities	2,883.4	430.2	–	0.3	–	3,313.9
Trade and other payables	1,540.6	142.4	21.4	200.4	(263.2)	1,641.6
Reportable segment liabilities	4,424.0	572.6	21.4	200.7	(263.2)	4,955.5
Reportable segment net assets	752.5	54.2	47.4	(105.4)	(84.6)	664.1
Unallocated assets and liabilities						(8.3)
Consolidated net assets						655.8

5. PREMIUM, CLAIMS AND PROFIT COMMISSIONS

5a. Accounting policies

(i) Revenue – premiums

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

(ii) Revenue – profit commission

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

Profit commission receivable from reinsurance contracts is accounted for in line with IFRS 4, whereas profit commission receivable from co-insurance contracts is in line with IFRS 15. Further detail of the policy under IFRS 15 is set out in note 8.

(iii) Insurance contracts and reinsurance assets

Premiums

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

Claims

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

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

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

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

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

Co-insurance

The Group has entered into certain co-insurance contracts under which insurance risks are shared on a proportional basis, with the co-insurer taking a specific percentage of premium written and being responsible for the same proportion of each claim. The co-insurer therefore takes direct insurance risk from the policyholder and is subsequently directly responsible to the claimant for its proportion of the 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.

Reinsurance assets are comprised of balances due from reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a consistent manner with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

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.

On the commutation of reinsurance contracts, the reinsurer is discharged from all obligations relating to the contract. Reinsurance assets and liabilities relating to the commuted contracts are settled in the period in which the commutation agreement is signed.

5b. Net insurance premium revenue

	31 December 2018 £m	31 December 2017 £m
Total insurance premiums written before co-insurance*1	2,754.1	2,499.4
Group gross premiums written after co-insurance	2,166.7	1,927.7
Outwards reinsurance premiums	(1,464.3)	(1,299.7)
Net insurance premiums written	702.4	628.0
Change in gross unearned premium provision	(87.1)	(197.8)
Change in reinsurers' share of unearned premium provision	56.5	188.9
Net insurance premium revenue	671.8	619.1

*1 Alternative Performance Measures – refer to the end of the report for definition and explanation, and to note 13a for reconciliation to group gross premiums written.

The Group's share of its 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.

Notes to the Financial Statements continued

For the year ended 31 December 2018

5. PREMIUM, CLAIMS AND PROFIT COMMISSIONS CONTINUED

5c. Profit commission

	31 December 2018 £m	31 December 2017 £m
Underwriting year (UK car only)		
2013 and prior	51.0	64.7
2014	10.1	–
2015	11.0	–
2016	22.9	–
2017	–	–
Total UK Car profit commission*1	95.0	64.7
Total UK Household profit commission*1*2	(1.8)	2.3
Total profit commission	93.2	67.0

*1 Profit commission for the UK Car business relates solely to co-insurance arrangements and profit commission for the UK Household business relates solely to reinsurance arrangements.

*2 Movement in UK Household profit commission reflects adverse movements in cumulative profit commission recognised in previous periods.

No profit commission has yet been recognised on the 2017 – 2018 underwriting years as the combined ratios calculated from the financial statement loss ratios on these years sit above the threshold for profit commission recognition.

5d. Reinsurance assets and insurance contract liabilities

(i) Objectives, policies and procedures for the management of insurance risk

The Group's primary business is the issuance of insurance contracts that transfer risk from policyholders to the Group and its co-insurance partners.

Insurance risk involves uncertainty over the occurrence, amount or timing of claims arising on insurance contracts issued. It is primarily comprised of Reserve risk; the risk that the value of insurance liabilities established is insufficient to cover the ultimate cost of claims incurred at the balance sheet date, and premium risk; the risk that the claims experience on business written but not earned is higher than allowed for in the premiums charged to policyholders.

The Board of Directors is responsible for the management of insurance risk, although as mentioned in note 7, it has delegated the detailed oversight of risk management to the Group Risk Committee.

The Group also has a Reserving Committee which comprises senior managers within the finance, claims, pricing and actuarial functions. The Reserving Committee primarily recommends the approach for UK Car Insurance reserving but also reviews the systems and controls in place to support accurate reserving and material reserving issues such as Periodic Payment Order (PPO) and claims inflation, which represent the key uncertainties in the amount or timing of claims settlements.

The Board implements certain policies in order to mitigate and control the level of insurance risk accepted by the Group. These include pricing policies and claims management and administration processes, in addition to reserving policies and co- and reinsurance arrangements as detailed below.

Reserve Risk

Reserving risk is mitigated through a series of processes and controls. The key processes are as follows:

- Regular management and internal actuarial review of individual and aggregate case claim reserves, including regular reporting of management information and exception reporting of significant movements;
- Regular management and internal actuarial review of large claims, including claims settled or potentially settled by PPOs for which the uncertainty is increased by factors such as the lifetime of the claimant and movements in the indexation for the cost of future care of the claimant;
- Bi-annual external actuarial review of best estimate claims reserves using a variety of recognised actuarial techniques;
- Internal actuarial analysis of reserve uncertainty through qualitative analysis, scenario testing and a range of stochastic reserving techniques;

- Ad hoc external reviews of reserving related processes and assumptions; and
- Use of a reserving methodology which informs management's reserving decisions for the purposes of the Group's financial statements. As described in note 3, critical accounting judgements and estimates, the methodology determines that reserves should be set above projected best estimate outcomes to allow for unforeseen adverse claims development.

As noted above, the Group shares a significant amount of the insurance business generated with external underwriters. As well as these proportional arrangements, excess of loss reinsurance programmes are also purchased to protect the Group against very large individual claims and catastrophe losses.

Claims reserving

As previously disclosed, Admiral's reserving policy (both within the claims function and in the financial statements) is initially to reserve conservatively, above internal and independent projections of actuarial best estimates. This is designed to create a margin held in reserves to allow for unforeseen adverse development in open claims and typically results in Admiral making above industry average reserve releases. Admiral's booked claims reserves continue to include a significant margin above projected best estimates of ultimate claims costs.

As at 31 December 2018, the level of relative reserve margin is lower than that at 31 December 2017, albeit remaining prudent when measured against the internal reserve risk distribution and other market benchmarks.

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

Premium Risk

As noted above, the Group defines Premium risk as the risk that claims cost on business written but not yet earned is higher than allowed for in the premiums charged to policyholders. This also includes catastrophe risk; the risk of incurring significant losses as a result of the occurrence of manmade catastrophe or natural weather events.

Key processes and controls operating to mitigate premium risk are as follows:

- Experienced and focused senior management and teams in relevant business areas including pricing and claims management;
- A data-driven and analytical approach to regular monitoring of claims and underwriting performance; and
- Capability to identify and resolve underperformance promptly through changes to key performance drivers, in particular pricing.

In addition, as mentioned above, excess of loss reinsurance programmes are also purchased to protect the Group against very large individual claims and catastrophe losses.

Other elements of insurance risk include reinsurance risk; the risk of placement of ineffective reinsurance arrangements, or the economic risk of reduced availability of co-insurance and reinsurance arrangements in future periods.

The Group mitigates these risks by ensuring that it has a diverse range of financially secure reinsurance partners, including a long-term relationship with Munich Re and a number of other very large reinsurers.

Concentration of insurance risk

The Directors do not believe there are significant concentrations of insurance risk. This is because, although the Group has historically written only one significant line of UK insurance business, the risks are spread across a large number of people and a wide regional base. The international car insurance and UK household businesses further contribute to the diversification of the Group's insurance risk.

5. PREMIUM, CLAIMS AND PROFIT COMMISSIONS CONTINUED

5d. Reinsurance assets and insurance contract liabilities continued

(ii) Sensitivity of recognised amounts to changes in assumptions

Ogden discount rate

As noted above, the gross and reinsurers' share of UK motor insurance liabilities in these financial statements are prepared on the basis of an Ogden discount rate of 0% (2017: minus 0.75%).

On 7 September 2017, the Lord Chancellor announced draft legislation to change the way in which the Ogden discount rate is set, with initial indications being that the new discount rate could be set between 0% and 1%. Royal assent was received in December 2018, with the new discount rate expected to be set during 2019.

The sensitivity of a change in this assumption by 50 basis points (both an increase and decrease) is shown in the table below. This is disclosed as Management consider it to be the most material assumption in the projection of the best estimate reserve outcomes. The impact presented is the total impact of the change on the Group's pre-tax profit on an ultimate basis. It should be noted that not all of the ultimate impact would necessarily be recognised immediately.

	2018 Net £m	2017 Net £m
Impact of increase in assumed Ogden discount rate of 50 basis points (to 0.5%) (2017: 0% compared to minus 0.75%)	76.2	85.6
Impact of decrease in assumed Ogden discount rate of 50 basis points (to minus 0.5%) (2017: minus 1.5% compared to minus 0.75%)	(94.2)	(142.7)

The impacts are stated net of co-insurance reinsurance and include the impact on net insurance claims along with the associated profit commission movements that result from the change in the Ogden rate.

Underwriting year loss ratios – UK Car Insurance

In addition to the sensitivity above, the following table sets out the impact on equity and post-tax profit or loss at 31 December 2018 that would result from a 1% – 3% increase, and a 1%, 3%, and 5% decrease in the UK Car insurance loss ratios used for each underwriting year for which material amounts remain outstanding.

	Underwriting year			
	2015	2016	2017	2018
Booked loss ratio	**77%**	**77%**	**83%**	**92%**
Impact of 1% increase (£m)	(10.8)	(12.6)	(3.4)	(1.9)
Impact of 3% increase (£m)	(30.6)	(37.5)	(10.1)	(5.6)
Impact of 5% increase (£m)	(45.0)	(60.5)	(16.8)	(9.3)
Impact of 1% decrease (£m)	10.9	12.6	6.0	1.9
Impact of 3% decrease (£m)	32.6	38.2	27.8	5.6
Impact of 5% decrease (£m)	54.6	64.6	54.2	9.3

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

(iii) Analysis of recognised amounts

	31 December 2018 £m	31 December 2017 £m
Gross		
Claims outstanding*1	2,740.5	2,403.2
Unearned premium provision	995.9	910.7
Total gross insurance liabilities	3,736.4	3,313.9
Recoverable from reinsurers		
Claims outstanding	1,220.1	1,028.8
Unearned premium provision	663.4	608.8
Total reinsurers' share of insurance liabilities	1,883.5	1,637.6
Net		
Claims outstanding*2	1,520.4	1,374.4
Unearned premium provision	332.5	301.9
Total insurance liabilities – net	1,852.9	1,676.3

*1 Gross claims outstanding at 31 December 2018 is presented before the deduction of salvage and subrogation recoveries totalling £56.4 million (2017: £42.7 million).

*2 Admiral typically commutes quota share reinsurance contracts in its UK Car Insurance business 24-36 months following the start of the underwriting year. After commutation, claims outstanding from these contracts are included in Admiral's net claims outstanding balance. Refer to note (v) below.

The maturity profile of gross insurance liabilities at the end of 2018 is as follows:

	< 1 year £m	1–3 years £m	> 3 years £m
Claims outstanding	739.9	383.7	1,616.9
Unearned premium provision	995.9	–	–
Total gross insurance liabilities	1,735.8	383.7	1,616.9

The maturity profile of gross insurance liabilities at the end of 2017 was as follows:

	< 1 year £m	1–3 years £m	> 3 years £m
Claims outstanding	847.7	697.9	857.7
Unearned premium provision	910.7	–	–
Total gross insurance liabilities	1,758.4	679.9	857.7

5. PREMIUM, CLAIMS AND PROFIT COMMISSIONS CONTINUED

5d. Reinsurance assets and insurance contract liabilities continued

(iv) Analysis of claims incurred

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

Analysis of claims incurred (gross amounts)	Financial year ended 31 December										
	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	Total £m
Underwriting year (UK insurance)											
2009 and prior	(239.3)	(99.9)	7.1	(5.6)	5.0	8.5	(2.9)	0.0	(1.4)	6.5	
2010	–	(260.4)	(257.2)	9.8	36.7	19.5	13.5	4.1	5.7	(0.1)	(428.4)
2011	–	–	(444.3)	(329.7)	43.3	51.4	47.9	(0.9)	26.8	21.0	(584.5)
2012	–	–	–	(463.7)	(334.7)	49.8	69.2	8.6	59.9	30.3	(580.6)
2013	–	–	–	–	(431.1)	(325.5)	53.6	44.4	34.2	35.2	(589.2)
2014	–	–	–	–	–	(438.2)	(347.1)	25.6	17.1	52.0	(690.6)
2015	–	–	–	–	–	–	(428.4)	(411.2)	21.7	53.3	(764.6)
2016	–	–	–	–	–	–	–	(529.4)	(463.7)	82.1	(911.0)
2017	–	–	–	–	–	–	–	–	(691.8)	(615.0)	(1,306.8)
2018	–	–	–	–	–	–	–	–	–	(818.8)	(818.8)
UK insurance gross claims incurred	(239.3)	(360.3)	(694.4)	(789.2)	(680.8)	(634.5)	(594.2)	(858.8)	(991.5)	(1,153.5)	
Underwriting year (International insurance)											
2009 and prior	(23.2)	(14.2)	(3.8)	(4.4)	(0.2)	1.6	0.3	0.1	0.2	0.6	
2010	–	(17.6)	(26.1)	(7.1)	0.1	3.5	1.0	0.5	0.4	0.9	(44.4)
2011	–	–	(35.7)	(42.7)	1.2	5.7	1.7	4.0	1.2	1.3	(63.3)
2012	–	–	–	(58.0)	(53.7)	0.7	4.0	6.0	2.6	2.0	(96.4)
2013	–	–	–	–	(68.2)	(57.8)	4.2	7.7	3.3	5.8	(105.0)
2014	–	–	–	–	–	(85.2)	(65.5)	4.4	5.8	5.5	(135.0)
2015	–	–	–	–	–	–	(92.6)	(101.6)	7.7	3.1	(183.4)
2016	–	–	–	–	–	–	–	(138.9)	(125.3)	11.7	(252.5)
2017	–	–	–	–	–	–	–		(174.1)	(147.3)	(321.4)
2018	–	–	–	–	–	–	–	–	–	(204.9)	(204.9)
International insurance gross claims incurred	(23.2)	(31.8)	(65.6)	(112.2)	(120.8)	(131.5)	(146.9)	(217.8)	(278.2)	(321.3)	
Other gross claims incurred	(10.5)	(7.6)	–	(1.7)	(2.2)	(7.1)	(5.4)	(0.1)	(3.6)	(1.1)	
Claims handling costs	(10.1)	(17.0)	(25.9)	(26.0)	(22.9)	(21.4)	(22.6)	(27.1)	(35.5)	(37.9)	
Total gross claims incurred	(283.1)	(416.7)	(785.9)	(929.1)	(826.7)	(794.5)	(769.1)	(1,103.8)	(1,308.8)	(1,513.8)	

	Financial year ended 31 December										
Analysis of claims incurred (net amounts)	**2009 £m**	**2010 £m**	**2011 £m**	**2012 £m**	**2013 £m**	**2014 £m**	**2015 £m**	**2016 £m**	**2017 £m**	**2018 £m**	**Total £m**
Underwriting year (UK insurance)											
2009 and prior	(132.4)	(53.9)	8.7	(5.6)	5.0	8.5	(2.9)	5.2	5.4	5.6	
2010	–	(130.2)	(128.6)	8.4	36.7	19.5	13.5	8.8	6.0	(2.0)	(167.9)
2011	–	–	(203.7)	(151.1)	39.7	51.4	47.9	8.4	26.2	16.3	(164.9)
2012	–	–	–	(196.0)	(139.3)	49.8	69.2	19.4	59.1	30.6	(107.2)
2013	–	–	–	–	(184.4)	(135.0)	38.4	49.3	36.4	34.7	(160.6)
2014	–	–	–	–	–	(187.0)	(144.1)	(16.4)	25.3	38.4	(283.8)
2015	–	–	–	–	–	–	(182.1)	(162.0)	(2.6)	42.6	(304.1)
2016	–	–	–	–	–	–	–	(219.4)	(180.7)	48.1	(352.0)
2017	–	–	–	–	–	–	–	–	(214.3)	(182.9)	(397.2)
2018	–	–	–	–	–	–	–	–	–	(261.0)	(261.0)
UK insurance net claims incurred	(132.4)	(184.1)	(323.6)	(344.3)	(242.3)	(192.8)	(160.1)	(306.7)	(239.2)	(229.6)	
Underwriting year (International insurance)											
2009 and prior	(9.2)	(5.7)	(1.9)	(2.2)	(0.1)	0.8	0.1	–	0.1	0.3	
2010	–	(7.1)	(11.5)	(3.5)	–	1.7	0.5	0.2	0.2	0.4	(19.1)
2011	–	–	(14.9)	(18.7)	0.4	2.9	0.8	2.0	0.6	0.6	(26.3)
2012	–	–	–	(24.2)	(22.8)	(0.8)	2.0	2.2	1.3	1.0	(41.3)
2013	–	–	–	–	(26.6)	(23.5)	1.7	4.8	0.9	3.0	(39.7)
2014	–	–	–	–	–	(31.6)	(23.3)	1.8	1.8	2.2	(49.1)
2015	–	–	–	–	–	–	(33.4)	(39.6)	5.1	1.3	(66.6)
2016	–	–	–	–	–	–	–	(47.9)	(43.5)	6.3	(85.1)
2017	–	–	–	–	–	–	–	–	(60.7)	(51.5)	(112.2)
2018	–	–	–	–	–	–	–	–	–	(71.2)	(71.2)
International insurance net claims incurred	(9.2)	(12.8)	(28.3)	(48.6)	(49.1)	(50.5)	(51.6)	(76.5)	(94.2)	(107.6)	
Other net claims incurred	(4.4)	(3.1)	–	(0.8)	(2.1)	(6.9)	(5.4)	(0.2)	(2.6)	(1.1)	
Claims handling costs	(5.7)	(8.5)	(11.9)	(10.8)	(9.5)	(8.9)	(9.4)	(11.2)	(11.1)	(11.8)	
Total net claims incurred	(151.7)	(208.5)	(363.8)	(404.5)	(303.0)	(259.1)	(226.5)	(394.6)	(347.1)	(350.1)	

5. PREMIUM, CLAIMS AND PROFIT COMMISSIONS CONTINUED

5d. Reinsurance assets and insurance contract liabilities continued

The table below shows the development of UK Car Insurance loss ratios for the past five financial periods, presented on an underwriting year basis.

	Financial year ended 31 December				
UK Car Insurance loss ratio development	**2014**	**2015**	**2016**	**2017**	**2018**
Underwriting year (UK car only)					
2014	92%	89%	84%	81%	76%
2015	–	87%	87%	83%	77%
2016	–	–	88%	84%	77%
2017	–	–	–	87%	83%
2018	–	–	–	–	92%

(v) Analysis of claims reserve releases

The following table analyses the impact of movements in prior year claims provisions on a gross and net basis. Figures are presented on an underwriting year basis.

	Financial year ended 31 December				
Gross	**2014 £m**	**2015 £m**	**2016 £m**	**2017 £m**	**2018 £m**
Underwriting year (UK Motor Insurance)					
2014 and prior	148.1	197.7	133.8	158.3	123.6
2015	–	–	1.9	32.0	50.9
2016	–	–	–	23.7	70.6
2017	–	–	–	–	25.4
Total gross release (UK Motor Insurance)	148.1	197.7	135.7	214.0	270.5
Total gross release (UK Household Insurance)	–	–	–	1.6	4.6
Total gross release (International Insurance)	12.6	14.0	21.0	23.2	35.2
Total gross release	160.7	211.7	156.7	238.8	310.3

	Financial year ended 31 December				
Net	**2014 £m**	**2015 £m**	**2016 £m**	**2017 £m**	**2018 £m**
Underwriting year (UK Motor Insurance)					
2014 and prior	137.4	173.4	74.6	158.3	123.4
2015	–	–	0.8	(2.4)	42.5
2016	–	–	–	10.0	47.1
2017	–	–	–	–	8.0
Total net release (UK Motor Insurance)	137.4	173.4	75.4	165.9	221.0
Total net release (UK Household Insurance)	–	–	–	0.5	1.4
Total net release (International Insurance)	6.3	6.5	9.9	9.5	13.5
Total net release	143.7	179.9	85.3	175.9	235.9
Analysis of net releases on UK Motor Insurance:					
– Net releases on Admiral net share (motor)	66.8	84.6	58.3	92.1	111.4
– Releases on commuted quota share reinsurance contracts	70.6	88.8	17.1	73.8	109.6
Total net release as above	137.4	173.4	75.4	165.9	221.0

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

	Financial year ended 31 December				
	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m
Underwriting year					
2013 and prior	70.6	88.8	51.4	74.7	48.2
2014	–	–	(34.3)	14.9	22.4
2015	–	–	–	(15.8)	21.3
2016	–	–	–	–	17.7
Total releases on commuted quota share reinsurance contracts	70.6	88.8	17.1	73.8	109.6

Included within releases on commuted quota share contracts are accruals for additional reserves arising from the commutation of the remaining 2015 and all of the 2016 UK motor quota share contracts. Any future positive developments of this loss ratio would lead to the reversal of the amounts accrued. Refer to the business review earlier in this report for further detail.

Profit commission is analysed in note 5c.

(vi) Reconciliation of movement in claims provision

	31 December 2018		
	Gross £m	Reinsurance £m	Net £m
Claims provision at start of period	2,403.2	(1,028.8)	1,374.4
Claims incurred (excluding releases)	1,786.2	(1,212.0)	574.2
Reserve releases	(310.3)	74.4	(235.9)
Movement in claims provision due to commutation	–	310.4	310.4
Claims paid and other movements	(1,138.6)	635.9	(502.7)
Claims provision at end of period	2,740.5	(1,220.1)	1,520.4

	31 December 2017		
	Gross £m	Reinsurance £m	Net £m
Claims provision at start of period	2,030.8	(701.6)	1,329.2
Claims incurred (excluding releases)	1,512.1	(1,000.2)	511.9
Reserve releases	(238.8)	62.9	(175.9)
Movement in claims provision due to commutation	–	109.1	109.1
Claims paid and other movements*[1]	(900.9)	501.0	(399.9)
Claims provision at end of period	2,403.2	(1,028.8)	1,374.4

5. PREMIUM, CLAIMS AND PROFIT COMMISSIONS CONTINUED

5d. Reinsurance assets and insurance contract liabilities continued

(vii) Reconciliation of movement in net unearned premium provision

	31 December 2018		
	Gross £m	Reinsurance £m	Net £m
Unearned premium provision at start of period	910.7	(608.8)	301.9
Written in the period	2,166.7	(1,464.3)	702.4
Earned in the period	(2,081.5)	1,409.7	(671.8)
Unearned premium provision at end of period	995.9	(663.4)	332.5

	31 December 2017		
	Gross £m	Reinsurance £m	Net £m
Unearned premium provision at start of period	718.7	(424.8)	293.9
Written in the period	1,927.7	(1,299.7)	628.0
Earned in the period	(1,735.7)	1,115.7	(620.0)
Unearned premium provision at end of period	910.7	(608.8)	301.9

6. INVESTMENT INCOME AND COSTS

6a. Accounting policies

Investment return from financial assets comprises distributions as well as net realised and unrealised gains on financial assets classified as 'fair value through profit or loss' (FVTPL), interest income and net realised gains, net of impairment losses, from financial assets classified as "fair value through other comprehensive income" (FVOCI), and interest income on holdings in deposits with credit institutions (held at amortised cost).

Finance costs from financial liabilities comprise interest expense on subordinated notes, loan backed securities and credit facilities, calculated on the effective interest rate method. The effective interest rate method calculates the amortised cost of a financial asset or liability (or group of financial assets or financial liabilities) and allocates the interest income or expense over the expected life of the asset or liability.

6b. Investment return

	31 December 2018 £m	31 December 2017 £m
Investment return		
On assets classified as FVTPL	6.3	1.9
On debt securities classified as FVOCI*3	23.8	27.9
On deposits with credit institutions*1	3.0	3.4
On government gilt assets*1	4.1	4.6
Net realised gains:		
Realised gains on sale of gilt assets	–	5.4
Net unrealised losses		
Unrealised losses on forward contracts	(2.3)	(2.3)
Interest receivable on cash and cash equivalents*1	1.1	0.8
Total investment and interest income*2	36.0	41.7

*1 Interest received during the year was £8.0 million (2017: £8.0 million).

*2 Total investment return excludes £0.7 million of intra-group interest (2017: £nil).

*3 Realised gains/losses on sales of debt securities classified as FVOCI are immaterial.

6c. Finance costs

	31 December 2018 £m	31 December 2017 £m
Interest payable on subordinated loan notes*1	11.3	11.4
Total finance costs	11.3	11.4

*1 Interest paid during the year was £11.0 million (2017: £11.1 million).

Finance costs represent interest payable on the £200 million (2017: £200 million) subordinated notes and other financial liabilities.

6d. Interest expense

	31 December 2018 £m	31 December 2017 £m
Interest payable on loan backed securities	1.7	–
Interest payable on revolving credit facility	1.9	0.4
Total finance costs*1	3.6	0.4

*1 Interest paid in total during the year was £3.1 million (2017: £0.2 million).

Interest expense represents the interest payable on funding for the Admiral loans business, in the form of a credit facility of £200 million (of which £71.5 million was drawn down at 31 December 2018) and loan backed securities through an SPE with funding up to £300 million (of which £168.3 million was drawn down at 31 December 2018).

Notes to the Financial Statements continued

For the year ended 31 December 2018

7. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

7a. Accounting policies

i) Financial assets

Classification and measurement

The classification and subsequent measurement of the financial assets under IFRS 9 depends on:

(a) the Group's business model for managing the financial assets and

(b) the contractual cash flow characteristics of the financial assets.

Based on these factors, a financial asset is classified into one of the following categories:

- Amortised cost – assets which are held in order to collect contractual cash flows, and the contractual terms of the financial asset give rise to cash flows which are solely payments of principal and interest (SPPI) on the principal amount outstanding, where the asset is not designated as FVTPL.

  The carrying amount is adjusted by the expected credit loss allowance. Interest income from these assets is included in 'Interest return' using the effective interest rate method. For the Group these include deposits with credit institutions, cash and cash equivalents, insurance receivables, trade and other receivables and loans and advances to customers.

- Fair value through other comprehensive income (FVOCI) – assets which are held both to collect contractual cash flows and to sell the asset, where the contractual terms of the financial asset give rise to cash flows which are solely payments of principal and interest on the principal amount outstanding (SPPI), where the asset is not designated as FVTPL.

  Movements in the carrying amount are taken through OCI, with the exception of recognition of impairment gains or losses, interest revenue and foreign exchange gains or losses which are recognised in profit or loss. For the Group these assets include Government gilts and debt securities. In addition, IFRS 9 allows an irrevocable election at initial recognition to designate equity investments at FVOCI that otherwise would be held at FVTPL, provided these are not held for trading. The Group has made this election for certain equity investments.

- Fair value through profit or loss (FVTPL) – assets which do not meet the criteria for amortised cost or FVOCI, or which are designated as FVTPL. For the Group these assets include investment liquidity funds investing in short duration assets and derivative financial instruments.

  A gain or loss on a debt instrument measured at FVTPL which is not part of a hedging relationship is recognised in profit or loss and presented within 'Investment return' in the period in which it arises.

Impairment

IFRS 9 outlines an expected credit loss (ECL) model for impairments, which replaces the incurred loss model under IAS 39. Under IFRS 9 an expected credit loss should be calculated for all assets measured at amortised cost, as well as debt instruments measured at FVOCI.

De-recognition

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

ii) Financial Liabilities

Classification and subsequent measurement

Subsequent measurement of financial liabilities is at amortised cost using the effective interest method. Movements in the amortised cost are recognised through the income statement.

De-recognition

A financial liability is derecognised when the obligation under that liability is discharged, cancelled or expires.

7b. Financial assets and liabilities

The Group's financial assets and liabilities can be analysed as follows:

	31 December 2018 £m	31 December 2017 £m
Financial investments mandatorily measured at FVTPL		
Money market funds	1,301.1	1,069.3
Derivative financial instruments	–	2.4
	1,301.1	1,071.7
Financial investments classified as FVOCI		
Debt securities	1,389.9	1,319.7
Government gilts	170.9	173.8
Equity investments*1	7.8	2.6
	1,568.6	1,496.1
Financial assets measured at amortised cost		
Deposits with credit institutions	100.0	130.0
Total financial investments	2,969.7	2,697.8
Other financial assets measured at amortised cost		
Insurance receivables	842.3	737.6
Trade and other receivables	239.7	202.1
Insurance and other receivables	1,082.0	939.7
Loans and advances to customers	300.2	66.2
Cash and cash equivalents	376.8	326.8
Total financial assets	4,728.7	4,030.5
Financial liabilities		
Subordinated notes	204.1	204.0
Loan backed securities	168.3	–
Other borrowings	71.8	20.0
Subordinated and other financial liabilities	444.2	224.0
Trade and other payables	1,801.5	1,641.6
Total financial liabilities	2,245.7	1,865.6

*1 Previously held at FVTPL under IAS 39.

7. FINANCIAL ASSETS AND FINANCIAL LIABILITIES CONTINUED

7b. Financial assets and liabilities continued

The maturity profile of financial assets and liabilities at 31 December 2018 is as follows:

	On demand £m	< 1 year £m	Between 1 and 2 years £m	> 2 years £m
Financial investments				
Money market funds and derivative financial instruments	–	1,296.9	2.1	2.1
Deposits with credit institutions	–	60.0	40.0	–
Debt securities	–	295.3	210.7	883.9
Government gilts	–	–	–	170.9
Total financial investments	–	1,652.2	252.8	1,056.9
Insurance receivables	–	842.3	–	–
Trade and other receivables	–	239.7	–	–
Loans and advances to customers	–	102.1	91.2	106.9
Cash and cash equivalents	376.8	–	–	–
Total financial assets*1	376.8	2,836.3	344.0	1,163.8
Financial liabilities				
Subordinated notes	–	4.9	–	199.2
Loan backed securities	–	60.2	53.0	55.1
Other borrowings	–	71.8	–	–
Trade and other payables	–	1,801.5	–	–
Total financial liabilities	–	1,938.4	53.0	254.3

*1 Equity investments totalling £7.8 million do not have a maturity date and are not included in the total above.

The maturity profile of financial assets and liabilities at 31 December 2017 was as follows:

	On demand £m	< 1 year £m	Between 1 and 2 years £m	> 2 years £m
Financial investments				
Money market funds and derivative financial instruments	–	1,071.7	–	–
Deposits with credit institutions	–	30.0	70.0	30.0
Equity investments	–	2.6	–	–
Debt securities	–	341.2	199.5	779.0
Government gilts	–	1.0	–	172.8
Total financial investments	–	1,446.5	269.5	981.8
Insurance receivables	–	737.6	–	–
Trade and other receivables	–	202.1	–	–
Loans and advances to customers	–	17.0	16.9	32.3
Cash and cash equivalents	326.8	–	–	–
Total financial assets	326.8	2,403.2	286.4	1,014.1
Financial liabilities				
Subordinated notes	–	4.8	–	199.2
Other borrowings	–	20.0	–	–
Trade and other payables	–	1,641.6	–	–
Total financial liabilities	–	1,666.4	–	199.2

7c. Financial Investments

	FVTPL £m	FVTOCI £m	Amortised Cost £m	Total £m
AAA- AA	496.3	685.7	95.3	1,277.3
A	547.6	609.5	344.2	1,501.3
BBB	8.1	256.6	36.9	301.6
Sub BBB	–	—	0.4	0.4
Not rated*1	249.1	16.8	—	265.9
Total financial investments	1,301.1	1,568.6	476.8	3,346.5

*1 The majority of exposure which is 'Not rated' stems from a holding in a AAA rated liquidity fund (rated AAAf/S1 by Fitch) which invests in money market instruments collateralised by UK government bonds.

Classification

At initial recognition, the Group measures financial investments at fair value plus or minus, in the case of financial instruments not measured at fair value through profit and loss, directly attributable transaction costs. Transaction costs of financial instruments measured at fair value through profit and loss are expensed to the income statement when incurred.

Money market funds and derivative financial instruments are measured at FVTPL. These assets used to invest regulatory capital within the Group, and surplus liquidity which may be held. Buying and selling activity depending on timing of different cashflows.

Government gilts and debt securities are measured at FVOCI and as such fall under the scope of the ECL model. These assets are held to match policyholder liabilities or interest on debt liabilities. Selling of these assets has occurred, and is likely to occur in future.

Private Equity investments have been designated as being reported through FVOCI. These investments are long term, strategic investments. Dividends are recognised in the Income Statement whilst a change in fair values will be reflected in OCI. Given the immaterial amount (£7.8 million) of these investments, detailed levelling disclosures have not been provided.

7. FINANCIAL ASSETS AND FINANCIAL LIABILITIES CONTINUED

7c. Financial Investments continued

Impairment

All financial assets held at FVOCI and at amortised cost have been assessed for impairment using the expected credit loss model under IFRS 9. The assessment has been made based on the credit ratings of the entities, and externally available credit loss ratios.

The fair value of the gilts and debt securities is calculated with reference to quoted market valuations and as such take into account future expected credit losses. As a result, no material impairment provision is required. The calculated impairment loss within the fair value is recognised through the Income Statement whilst fair value movements are recognised in other comprehensive income.

All assets that are purchased, which require a calculation of impairment, are of considered investment grade or above (i.e. BBB rated or higher), as defined by an external credit rating agency or an assessment from Admiral's external asset managers. The credit rating of all assets is regularly monitored. As at the year end reporting date, all financial assets are of investment grade and considered low credit risk under IFRS 9. Therefore, these assets remain within stage 1 and a 12 month expected loss is used to calculate the impairment provision required.

If any assets where to be downgraded below BBB the Group would consider these to be have significantly increased in credit risk since inception, therefore enter stage 2 under IFRS 9.

On transition from IAS39 to IFRS 9 an impairment provision of £0.4 million was recognised on these assets. This increased to £0.5 million at 31 December 2018. Given there is no material change in the credit quality or type of financial assets in the year, and the movement in provision is immaterial, no further disclosure has been made.

Deposits are held with well rated institutions; as such no impairment provision is required.

Fair value measurement

For assets held at fair value through profit and loss, their value equates to level one (quoted prices in active markets) of the fair value hierarchy.

The measurement of debt securities and government gilts is based on active quoted market values (level one).

Deposits are held with well rated institutions; as such the approximate fair value is the book value of the investment as impairment of the capital is not expected. There is no quoted market for these holdings and as such a level two valuation is used. The book value of these deposits is £100.0 million (2017: £130.0 million).

Equity investments held at fair value are measured at level three of the fair value hierarchy. No further information is provided due to the immateriality of the balance at 31 December 2018.

7d Cash and cash equivalents

	31 December 2018 £m	31 December 2017 £m
Cash at bank and in hand	376.0	325.3
Short-term deposits	0.8	1.5
Total cash and cash equivalents	376.8	326.8

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. All cash and cash equivalents are measured at amortised cost.

An assessment has been completed for impairment purposes. Given the short-term duration of these assets and low risk of these assets, no impairment provision has been recognised. This will be regularly tracked and monitored.

For cash at bank and cash deposits and other receivables, the fair value approximates to the book value due to their short maturity. All assets are of investment grade or above (e.g. BBB rated or higher). The credit rating of all assets is regularly monitored. As at the year end reporting date all financial assets are of investment grade and considered low risk under IFRS 9. These therefore remain within stage 1 and a 12 month expected loss is used to calculate the impairment provision required.

7e Loans and advances to customers

	31 December 2018 £m	31 December 2017 £m
Loans and advances to customers – gross carrying amount	310.4	67.4
Loans and advances to customers – provision	(10.2)	(1.2)
Total loans and advances to customers	300.2	66.2

Loans and advances to customers relate to the Admiral loans business. This includes unsecured personal loans and car finance products.

Due to the size of the provision and sensitivities that could reasonably be applied, this is not considered a critical accounting judgement or key source of estimation uncertainty.

Classification

Loans and advances to customers are measured at amortised cost. This is because the assets are held in order to collect contractual cash flows, and the contractual terms of the financial asset give rise to cash flows which are solely payments of principal and interest on the principal amount outstanding.

Fair value measurement

The amortised cost of loans and advances to customers is a reasonable approximation of fair value.

Expected credit losses

The expected credit loss model is a three-stage model based on forward looking information regarding changes in the credit quality since origination. Credit risk is measured using a probability of default (PD), exposure at default (EAD) and loss given default (LGD) defined as follows:

- Probability of Default (PD): The likelihood of an account default calibrated through analysis of historic customer behaviour.
- Exposure at Default (EAD): The amount of balance at the time of default. For loans that are in arrears the EAD is taken as the current balance, for up to date loans the contractual outstanding balance in each future month is used.
- Loss Given Default (LGD): The amount of the asset lost if a borrower defaults, determined through a combination of historic recovery performance and expert judgement.

The PD is applied to the EAD balance to calculate the expected loss stemming from each future period based on the likelihood of the customer entering default on the exposure at that point. The LGD is then applied to this loss to calculate the total expected loss excluding recoveries. A forward looking provision is also calculated, as set out later in this note.

The three stages of the model are defined as follows:

- Stage 1 – no significant increase in credit risk of the financial asset since inception;
- Stage 2 – significant increase in credit risk of the financial asset since inception; and
- Stage 3 – financial asset is credit impaired.

For instruments in stage 1, the allowance is calculated as the expected credit losses that result from default events possible within 12 months after the reporting date. For instruments in stages 2 and 3 the allowance is calculated as the expected credit loss on a lifetime basis.

Significant increase in credit risk

A significant increase in credit risk is deemed to have occurred where:

- The loan is 1 to 3 loan payments in arrears; or
- Two or more payments are overdue elsewhere, other than within the Admiral loans business.

The Group will not rebut the presumption within IFRS 9 that loans which are 30 days past due have experienced a significant increase in credit risk.

7. FINANCIAL ASSETS AND FINANCIAL LIABILITIES CONTINUED

7e Loans and advances to customers continued

Credit Impaired

A loan is deemed to be credit impaired where 4 or more payments have been missed, or where there is a confirmed IVA agreement or debt collection agency instruction. The Group will not rebut the presumption within IFRS 9 that default has occurred when an exposure is greater than 90 days past due, which is consistent with a customer being 4 or more payments in arrears.

Payments in arrears	Days past due
1	0 – 30
2	31 – 60
3	61 – 90
4	91+

Write off policy

Loans are written off where there is no reasonable expectation of recovery. The Group's policy is to write off balances to their estimated net realisable value. Write-offs occur on a case by case basis taking into account the operational position and the collections strategies.

Forward-looking information

Under IFRS 9 the provision must reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. The means by which the Group has determined to this is to run scenario analysis.

Economic downturn and upturn scenarios are given a 25% weighting with the best estimate provision receiving a 50% weighting.

Management judgement has been used to define the weighting and severity of the different scenarios, based on available data without undue cost or effort. A downturn has been calibrated to be consistent with a return to losses from loans written in 2007 and 2009, the most recent economic downturn. The 2007/09 period is considered to be a significant economic global event. The upturn is consistent with a consumer behaviour from loans written in 2013, when credit providers tightened significantly on their lending criteria. These scenarios are reviewed on a semi-annual basis, and the assumptions and weighting reviewed based on additional information available at the time of review.

Amounts arising from ECL: loans and advances to customers

The Group is exposed to credit risk from the Admiral loans business, which has continued to expand during 2018.

The following table sets out information about the credit quality of the loans and advances to customers, measured at amortised cost. Credit grades are used to segment customers by apparent credit risk at the time of acquisition. The Group does not have any purchased or originated credit-impaired (POCI) assets.

All probability of defaults include forward looking information. The average probability of default in relation to the assets in Stage 1 is 1.8% based on defaults within 12 months of the reporting date. On entering Stage 2 the average PD increases to 5.2% reflecting losses over the life of the asset. The average PD for all assets in Stage 2 is 25.1%. Assets in Stage 3 are deemed to be in default.

	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI	31 December 2018 £m Total
Credit Grade					
Higher*1	138.0	1.5	–	–	139.5
Medium*1	113.9	3.8	–	–	117.7
Lower*1	45.0	3.6	–	–	48.6
Credit Impaired	—	—	4.6	–	4.6
Gross carrying amount	296.9	8.9	4.6	–	310.4
Expected credit loss allowance	(4.4)	(1.4)	(4.1)	–	(9.9)
Other loss allowance	(0.3)	–	–	–	(0.3)
Carrying amount	292.2	7.5	0.5	–	300.2

*1 This reflects the internal credit grade given to a customer at origination. This is based on external credit rating information.

The following tables shown reconciliations from the opening to the closing balance of the gross carrying value and loss allowance.

	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI	31 December 2018 £m Total
Gross carrying amount as at 1 January 2018	64.5	2.8	0.2	–	67.5
Transfers					
Transfers from Stage 1 to Stage 2	(2.2)	2.2	–	–	–
Transfers from Stage 1 to Stage 3	(1.8)	–	1.8	–	–
Transfers from Stage 2 to Stage 1	2.0	(2.0)	–	–	–
Principle redemption payments	(22.7)	(1.1)	0.5	–	(23.3)
New financial assets originated or purchased	257.1	7.0	2.1	–	266.2
Gross carrying amount as at 31 December 2018	296.9	8.9	4.6	–	310.4

	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI	31 December 2018 £m Total
Expected credit loss allowance as at 1 January 2018	0.6	0.5	0.2	–	1.3
Movements with a profit and loss impact					
Transfers					
Transfers from Stage 1 to Stage 2	–	–	–	–	–
Transfers from Stage 1 to Stage 3	–	–	–	–	–
Transfers from Stage 2 to Stage 1	0.1	(0.1)	–	–	–
Transfers from Stage 3 to Stage 1	–	–	–	–	–
Changes in PDs/ LGDs/ EADs	0.1	0.1	1.9	–	2.1
New financial assets originated or purchased	3.6	0.9	2.0	–	6.5
Total net profit and loss charge in the period	3.8	0.9	3.9	–	8.6
Other movements with no profit and loss impact					
Transfers					
Transfers from Stage 2 to Stage 3	–	–	–	–	–
Transfers from Stage 3 to Stage 2	–	–	–	–	–
Write-offs	–	–	–	–	–
Expected credit loss allowance as at 31 December 2018	4.4	1.4	4.1	–	9.9

7. FINANCIAL ASSETS AND FINANCIAL LIABILITIES CONTINUED

7f Other Assets

Insurance and other receivables

	31 December 2018 £m	31 December 2017 £m
Insurance receivables*1	842.3	737.6
Trade receivables	227.0	193.7
Prepayments and accrued income	12.7	8.4
Total insurance and other receivables	1,082.0	939.7

*1 Insurance receivables at 31 December 2018 includes £59.3 million in respect of salvage and subrogation recoveries (2017: £42.7 million).

Insurance receivables

Insurance receivables are also measured at amortised cost. Given the short-term duration of these assets no impairment provision has been recognised.

Trade receivables

Classification. Trade and other receivables are measured at amortised cost, being made up of multiple types of receivable balances.

Impairment. Where a provision is required for these receivables, it is calculated in line with the simplified method for trade receivables per IFRS 9, whereby lifetime expected credit losses are recognised irrelevant of the credit risk. In this case, the provision is based on a combination of:

(i) aged debtor analysis
(ii) historic experience of write-offs for each receivable,
(iii) any specific indicators of credit deterioration observed, and
(iv) management judgement

The level of provision is immaterial. There was no change to the provision at 1 January 2018 on transition from IAS39 to IFRS 9.

The amortised cost carrying amount of receivables is a reasonable approximation of fair value.

7g Financial liabilities

Financial liabilities are inclusive of £200 million subordinated notes issued on 25 July 2014 at a fixed rate of 5.5% with a redemption date of 25 July 2024.

The notes are unsecured subordinated obligations of the Group and rank pari passu without any preference among themselves. In the event of a winding-up or bankruptcy, they are to be repaid only after the claims of all other creditors have been met.

There have been no defaults on any of the notes during the year. The Group has the option to defer interest payments on the notes but to date has not exercised this right.

The fair value of subordinated notes (level one valuation) at 31 December 2018 is £211.3 million (2017: £229.2 million).

The Group holds a revolving credit facility of £200 million which expires in December 2020. As at 31 December 2018, £71.5 million (2017: £20 million) was drawn under this agreement as shown within other borrowings in the table above.

In addition, during 2018 an asset backed senior loan note facility of £300 million was established in relation to the Admiral loans business. As at the year end, £168.3 million of this facility had been utilised.

7h. Objectives, policies and procedures for managing financial assets and liabilities

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

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

Credit risk

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

The Directors consider counterparty exposure frequently and in significant detail. The Directors consider that the policies and procedures in place to manage credit exposure continue to be appropriate for the Group's risk appetite and, during 2018 and historically, no material credit losses have been experienced by the Group.

Financial Investments

There are no specific concentrations of credit risk with respect to investment counterparties due to the structure of the liquidity funds and the parameters set for managing the Fixed Income Mandates. Both forms of investment hold a wide range of very short duration, high quality securities. Cash balances and deposits are placed only with highly rated credit institutions. The detailed holdings are reviewed regularly by the Investment Committee.

Reinsurance assets

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

Loans and Advances to Customers

The risk appetite for the lending business is set with respect to anticipated loan losses over a 12-month period. Management has defined an amber and a red loan loss limit, representing points at which action is required. These limits have been defined by management to reflect the business maturity, the business ambitions and the economic climate. Risk appetite is assessed at least annually, while the limits are continuously monitored.

Insurance assets

A further 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 amount of bad debt expense relating to policyholder debt charged to the income statement in 2018 and 2017 is insignificant.

Trade and other receivables

Trade receivables and other debtors are also subject to credit risk, although this is mitigated by a review of the credit worthiness of all counterparties prior to them being accepted.

7. FINANCIAL ASSETS AND FINANCIAL LIABILITIES CONTINUED

7h. Objectives, policies and procedures for managing financial assets and liabilities continued

Other Assets

All other assets are assessed as low credit risk under IFRS 9, with no significant amounts past due or impaired.

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

	Rating	31 December 2018 £m	31 December 2017 £m
Financial institutions – Credit institutions	AAA	164.3	210.7
Financial institutions – Credit institutions	AA	942.1	650.3
Financial institutions – Credit institutions	A	1,501.3	1,737.0
Financial institutions – Credit institutions	BBB and below	567.9	249.7
UK Government gilts	AA	170.9	173.8
Reinsurers	AA	458.5	355.7
Reinsurers	A	303.6	256.4

The Group's maximum exposure to credit risk at 31 December 2018 is £4,507.4 million (2017: £3,723.8 million), being the carrying value of financial investments and cash, the carrying value of loans and advances to customers, and the excess of reinsurance assets over amounts owed to reinsurers under funds withheld arrangements. The Group does not use credit derivatives or similar instruments to mitigate exposure.

£9.2 million (2017: £1.0 million) was charged to the income statement in respect of loans and advances to customers. Further details are provided in note 7e above.

There were no further significant financial assets that were past due at the close of either 2018 or 2017.

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.

Invested Assets

As noted above, the Group primarily invests the following asset types:

- Investment funds and cash plus liquidity funds, which in turn invest in a mixture of short dated fixed and variable rate securities, such as cash deposits, certificates of deposits, floating rate notes and other commercial paper.
- Deposits with well rated institutions are short in duration (one to five years). These are classified as held at amortised cost. Therefore neither the carrying value of the asset, nor the interest return will be impacted by fluctuations in interest rates.
- Debt securities are held within two segregated mandates. The guidelines of the investments retain a similar credit quality of the investment funds (all holdings are investment grade). The duration of the securities is relatively short and similar to the duration of the on book claims liabilities (the average duration is three years).
- UK Government gilts are classified FVOCI.

Loans and Advances to customers

The Group's Loan portfolio is made up of fixed rate on loans and funded at floating variable rate. The Group has instigated an interest rate swap arrangement in the year. The risk management objective is to eliminate the majority of the Interest Rate risk from the Loans portfolio. This relates to the difference between fixed rate on loans written and floating variable rate on funding.

Hedge Accounting

Hedge accounting is applied when the criteria specified in IFRS 9 are met. In line with IFRS 9, the gain or loss on the hedged position as at the balance sheet date is recognised through Other Comprehensive Income.

This results in a hedging reserve at 31 December 2018 in relation to the interest rate swap.

Due to the immateriality of the transaction and balance, no further disclosure is made.

Financial Liabilities

The Group also holds a financial liability in the form of £200 million of subordinated notes with a ten year maturity and fixed rate coupon of 5.5%. This liability is valued at amortised cost and therefore neither the carrying value of the deposits, nor the interest payable, will be impacted by fluctuations in interest rates.

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

Liquidity risk

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

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

A breakdown of the Group's other financial liabilities, trade payables and other payables is shown in note 11.

The subordinated notes have a ten year maturity whereas all trade and other payables will mature within three to six months of the balance sheet date. (Refer to the maturity profile at the start of this note for further detail.)

In practice, the Group's Directors expect actual cash flows 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 £1,275.9 million (2017: £1,157.5 million), £1,022.7 million (2017: £938.4 million) 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 5. The maturity profile for financial assets is included at the start of this note.

The Group's Directors believe that the cash flows arising from these assets will be consistent with this profile. Liquidity risk is not, therefore, considered to be significant.

Foreign exchange risk

Foreign exchange risk arises from unfavourable movements in foreign exchange rates that could adversely impact the valuation of overseas assets and liabilities.

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

The Group's exposure to net assets and profits in currencies other than the reporting currency is immaterial other than for US dollars and Euros. The Group's exposure to net assets held in dollars at the balance sheet date was £60.7 million (2017: £55.1 million)); the exposure to net assets held in Euros was £69.3 million (2017: nil).

The loss before tax derived from business carried out in the US was £19.2 million (2017: £23.4 million). If the Sterling rates with US dollars had strengthened/weakened by 10%, the Group's profit before tax for the year would increase/decrease by £1.8 million (2017: £2.2 million).

The profit before tax derived from business carried out in Euros was £5.2 million (2017: loss before tax of £0.7 million). If the Sterling rates with euros had strengthened/weakened by 10%, the Group's profit before tax for the year would increase/decrease by £0.4 million (2017: £0.1 million).

Notes to the Financial Statements continued

For the year ended 31 December 2018

8. OTHER REVENUE

The Group has applied IFRS 15 using the cumulative effect method therefore the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. No material differences in the accounting treatment between these standards has been identified.

8a. Accounting policy

(i) Contribution from additional products and fees and Other Revenue

Revenue is credited to the income statement over the period matching the Group's obligations to provide services. Where the Group has no remaining obligations, the revenue is recognised immediately. An allowance is made for expected cancellations where the customer may be entitled to a refund of the amount charged.

Commission from the provision of insurance intermediary services is credited to revenue on the sale of the underlying insurance policy.

There has been no change in revenue recognition from the comparative period, as revenue recognition was in line with the requirements of IFRS 15.

Interest income received in relation to loans and advances to customers is calculated using the effective interest method which allocates interest, and direct and incremental fees and costs, over the expected lives of the assets and liabilities. There has been no change in recognition of interest income from the comparative period.

(ii) Nature of goods and services

The following is a description of the principle activities within the scope of IFRS 15 from which the Group generates its other revenue.

Products and services	Nature, timing of satisfaction of performance obligations and significant payment terms
Profit commission from co-insurers	The performance obligation is the provision of insurance intermediary services. Profit commission revenue is calculated as a proportion of the ultimate profitability of individual underwriting years. Uncertainty over the ultimate profitability of an underwriting year results in the recognition of profit commission revenue being constrained through the use of margin for uncertainty within the calculation of underwriting year profit. This ensures that at any point in time, in line with the requirements of IFRS 15, there is a high probability that there will be no significant reversal of revenue in any financial period. Further detail on the recognition of profit commission is included in note 5.
Price comparison	The performance obligation is the provision of insurance intermediary services, at which point the performance obligation is met. Revenue is therefore recognised at a point in time.
Commission on underlying products	The performance obligation is the provision of insurance intermediary services, at which point the performance obligation is met. Revenue is therefore recognised at a point in time. Payment of the commission is due within 30 days of the period close.
Administration fees	The performance obligation is the change requested being made to the underlying policy, at which point the performance obligation is met. Revenue is therefore recognised at a point in time and is collected immediately or in line with direct debit instalments.
Revenue from law firms	The performance obligation is the pursuit of the compensation from the other side's insurer (OSI) on behalf of the customer. Revenue is therefore recognised over time using inputs and the expected value method. Inputs including hours incurred and a 12 month realisable rate are used to calculate the expected value of revenue. Payment is due within 28 days of invoice.

8b. Disaggregation of revenue

In the following tables, other revenue is disaggregated by major products/service lines and timing of revenue recognition. The total revenue disclosed in the table of £542.4 million (2017: £466.9 million) represents total other revenue and profit commission and is disaggregated into the segments included in note 4.

	31 December 2018				
	UK Insurance £m	International Car Insurance £m	Price Comparison £m	Other £m	Total £m
Major products					
Price Comparison*1	–	–	131.7	–	131.7
Instalment income	82.6	2.7	–	–	85.3
Fee and commission revenue	172.4	15.9	–	1.9	190.2
Revenue from law firms	30.5	–	–	–	30.5
Other	10.8	–	–	0.7	11.5
Total other revenue	296.3	18.6	131.7	2.6	449.2
Profit commission	93.2	–	–	–	93.2
Total other revenue and profit commission	389.5	18.6	131.7	2.6	542.4
Timing of revenue recognition					
Point in time	275.3	15.9	131.7	2.6	425.5
Over time	33.4	–	–	–	33.4
Revenue outside the scope of IFRS 15	80.8	2.7	–	–	83.5
	389.5	18.6	131.7	2.6	542.4

	31 December 2017				
	UK Insurance £m	International Car Insurance £m	Price Comparison £m	Other £m	Total £m
Major products					
Price Comparison*1	–	–	123.8	–	123.8
Instalment income	56.6	2.6	–	–	59.2
Fee and commission revenue	156.2	14.1	–	–	170.3
Revenue from law firms	28.8	–	–	–	28.8
Other	8.2	–	–	9.6	17.8
Total other revenue	249.8	16.7	123.8	9.6	399.9
Profit commission	67.0	–	–	–	67.0
Total other revenue and profit commission	316.8	16.7	123.8	9.6	466.9
Timing of revenue recognition					
Point in time	226.1	14.1	123.8	9.6	373.6
Over time	31.8	–	–	–	31.8
Revenue outside the scope of IFRS 15	58.9	2.6	–	–	61.5
	316.8	16.7	123.8	9.6	466.9

*1 Price comparison revenue excludes £19.3 million (31 December 2017: £19.8 million) of income from other Group companies.

Instalment income and profit commission from reinsurers is not within the scope of IFRS 15 *Revenue from Contracts with Customers* due to the nature of the income.

Refer to the Strategic Report for further detail on the sources of revenue.

8. OTHER REVENUE CONTINUED

8c. Contract balances

The following table provides information about receivables and contract assets from contracts with customers.

	31 December 2018 £m	31 December 2017 £m
Receivables, included in "Trade and Other receivables"	32.5	25.1
Contract assets	23.4	20.8

The contract asset relates to the Group's right to consideration for work undertaken in the Law Companies on behalf of clients which is ongoing or where the final fee has not yet been billed. The contract asset is transferred to trade receivables once the fee has been billed.

Significant changes in the contract asset balance during the period are as follows:

Contract asset balance	31 December 2018 £m
At 1 January 2018	20.8
Revenue recognised	30.5
Transferred to trade receivables	(27.9)
Write-offs	–
At 31 December 2018	23.4

The amount of revenue recognised in 2018 from performance obligations satisfied (or partially satisfied) in previous periods is £nil.

8d. Interest Income

	31 December 2018 £m	31 December 2017 £m
Loans and advances to customers	15.0	1.6
	15.0	1.6

Interest receivable on loans and advances to customers is recognised in the Income Statement using the effective interest method, which calculates the amortised cost of the financial asset and allocates the interest income over the expected product life.

9. EXPENSES

9a. Accounting policies

(i) Acquisition costs and operating expenses

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

(ii) Employee benefits

Pensions

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

Employee share schemes

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

For equity settled schemes, 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.

For cash settled schemes, the total charge expensed over the vesting period is determined by reference to the closing Admiral Group share price at the end of the period. Prior to the vesting of each scheme, the closing share price at the end of the reporting period is used as an approximation for the closing share price at the end of the vesting period. As with equity settled schemes, non-market vesting conditions also impact on the total charge expensed over the vesting period.

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

Refer to note 9f for further details on share schemes.

(iii) Leases

Operating leases

Leases which do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are classified as operating leases. The Group has entered into a number of non-cancellable operating lease arrangements for properties and other assets. The leases have varying terms, escalation values and renewal rights.

Operating lease payments, including the effects of any lease incentives, are recognised as an expense in the income statement on a straight-line basis over the lease term. Contingent rentals are recognised as an expense in the period in which they are incurred.

9b. Operating expenses and share scheme charges

	31 December 2018		
	Gross £m	Recoverable from co- and reinsurers £m	Net £m
Acquisition of insurance contracts*1	135.1	(103.8)	31.3
Administration and other marketing costs (insurance contracts)	381.6	(287.9)	93.7
Insurance contract expenses	516.7	(391.7)	125.0
Administration and other marketing costs (other)	249.2	–	249.2
Share scheme charges	76.9	(27.1)	49.8
Total expenses and share scheme charges	842.8	(418.8)	424.0

	31 December 2017		
	Gross £m	Recoverable from co- and reinsurers £m	Net £m
Acquisition of insurance contracts*1	122.0	(93.3)	28.7
Administration and other marketing costs (insurance contracts)	353.5	(274.5)	79.0
Insurance contract expenses	475.5	(367.8)	107.7
Administration and other marketing costs (other)	223.6	–	223.6
Share scheme charges	54.4	(18.8)	35.6
Total expenses and share scheme charges	753.5	(386.6)	366.9

*1 Acquisition of insurance contracts expense excludes £19.3 million (2017: £19.8 million) of aggregator fees from other Group companies.

The £93.7 million (2017: £79.0 million) administration and marketing costs allocated to insurance contracts is principally made up of salary costs.

Notes to the Financial Statements continued

For the year ended 31 December 2018

9. EXPENSES CONTINUED

9b. Operating expenses and share scheme charges continued

Analysis of other administration and other marketing costs:

	31 December 2018 £m	31 December 2017 £m
Expenses relating to additional products and fees	63.4	58.9
Price comparison operating expenses	144.4	138.2
Loans expenses (including movement on ECL provision)	22.9	–
Other expenses	18.5	26.5
Total	249.2	223.6

Refer to note 13 for a reconciliation between insurance contract expenses and the reported expense ratio.

9c. Staff costs and other expenses

	31 December 2018		31 December 2017	
	Total £m	Net £m	Total £m	Net £m
Salaries	268.8	95.7	239.2	85.3
Social security charges	27.2	10.3	22.9	8.7
Pension costs	9.0	3.2	7.0	2.3
Share scheme charges (see note 9f)	76.9	49.8	54.4	35.6
Total staff expenses	381.9	159.0	323.5	131.9
Depreciation charge:				
– Owned assets	12.0	3.7	10.1	3.0
Amortisation charge:				
– Software	15.5	4.6	13.8	4.0
– Deferred acquisition costs	–	50.5	–	48.4
Operating lease rentals:				
– Buildings	14.8	5.3	13.0	4.5
Auditor's remuneration (including VAT):				
– Fees payable for the audit of the Company's annual accounts	–	–	–	–
– Fees payable for the audit of the Company's subsidiary accounts	0.5	0.3	0.3	0.3
– Fees payable for audit related assurance services pursuant to legislation or regulation	0.4	–	0.2	–

£nil (2017: £nil) was payable to the auditor for other services in the year.

Total and net expenses are before and after co- and reinsurance arrangements respectively.

Refer to the Corporate Governance Report for details of the Audit Committee's policy on fees paid to the Company's auditor for non-audit services. Audit fees are 53% (2017: 54%) of total fees and 47% (2017: 46%) of total fees are for non-audit services, which are classed as audit related assurance services under the FRC rules on non-audit services.

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

9d. Staff numbers (including Directors)

	Average for the year	
	2018 Number	2017 Number
Direct customer contact staff	6,845	6,179
Support staff	3,354	3,157
Total	10,199	9,336

9e. Directors' remuneration

(i) Directors' remuneration

	31 December 2018 £m	31 December 2017 £m
Directors' emoluments	1.6	1.4
Amounts receivable under SIP and DFSS share schemes	1.1	0.9
Company contributions to money purchase pension plans	–	–
Total	2.7	2.3

(ii) Number of Directors

	2018 Number	2017 Number
Retirement benefits are accruing to the following number of Directors under:		
– Money purchase schemes	1	2

9f. Staff share schemes

Analysis of share scheme costs (per the Consolidated Income Statement):

	31 December 2018		31 December 2017	
	Total £m	Net £m	Total £m	Net £m
SIP charge (i)	**18.1**	**12.3**	9.6	6.7
DFSS charge (ii)	**58.8**	**37.5**	44.8	28.9
Total share scheme charges	**76.9**	**49.8**	54.4	35.6

The total share scheme charges of £76.9 million (2017: £54.4 million) can be analysed between share scheme charges calculated in line with IFRS 2 of £57.3 million (2017: £37.9 million) and other share scheme related costs of £19.6 million (2017: £16.5 million). Net share scheme charges are presented after allocations to co-insurers and reinsurers in line with contractual arrangements.

The Consolidated Cash Flow Statement also shows the gross charge in the reconciliation between 'profit after tax' and 'cash flows 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 UK based employees qualified for awards under the SIP based upon the performance of the Group in each half-year period. The maximum award for each year is £3,600 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 the share price at the date of award. Awards under the SIP are entitled to receive dividends, and, hence, no adjustment has been made to this fair value.

Notes to the Financial Statements continued

For the year ended 31 December 2018

9. EXPENSES CONTINUED

9f. Staff share schemes continued

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

Under the DFSS, details of which are contained in the remuneration policy section of the Directors' 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 2018 scheme is 3,353,076 (2017 scheme: 3,205,433).

For awards in 2015 and onwards (therefore including the shares that vested in 2018 under the 2015 scheme) for the majority of employees, 50% of shares awarded are subject to three performance conditions. These are three-year EPS growth vs. LIBOR, TSR vs. FTSE 350 (excluding investment companies), and ROE, weighted equally.

	Performance range	
Performance measure	**Threshold**	**Maximum**
EPS growth vs. LIBOR	Growth in line with LIBOR	Growth of 10% p.a. in excess of LIBOR
TSR vs. FTSE 350 (excluding investment companies)	Median	Upper Quartile
ROE	25%	55%

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 (from the share price at the date on which awards were made) to take account of these distributions.

Number of free share awards committed at 31 December 2018

	Awards outstanding*1	Vesting date
SIP H116 scheme	523,877	March 2019
SIP H216 scheme	501,785	September 2019
SIP H117 scheme	560,476	March 2020
SIP H217 scheme	506,815	August 2020
SIP H118 scheme	612,651	March 2021
SIP H218 scheme	579,651	August 2021
DFSS 2016 scheme 1st award	199,346	March 2019
DFSS 2016 scheme 2nd award	3,053,904	September 2019
DFSS 2017 scheme 1st award	238,024	March 2020
DFSS 2017 scheme 2nd award	2,967,425	September 2020
DFSS 2018 scheme 1st award	256,217	March 2021
DFSS 2018 scheme 2nd award	3,096,859	September 2021
Total awards committed	13,097,030	

*1 Being the maximum number of awards committed before accounting for expected staff attrition and vesting conditions.

During the year ended 31 December 2018, awards under the SIP H115 and H215 schemes and the DFSS 2015 schemes 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 2018

	Original awards	Awards vested
SIP H115 scheme	536,613	419,655
SIP H215 scheme	636,612	491,511
DFSS 2015 scheme 1st award	190,275	124,313
DFSS 2015 scheme 2nd award	2,828,913	2,147,684

The difference between the original and vested awards reflects employee attrition (SIP schemes) and both employee attrition and the vesting outcomes based on performance conditions noted above (DFSS schemes). The vesting percentages for the 2015 DFSS scheme was 87.1%.

The weighted average market share price at the date of exercise for shares exercised during the year was £20.05 (2017: £18.51).

10. TAXATION

10a. Accounting policy

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

(i) Current tax

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

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

(ii) Deferred tax

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

The principal temporary differences arise from carried forward losses, 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.

Deferred tax assets relating to carried forward losses are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised. The probability of the availability of future taxable profits is determined by a combination of the classification of the status of the businesses holding cumulative tax losses and the business plan profit projections for that business, subject to appropriate stress testing.

10b. Taxation

	31 December 2018 £m	31 December 2017 £m
Current tax		
Corporation tax on profits for the year	81.4	68.8
Under/(over) provision relating to prior periods	0.2	(3.7)
Current tax charge	81.6	65.1
Deferred tax		
Current period deferred taxation movement	3.8	3.1
Under/(over) provision relating to prior periods	0.3	3.7
Total tax charge per Consolidated Income Statement	85.7	71.9

Factors affecting the total tax charge are:

	31 December 2018 £m	31 December 2017 £m
Profit before tax	476.2	403.5
Corporation tax thereon at effective UK corporation tax rate of 19.0% (2017: 19.25%)	90.5	77.7
Expenses and provisions not deductible for tax purposes	0.7	0.9
Non-taxable income	(6.0)	(5.7)
Impact of change in UK tax rate on deferred tax balances	0.5	0.3
Adjustments relating to prior periods	0.6	(0.8)
Impact of different overseas tax rates	(8.2)	(7.6)
Unrecognised deferred tax	4.7	5.2
Movement on deferred tax asset on US losses	2.9	1.9
Total tax charge for the period as above	85.7	71.9

The outstanding corporation tax payable as at 31 December 2018 was £49.3 million (2017: £23.8 million).

10. TAXATION CONTINUED

10c. Deferred income tax asset

Analysis of deferred tax asset

	Tax treatment of share schemes £m	Capital allowances £m	Carried forward losses £m	Fair value reserve £m	Other differences £m	Total £m
Balance brought forward at 1 January 2017	5.7	(2.4)	4.9	(0.5)	0.7	8.4
Tax treatment of share scheme charges through income or expense	(2.4)	–	–	–	–	(2.4)
Tax treatment of share scheme charges through reserves	2.8	–	–	–	–	2.8
Capital allowances	–	(2.1)	–	–	–	(2.1)
Carried forward losses	–	–	(2.0)	–	–	(2.0)
Movement in fair value reserve	–	–	–	(4.1)	–	(4.1)
Other difference	–	–	–	–	(0.3)	(0.3)
Balance carried forward at 31 December 2017	6.1	(4.5)	2.9	(4.6)	0.4	0.3
Tax treatment of share scheme charges through income or expense	(2.2)	–	–	–	–	(2.2)
Tax treatment of share scheme charges through reserves	3.3	–	–	–	–	3.3
Capital allowances	–	0.9	–	–	–	0.9
Carried forward losses	–	–	(2.9)	–	–	(2.9)
Movement in fair value reserve	–	–	–	0.7	–	0.7
Other difference	–	–	–	–	0.1	0.1
Balance carried forward at 31 December 2018	7.2	(3.6)	–	(3.9)	0.5	0.2

Positive amounts presented above relate to a deferred tax asset position.

The UK corporation tax rate reduced from 20% to 19% on 1 April 2017. The average effective rate of tax for 2018 is 19.0% (2017: 19.25%). A further reduction to the main rate of corporation tax to 17% (effective from 1 April 2020) was enacted on 15 September 2016. This will reduce the Group's future current tax charge accordingly.

The deferred tax asset 31 December 2018 has been calculated based on the rate at which each timing difference is most likely to reverse.

The deferred tax asset in relation to carried forward losses has been reduced to £nil following the impairment of Admiral Group's investment in Compare.

At 31 December 2018 the Group had unused tax losses amounting to £217.5 million (2017: £198.8 million), relating to the Group's US businesses Elephant Auto and compare.com, for which no deferred tax asset has been recognised.

11. OTHER ASSETS AND OTHER LIABILITIES

11a. Accounting policy

(i) Property and equipment, and depreciation

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

Improvements to short leasehold buildings	–	four to ten years
Computer equipment	–	two to four years
Office equipment	–	four years
Furniture and fittings	–	four years
Motor vehicles	–	four years

(ii) Impairment of property and equipment

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

(iii) Leased assets

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

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

(iv) Intangible assets

Goodwill

All business combinations are accounted for using the acquisition 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 (CGUs) according to business segment and is reviewed annually for impairment.

The goodwill held on the balance sheet at 31 December 2018 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 CGUs) 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 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 correspond 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 the licence term). Internally generated software is recognised as an intangible asset, with directly attributable costs incurred in the development stage capitalised. The internally generated software assets are amortised over the expected useful life of the systems and amortisation commences when the software is available for use.

The carrying value of software 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.

11. OTHER ASSETS AND OTHER LIABILITIES CONTINUED

11a. Accounting policy continued

(iv) Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognised when a legal or constructive obligation arises as a result of an event that occurred before the balance sheet date, when a cash-outflow relating to this obligation is probable and when the amount can be estimated reliably.

Where a material obligation exists, but the likelihood of a cash out-flow or the amount is uncertain, or where there is a possible obligation arising from a past event that is contingent on a future event, a contingent liability is disclosed.

Contingent assets are possible assets that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of future events. Where it is probable that a cash-inflow will arise from a contingent asset, this is disclosed.

11b. Property and equipment

	Improvements to short leasehold buildings £m	Computer equipment £m	Office equipment £m	Furniture and fittings £m	Total £m
Cost					
At 1 January 2017	27.6	52.1	17.0	9.4	106.1
Additions	1.1	5.4	2.6	0.6	9.7
Disposals	–	(0.1)	–	(0.1)	(0.2)
Foreign exchange movement	–	(0.2)	0.1	(0.1)	(0.2)
At 31 December 2017	28.7	57.2	19.7	9.8	115.4
Depreciation					
At 1 January 2017	12.4	40.5	14.1	7.1	74.1
Charge for the year	2.5	5.6	1.0	1.0	10.1
Disposals	–	(0.1)	–	–	(0.1)
Foreign exchange movement	–	(0.1)	0.1	–	–
At 31 December 2017	14.9	45.9	15.2	8.1	84.1
Net book amount					
At 1 January 2017	15.2	11.6	2.9	2.3	32.0
Net book amount					
At 31 December 2017	13.8	11.3	4.5	1.7	31.3
Cost					
At 1 January 2018	28.7	57.2	19.7	9.8	115.4
Additions	3.1	4.9	1.9	0.1	10.0
Disposals	(0.7)	(0.1)	(0.2)	(0.2)	(1.2)
Transfers	(1.2)	–	–	–	(1.2)
Foreign exchange movement	(0.1)	0.1	–	0.1	0.1
At 31 December 2018	29.8	62.1	21.4	9.8	123.1
Depreciation					
At 1 January 2018	14.9	45.9	15.2	8.1	84.1
Charge for the year	2.8	6.5	1.9	0.8	12.0
Disposals	(0.7)	(0.1)	(0.1)	(0.1)	(1.0)
Foreign exchange movement	(0.2)	–	–	0.1	(0.1)
At 31 December 2018	16.8	52.3	17.0	8.9	95.0
Net book amount					
At 31 December 2018	13.0	9.8	4.4	0.9	28.1

The net book value of assets held under finance leases is £nil (2017: £nil).

11c. Intangible Assets

	Goodwill £m	Deferred acquisition costs £m	Software*1 £m	Total £m
At 1 January 2017	62.3	23.4	76.6	162.3
Additions	–	46.0	13.0	59.0
Amortisation charge	–	(48.4)	(13.8)	(62.2)
Disposals	–	–	–	–
Foreign exchange movement	–	(0.4)	0.7	0.3
At 31 December 2017	62.3	20.6	76.5	159.4
Additions	–	53.1	13.9	67.0
Amortisation charge	–	(50.5)	(15.5)	(66.0)
Disposals	–	–	–	–
Transfers	–	–	1.2	1.2
Foreign exchange movement	–	0.2	0.2	0.4
At 31 December 2018	62.3	23.4	76.3	162.0

*1 Software additions relating to internal development are immaterial in both 2018 and 2017.

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.

11d. Trade and other payables

	31 December 2018 £m	31 December 2017 £m
Trade payables	37.9	39.8
Amounts owed to co-insurers	153.2	130.7
Amounts owed to reinsurers	1,122.7	1,026.8
Other taxation and social security liabilities	60.4	62.0
Other payables	196.0	140.9
Accruals and deferred income (see below)	231.3	241.4
Total trade and other payables	1,801.5	1,641.6

Of amounts owed to co-insurers and reinsurers, £1,022.7 million (2017: £938.4 million) is held under funds withheld arrangements.

Analysis of accruals and deferred income:

	31 December 2018 £m	31 December 2017 £m
Premium receivable in advance of policy inception	127.2	150.3
Accrued expenses	64.8	48.8
Deferred income	39.3	42.3
Total accruals and deferred income as above	231.3	241.4

11. OTHER ASSETS AND OTHER LIABILITIES CONTINUED

11e. Obligations under finance leases

At 31 December 2018, there was £nil (2017: £nil) obligations in respect of finance leases.

11f. Financial commitments

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

	31 December 2018 £m	31 December 2017 £m
Minimum payments due on operating leases		
Within one year	14.8	12.1
Within two to five years	54.3	40.8
Over five years	116.8	113.7
Total commitments	185.9	166.6

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

11g. Contingent liabilities

Rastreator.com Limited, the Group's Spanish Price comparison business, is currently undergoing a tax audit in respect of the 2013 and 2014 financial years. The Spanish Tax Authority is disputing the VAT exemption relating to insurance intermediary services which Rastreator.com has applied to its supplies.

Rastreator.com believes its application of the exemption is justifiable in line with the EU Directive and is also consistent with the way similar supplies are treated throughout Europe. No formal assessment has been received from the Spanish Tax Authority as at the date of these financial statements, however should a formal assessment be received at a future date Rastreator.com will immediately appeal and is confident of a successful outcome.

The potential liability for the financial years subject to audit is approximately €5 million, though if the exemption is also disallowed in respect of years 2015 to date, the liability could increase up to €18 million. No provision has been made in these financial statements in relation to this matter.

12. SHARE CAPITAL

The Group's capital includes share capital and the share premium account, other reserves which are comprised of the fair value reserve and foreign exchange reserve, and retained earnings.

12a. Accounting policies

(i) Share capital

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

(ii) Dividends

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

12b. Dividends

Dividends were declared and paid as follows:

	31 December 2018 £m	31 December 2017 £m
March 2017 (51.5 pence per share, paid June 2017)	–	143.7
August 2017 (56.0 pence per share, paid October 2017)	–	156.6
March 2018 (58.0 pence per share, paid June 2018)	163.3	–
August 2018 (60.0 pence per share, paid October 2018)	169.4	–
Total dividends	332.7	300.3

The dividends declared in March represent the final dividends paid in respect of the 2016 and 2017 financial years. The dividends declared in August are interim distributions in respect of 2017 and 2018.

A final dividend of 66.0 pence per share (£188 million) has been proposed in respect of the 2018 financial year. Refer to the Chairman's Statement and Strategic Report for further detail.

12c. Earnings per share

	31 December 2018 £m	31 December 2017 £m
Profit for the financial year after taxation attributable to equity shareholders	395.1	334.2
Weighted average number of shares – basic	288,197,247	285,164,396
Unadjusted earnings per share – basic	137.1p	117.2p
Weighted average number of shares – diluted	288,845,845	285,751,149
Unadjusted earnings per share – diluted	136.8p	117.0p

The difference between the basic and diluted number of shares at the end of 2018 (being 648,598; 2017: 586,753) relates to awards committed, but not yet issued under the Group's share schemes. Refer to note 9 for further detail.

12d. Share capital

	31 December 2018 £m	31 December 2017 £m
Authorised		
500,000,000 ordinary shares of 0.1 pence	0.5	0.5
Issued, called up and fully paid		
290,502,737 ordinary shares of 0.1 pence	0.3	–
287,214,262 ordinary shares of 0.1 pence	–	0.3
	0.3	0.3

During 2018 3,288,475 (2017: 2,861,992) new ordinary shares of 0.1 pence were issued to the trusts administering the Group's share schemes.

988,475 (2017: 811,992) of these were issued to the Admiral Group Share Incentive Plan Trust for the purposes of this share scheme to give a closing number at 31 December 2018 of 10,745,389 (31 December 2017: 9,756,914). These shares are entitled to receive dividends.

2,300,000 (2017: 2,050,000) shares were issued to the Admiral Group Employee Benefit Trust for the purposes of the Discretionary Free Share Scheme to give a closing number at 31 December 2018 of 21,161,948 (31 December 2017: 18,861,948). The Trustees have waived the right to dividend payments, other than to the extent of 0.001 pence per share, unless and to the extent otherwise directed by the Company from time to time.

The number of shares in issue at flotation was 258,595,400. There is one class of share with no unusual restrictions.

12e. Objectives, policies and procedures for managing capital

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

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

The Group's regulatory capital requirements are discussed in the Group Financial Review within the Strategic Report.

12. SHARE CAPITAL CONTINUED

12f. Group related undertakings

The Parent Company's subsidiaries are as follows:

Subsidiary	Class of shares held	% Ownership	Principal Activity
Incorporated in England and Wales			
Registered office: 9th Floor Brunel House, Fitzalan Road, Cardiff, CF24 0EB			
Admiral Law Limited	Ordinary	90	Legal company
Registered office: Admiral House, Queensway, Newport, NP20 4AG			
BDE Law Limited	Ordinary	90	Legal company
Registered office: Ellipse Ground Floor, Padley Road, Swansea, SA1 8AN			
Able Insurance Services Limited	Ordinary	100	Insurance Intermediary
Registered office: Greyfriars House, Greyfriars Road, Cardiff, CF10 3AL			
Inspop.com (France) Limited	Ordinary	100	Insurance Intermediary
Inspop.com Limited	Ordinary	100	Insurance Intermediary
Rastreator.com Limited	Ordinary	75	Insurance Intermediary
Registered office: Tŷ Admiral, David Street, Cardiff, CF10 2EH			
EUI Limited	Ordinary	100	Insurance Intermediary
Admiral Insurance Company Limited	Ordinary	100	Insurance company
Admiral Life Limited	Ordinary	100	Dormant*
Admiral Syndicate Limited	Ordinary	100	Dormant*
Admiral Syndicate Management Limited	Ordinary	100	Dormant*
Bell Direct Limited	Ordinary	100	Dormant*
Confused.com Limited	Ordinary	100	Dormant*
Diamond Motor Insurance Services Limited	Ordinary	100	Dormant*
Elephant Insurance Services Limited	Ordinary	100	Dormant*
Admiral Financial Services Limited	Ordinary	100	Financial services company
EUI (France) Limited	Ordinary	100	Insurance Intermediary
Preminen Price Comparison Holdings Limited	Ordinary	50	Insurance Intermediary
Preminen Dragon Price Comparison Limited	Ordinary	50 (indirect)	Insurance Intermediary
Incorporated in Gibraltar			
Registered office: 1st Floor, 24 College Lane, Gibraltar, GX11 1AA			
Admiral Insurance (Gibraltar) Limited	Ordinary	100	Insurance company
Incorporated in Spain			
Registered office: Paseo Castellana 163 4 Izq, 28046 Madrid			
Comparaseguros Correduría de Seguros, S.L., Sociedad Unipersonal	Ordinary	75 (indirect)	Insurance Intermediary
Admiral Europe Compañía de Seguros, S.A.	Ordinary	100	Insurance company
Registered office: Calle Albert Einstein, 10 41092 Sevilla			
Admiral Intermediary Services S.A.	Ordinary	100	Insurance Intermediary

Subsidiary	Class of shares held	% Ownership	Principal Activity
Incorporated in the United States of America			
Registered office: Deep Run 1; Suite 400, 9950 Mayland Drive, Henrico, VA 23233			
Elephant Insurance Company	Ordinary	100	Insurance company
Elephant Insurance Services LLC	Ordinary	100	Insurance Intermediary
Grove General Agency Inc	Ordinary	100	Insurance Intermediary
Platinum General Agency Inc	Ordinary	100	Insurance Intermediary
Registered office: 140 East Shore Drive, Suite 300, Glen Allen, VA 23059			
compare.com Insurance Agency LLC	Ordinary	59.25 (indirect)	Insurance Intermediary
Inspop USA LLC	Ordinary	59.25	Insurance Intermediary
Incorporated in Mexico			
Registered office: Varsovia, 36, 5th floor, office 501, Colonia Juárez, Cuauhtemoc, Ciudad de Mexico			
Preminen Mexico Sociedad Anonima de Capital Variable		51.25 (indirect)	Insurance intermediary
Incorporated in Turkey			
Registered address: Esentepe MAH. Harman1 SK. Harmanci Giz Plaza 5 1 Sisli/ Istanbul			
Preminen Online Fiyat Karşılaştırma Hizmetleri Anonim Şirketi		50 (indirect)	Insurance intermediary
Incorporated in China			
Registered office: Room 1806, 15th Floor, Block 16. No.39 East 3rd Ring Middle Road, Chaoyang District, Beijing			
Long Yu Science and Technology (Beijing) Co. Ltd		20.25 (indirect)	Insurance intermediary
Subsidiaries by virtue of control			
The related undertakings below are subsidiaries in accordance with IFRS 10, as Admiral can exercise dominant influence or control over them:			
Registered office: Level 37, 25 Canada Square, Canary Wharf, London, England, E14 5LQ			
Seren One Limited	n/a	0	Special purpose entity

* Exempt from audit under S479A of Companies Act 2006.

For further information on how the Group conducts its business across the UK, Europe and the US, refer to the Strategic Report.

Notes to the Financial Statements continued

For the year ended 31 December 2018

12. SHARE CAPITAL CONTINUED

12g. Related party transactions

Details relating to the remuneration and shareholdings of key management personnel are set out in the Directors' Remuneration Report. Key management personnel are able to obtain discounted motor insurance at the same rates as all other Group staff, typically at a reduction of 15%.

The Board considers that only the Executive Directors of Admiral Group plc are key management personnel. Aggregate compensation for the Executive Directors is disclosed in the Directors' Remuneration Report on pages 98 to 107.

12h. Post balance sheet events

As a result of the Group's preparations for Brexit, on 1 January 2019, as outlined in the Strategic Report, the assets and liabilities of Admiral Seguros, ConTe and L'Olivier were transferred to a new European intermediary, AIS, and European underwriter, AECS, from EUI Limited and Admiral Insurance Company Limited and Admiral Insurance (Gibraltar) Limited respectively. The operations of the businesses have not been impacted and there is no material impact on the Group's reported results either in 2018, or as a result of the transition in 2019.

13. RECONCILIATIONS

The following tables reconcile significant key performance indicators and non-GAAP measures included in the Strategic Report to items included in the financial statements.

13a. Reconciliation of turnover to reported gross premiums written and Other Revenue as per the financial statements

	31 December 2018 £m	31 December 2017 £m
Gross premiums written after co-insurance per note 5b of financial statements	2,166.7	1,927.7
Premiums underwritten through co-insurance arrangements and true up of 2017 gross written premium	587.4	571.7
Total premiums written before co-insurance arrangements	2,754.1	2,499.4
Other Revenue	449.2	399.9
Admiral Loans interest income and other fee income	15.4	1.6
	3,218.7	2,900.9
UK vehicle commission*1	(0.4)	(1.0)
Other*2	45.3	38.5
Turnover as per note 4b of financial statements	3,263.6	2,938.4
Intra-group income elimination*3	19.3	19.8
Total turnover	3,282.9	2,958.2

*1 During 2012 Admiral ceased earning Other Revenue from the sale of non-optional legal protection policies. At the same point, the Group began charging its panel of co- and reinsurers a vehicle commission. The substance of these changes meant that the total premiums written increased by the amount of revenue that was previously earned from the sale of non-optional legal protection policies. The vehicle commission included within Other Revenue is therefore eliminated from the turnover measure to avoid double counting.

*2 Other reconciling items represent co-insurer and reinsurer shares of Other Revenue in the Group's Insurance businesses outside of UK Car Insurance.

*3 Intra-group income elimination relates to price comparison income earned in the Group from other Group companies.

13b. Reconciliation of claims incurred to reported loss ratios, excluding releases on commuted reinsurance

December 2018	UK Motor £m	UK Home £m	UK Other £m	UK Total £m	Int. Car £m	Int. Other £m	Int. Total £m	Group £m
Net insurance claims	189.2	29.3	24.0	242.5	104.1	3.5	107.6	350.1
Deduct claims handling costs	(11.3)	(0.5)	–	(11.8)	–	–	–	(11.8)
Prior year release/strengthening – net original share	111.4	1.4	–	112.8	13.5	–	13.5	126.3
Prior year release/strengthening – commuted share	109.6	–	–	109.6	–	–	–	109.6
Impact of reinsurer caps	–	–	–	–	4.5	–	4.5	4.5
Impact of weather events (Home)	–	(3.5)	–	(3.5)	–	–	–	(3.5)
Impact of subsidence (Home)	–	(2.5)	–	(2.5)	–	–	–	(2.5)
Attritional current period claims	398.9	24.2	24.0	447.1	122.1	3.5	125.6	572.7
Net earned premium	452.5	31.2	40.2	523.9	141.7	6.2	147.9	671.8
Loss ratio – current period attritional	88.1%	77.6%	–	85.3%	86.1%	–	–	85.2%
Loss ratio – current period weather events	–	11.2%	–	–	–	–	–	–
Loss ratio – current period subsidence events	–	7.9%	–	–	–	–	–	–
Loss ratio – prior year release/strengthening (net original share)	(24.6%)	(4.4%)	–	(21.5%)	(9.5%)	–	–	(18.8%)
Loss ratio – reported	63.5%	92.3%	–	63.8%	76.6%	–	–	66.4%

December 2017	UK Motor £m	UK Home £m	UK Other £m	UK Total £m	Int. Car £m	Int. Other £m	Int. Total £m	Group £m
Net insurance claims	214.2	17.4	18.5	250.1	94.1	2.9	97.0	347.1
Deduct claims handling costs	(10.7)	(0.4)	–	(11.1)	–	–	–	(11.1)
Prior year release/strengthening – net original share	92.1	0.5	–	92.6	9.5	–	9.5	102.1
Prior year release/strengthening – commuted share	73.8	–	–	73.8	–	–	–	73.8
Impact of reinsurer caps	–	–	–	–	(0.1)	–	(0.1)	(0.1)
Impact of weather events (Home)	–	–	–	–	–	–	–	–
Attritional current period claims	369.4	17.5	18.5	405.4	103.5	2.9	106.4	511.8
Net earned premium	433.2	23.1	35.3	491.6	123.0	4.5	127.5	619.1
Loss ratio – current period attritional	85.3%	75.6%	–	82.5%	84.2%	–	–	82.7%
Loss ratio – current period weather events	–	–	–	–	–	–	–	–
Loss ratio – prior year release/strengthening (net original share)	(21.2%)	(2.1%)	–	(18.8%)	(7.8%)	–	–	(16.5%)
Loss ratio – reported	64.1%	73.5%	–	63.7%	76.4%	–	–	66.2%

13. RECONCILIATIONS CONTINUED

13c. Reconciliation of expenses related to insurance contracts to reported expense ratios

December 2018	UK Motor £m	UK Home £m	UK Other £m	UK Total £m	Int. Car £m	Int. Other £m	Int. Total £m	Group £m
Net insurance expenses	59.7	7.4	5.6	72.7	49.7	2.6	52.3	125.0
Claims handling costs	11.3	0.5	–	11.8	–	–	–	11.8
Intra-group expenses elimination*1	12.3	0.8	–	13.1	6.2	–	6.2	19.3
Impact of reinsurer caps	–	–	–	–	0.2	–	0.2	0.2
Other adjustment*2	–	–	–	–	–	(2.6)	(2.6)	(2.6)
Adjusted net insurance expenses	83.3	8.7	5.6	97.6	56.1	–	56.1	153.7
Net earned premium	452.5	31.2	40.2	523.9	141.7	6.2	147.9	671.8
Expense ratio – reported	18.4%	28.1%		18.6%	39.6%		37.9%	22.9%

December 2017	UK Motor £m	UK Home £m	UK Other £m	UK Total £m	Int. Car £m	Int. Other £m	Int. Total £m	Group £m
Net insurance expenses	47.8	5.8	1.7	55.3	50.8	1.6	52.4	107.7
Claims handling costs	10.7	0.4	–	11.1	–	–	–	11.1
Intra-group expenses elimination*1	11.8	0.7	–	12.5	7.3	–	7.3	19.8
Impact of reinsurer caps	–	–	–	–	(3.7)	–	(3.7)	(3.7)
Other adjustment*2	–	–	–	–	–	(1.6)	(1.6)	(1.6)
Adjusted net insurance expenses	70.3	6.9	1.7	78.9	54.4	–	54.4	133.3
Net earned premium	433.2	23.1	35.3	491.6	123.0	4.5	127.5	619.1
Expense ratio – reported	16.2%	30.0%		16.1%	44.2%		42.6%	21.5%

*1 The intra-group expenses elimination amount relates to aggregator fees charged by the Group's price comparison entities to other Group companies.

*2 Other adjustments relate to additional products underwritten in the Group's International Car Insurance businesses. The contribution from these products is reported as ancillary income and as such the amounts are excluded for the purpose of calculation of expense ratios.

13d. Reconciliation of statutory profit before tax to Group's share of profit before tax

	31 December 2018 £m	31 December 2017 £m
Reported profit before tax per the Consolidated Income Statement	476.2	403.5
Non-controlling interest share of profit before tax	3.1	1.9
Group's share of profit before tax	479.3	405.4

Parent Company Financial Statements

PARENT COMPANY INCOME STATEMENT

	Note	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Administrative expenses	2	(13.0)	(8.4)
Operating loss		(13.0)	(8.4)
Investment and interest income	3	264.9	310.5
Impairment expense	4	(32.9)	(25.0)
Interest payable	5	(11.3)	(11.3)
Profit before tax		207.7	265.8
Taxation credit	6	3.7	1.7
Profit after tax		211.4	267.5

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Profit for the period	211.4	267.5
Other comprehensive income		
Items that are or may be reclassified to profit or loss		
Movements in fair value reserve	(2.0)	22.3
Deferred tax in relation to movement in fair value reserve	0.4	(4.2)
Other comprehensive income for the period, net of income tax	(1.6)	18.1
Total comprehensive income for the period	209.8	285.6

Parent Company Financial Statements continued

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

		As at	
	Note	31 December 2018 £m	31 December 2017 £m
ASSETS			
Investments in group undertakings	4	292.3	301.0
Intangible assets		1.2	1.2
Financial investments	5	176.3	232.4
Corporation tax asset		3.7	1.6
Trade and other receivables	7	128.6	0.6
Cash and cash equivalents	5	83.3	6.8
Total assets		685.4	543.6
EQUITY			
Share capital	9	0.3	0.3
Share premium account		13.1	13.1
Fair value reserve		16.5	18.1
Retained earnings		30.2	94.6
Total equity		60.1	126.1
LIABILITIES			
Subordinated and other financial liabilities	5	275.6	224.0
Deferred tax	6	3.6	4.1
Trade and other payables	8	346.1	189.4
Total liabilities		625.3	417.5
Total equity and total liabilities		685.4	543.6

The accompanying notes form part of these financial statements.

These financial statements were approved by the Board of Directors on 6 March 2019 and were signed on its behalf by:

Geraint Jones
Chief Financial Officer
Admiral Group plc

Company Number: 03849958

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium account £m	Fair value reserve £m	Retained profit and loss £m	Total equity £m
At 1 January 2017	0.3	13.1	–	89.5	102.9
Profit for the period	–	–	–	267.5	267.5
Other comprehensive income					
Movements in fair value reserve	–	–	22.3	–	22.3
Deferred tax charge in relation to movements in fair value reserve	–	–	(4.2)	–	(4.2)
Total comprehensive income for the period	–	–	18.1	267.5	285.6
Transactions with equity holders					
Dividends	–	–	–	(300.3)	(300.3)
Issues of share capital	–	–	–	–	–
Share scheme charges	–	–	–	37.9	37.9
Deferred tax on share scheme credit	–	–	–	–	–
Total transactions with equity holders	–	–		(262.4)	(262.4)
As at 31 December 2017	0.3	13.1	18.1	94.6	126.1
At 1 January 2018	0.3	13.1	18.1	94.6	126.1
Profit for the period	–	–	–	211.4	211.4
Other comprehensive income					
Movements in fair value reserve	–	–	(2.0)	–	(2.0)
Deferred tax charge in relation to movements in fair value reserve	–	–	0.4	–	0.4
Total comprehensive income for the period	–	–	(1.6)	211.4	209.8
Transactions with equity holders					
Dividends	–	–	–	(332.6)	(332.6)
Issues of share capital	–	–	–	–	–
Share scheme credit	–	–	–	56.7	56.7
Deferred tax on share scheme credit	–	–	–	0.1	0.1
Total transactions with equity holders	–	–	–	(275.8)	(275.8)
As at 31 December 2018	0.3	13.1	16.5	30.2	60.1

Notes to the Parent Company Financial Statements

For the year ended 31 December 2018

1. ACCOUNTING POLICIES

1.1 Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101). The financial statements are prepared on the historical cost basis except for the revaluation of financial assets classified as fair value through the profit or loss.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

1.2 Changes to accounting policies

Two new accounting standards became effective as of 1 January 2018, IFRS 9 (Financial Instruments) and IFRS 15 (Revenue) which have been adopted in these financial statements.

1.2.1 IFRS 9

The Company has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which has resulted in changes in the accounting policies for classification and measurement of financial assets. There has been no adjustment to the amounts previously recognised in the financial statements or to the classification and measurement of financial liabilities.

1.2.2 IFRS 15

IFRS 15 (Revenue) introduces a new five-step framework for the recognition of revenue. There is no impact on the adoption of this new standard on these financial statements due to there being no revenue in the scope of this standard.

1.3 Disclosure exemptions applied under FRS 101

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- FRS 101.8 (d): the requirement of IFRS 7 *Financial Instruments: Disclosure* to make disclosures about financial instruments;
- FRS 101.8 (f): the requirement in paragraph 38 of IAS 1 *Presentation of Financial Statements* to present comparative information in respect of:
  - paragraph 118(3) of IAS 38 *Intangible Assets;*
- FRS 101.8 (g): the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D and 111 of IAS 1 *Presentation of Financial Statements* to produce a cash flow statement, a third balance sheet and to make an explicit and unreserved statement of compliance with IFRSs;
- FRS 101.8 (h): the requirements of IAS 7 *Statements of Cash Flows* to produce a cash flow statement;
- FRS 101.8 (i): the requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to include a list of new IFRSs that have been issued but that have yet to be applied; and
- FRS 101.8 (k): the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to transaction is wholly owned by such a member.

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

1.4 Going concern

The financial statements have been prepared on a going concern basis. In considering the appropriateness of this assumption, the Board have reviewed the Company's projections for the next twelve months and beyond, including cash flow forecasts and regulatory capital surpluses.

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

1.5 Critical accounting judgements and key sources of estimation uncertainty

In applying the Group's accounting policies as described below management has primarily applied judgement in the impairment testing of the Company's investments in group undertakings. Management has applied judgement in determining whether the carrying value of the investment or asset may be supported by the recoverable amount calculation based on the 'value in use' of the asset (the net present value of future cash-flows arising from the asset).

In calculating the net present value of future cash-flows, management has made assumptions over the timing and amount of underlying profit projections of the relevant undertakings, long term growth rates in those projections and the discount rate applied to these projections that is appropriate to reflect the market's view of the risk of the relevant investment.

1.6 Shares in Group Undertakings

Shares in Group undertakings are valued at cost less any provision for impairment in value.

The requirements of IAS 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the company's investments in subsidiaries. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

1.7 Employee share schemes

The Company operates a number of share schemes for its employees. For equity settled 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 increase in equity in the Company.

1.8 Taxation

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

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

1.9 Financial assets and liabilities

From 1 January 2018, the Group has applied IFRS 9. Under IFRS 9, classification of and subsequent measurement of financial assets depend on:

- The Group's business model for managing the asset; and
- The cashflow characteristics of the asset.

Based on these factors, the Company classifies its financial assets into one of the three categories below:

- Amortised cost: assets held for collection of contractual cash flows where the cash flows represent solely payments of principal and interest, that are not designated as FVTPL.
- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL.
- Fair value through profit or loss (FVTPL): Assets that do not meet the criteria for amortised cost or FVOCI.

In line with the above:

- Fixed term deposits are measured at amortised cost with interest income is recognised in the Income Statement.
- Gilts are measured at FVOCI. Unrealised changes in the fair value of these assets are recognised in Other Comprehensive Income (OCI).
- Investments measured at FVTPL are primarily money market funds. Interest income is recognised in the Income statement.

Cash and cash equivalents include cash in hand and deposits held at call with banks. All cash and cash equivalents are measured at amortised cost.

The Company's financial liabilities comprise subordinated notes which are held at amortised cost using the effective interest method.

2. ADMINISTRATIVE EXPENSES

Included within administrative expenses are re-charges of £2.5 million (2017: £1.6 million) relating to employees within the Group who perform services on behalf of the Company. No staff are directly employed by the Company.

3. INVESTMENT AND INTEREST INCOME

	31 December 2018 £m	31 December 2017 £m
Dividend income from subsidiary undertakings	260.0	300.0
Interest income	4.9	10.5
Total investment and interest income	264.9	310.5

4. INVESTMENTS IN GROUP UNDERTAKINGS

	£m
Investments in subsidiary undertakings:	
At 1 January 2017	308.3
Additions	17.7
Impairment	(25.0)
At 31 December 2017	301.0
Additions	24.2
Impairment	(32.9)
At 31 December 2018	292.3

A full list of the Company's subsidiaries is disclosed in note 12 of the consolidated financial statements.

All investments in group undertakings are considered level 3 in the fair value hierarchy of IFRS 13.

An annual impairment review is performed over the carrying value of the investments in subsidiary undertakings, which involves comparing the carrying amount to the estimated recoverable amount. The recoverable amount is the greater of the fair value of the asset less costs to sell, and the value in use of the subsidiary, calculated using cash flow projections based on financial budgets approved by management.

In 2018 a non-cash impairment loss of £32.9 million has been recognised by the parent company in respect of its investment in the Group's US price comparison business compare.com. The impairment charge is presented within the "Impairment losses" line of the Parent Company Income Statement and reduces the value of the investment to its recoverable amount, being its value in use, of £32.8 million.

The impairment charge arises following the review of the carrying value of the Group's subsidiaries and compare.com's long term strategy, combined with additional investments received during 2018 totalling $30 million, $25 million in an agreement with former Admiral Group CEO Henry Engelhardt and his wife Diane and separately, $5 million by way of a convertible loan instrument from Admiral Group (out of a total available facility of $10 million).

The impairment charge reflects challenging market conditions for price comparison in the US.

Compare.com remains loss making at this stage in its development. The cash flows supporting the value in use are based on financial forecasts prepared for a 5 year period.

The key assumptions used in the underlying forecasts and sensitivity analysis are those regarding revenue per sale, conversion rates and revenue generated through partnerships. The estimates are based on past practice and the experience of management, and the long term strategy as approved by the Board.

A pre-tax discount rate of 12% has been used, calculated using a Capital Asset Pricing Model (CAPM) calculation (using a risk free return plus an appropriate risk premium), given that an asset specific rate is not available from the market. The table below details the impact of a 1% change in the discount rate and terminal value, and a 5% decrease in the year 5 projected profit (and thereby terminal value) on the recoverable amount.

	Sensitivity: Impact on recoverable amount of a:		
	1% decrease in terminal growth rate £m	1% increase in pre-tax discount rate £m	5% decrease in year 5 profit £m
compare.com	(3.1)	(4.4)	(1.7)

The Board remains confident in the prospects of the business and continues to support compare.com in the achievement of its goals. However, given the challenging US price comparison market conditions there remains considerable uncertainty over the timing and level of the future profitability of the business.

5. FINANCIAL ASSETS AND LIABILITIES

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

	31 December 2018 £m	31 December 2017 £m
Investments classified as FVOCI		
Gilts	170.8	173.8
	170.8	173.8
Investments classified at amortised cost		
Deposits with credit institutions	–	20.0
	–	20.0
Investments classified at FVTPL		
Investment funds	5.5	38.6
	5.5	38.6
Total financial investments	176.3	232.4
Financial assets held at amortised cost		
Trade and other receivables (Note 7)	128.6	0.6
Cash and cash equivalents	83.3	6.8
Total financial assets	388.2	239.8
Financial liabilities		
Subordinated notes	204.1	204.0
Other borrowings	71.5	20.0
Trade and other payables (Note 8)	346.1	189.4
Total financial liabilities	621.7	413.4

The amortised cost carrying amount of deposits and receivables is a reasonable approximation of fair value. The fair value of subordinated notes (level one valuation) together with their carrying value shown in the Statement of Financial Position as follows:

	31 December 2018		31 December 2017	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Financial liabilities				
Subordinated notes	204.1	211.3	204.0	229.2

Interest payable of £11.3 million (2017: £11.3 million) was recognised in relation to the subordinated loan notes.

Notes to the Parent Company Financial Statements continued

For the year ended 31 December 2018

6. TAXATION

6a. Taxation credit

	31 December 2018 £m	31 December 2017 £m
Current tax		
Corporation tax credit on profits for the year	(3.7)	(1.6)
Change in provision relating to prior periods	–	–
Current tax credit	(3.7)	(1.6)
Deferred tax		
Current period deferred taxation movement	–	(0.1)
Change in provision relating to prior periods	–	–
Total tax credit per Consolidated Income Statement	(3.7)	(1.7)

Factors affecting the total tax credit are:

	31 December 2018 £m	31 December 2017 £m
Profit before tax	207.7	265.8
Corporation tax thereon at effective UK corporation tax rate of 19% (2017: 19.25%)	39.5	51.2
Expenses and provisions not deductible for tax purposes	6.2	4.9
Non-taxable income	(49.4)	(57.8)
Total tax credit for the period as above	(3.7)	(1.7)

6b. Deferred income tax liability

Analysis of deferred tax liability

	Tax treatment of share schemes £m	Capital allowances £m	Carried forward losses £m	Fair value reserve £m	Other differences £m	Total £m
Balance brought forward at 1 January 2017	–	–	–	–	–	–
Tax treatment of share scheme charges through income or expense	(0.1)	–	–	–	–	(0.1)
Tax treatment of share scheme charges through reserves	–	–	–	–	–	–
Movement in fair value reserve	–	–	–	4.2	–	4.2
Balance carried forward at 31 December 2017	(0.1)	–	–	4.2	–	4.1
Tax treatment of share scheme charges through income or expense	–	–	–	–	–	–
Tax treatment of share scheme charges through reserves	(0.1)	–	–		–	(0.1)
Movement in fair value reserve	–	–	–	(0.4)	–	(0.4)
Balance carried forward at 31 December 2018	(0.2)	–	–	3.8	–	3.6

The UK corporation tax rate reduced from 20% to 19% on 1 April 2017. The average effective rate of tax for 2018 is 19% (2017: 19.25%). A further reduction to the main rate of corporation tax to 17% (effective from 1 April 2020) was enacted on 15 September 2016. This will reduce the Company's future current tax charge accordingly.

The deferred tax asset at 31 December 2018 has been calculated based on the rate at which each timing difference is most likely to reverse.

7. TRADE AND OTHER RECEIVABLES

	31 December 2018 £m	31 December 2017 £m
Trade and other receivables	0.6	0.6
Amounts owed by subsidiary undertakings	128.0	–
Total trade and other receivables	128.6	0.6

Of the above amount, £123.1 million is due in greater than one year (2017: £nil).

8. TRADE AND OTHER PAYABLES

	31 December 2018 £m	31 December 2017 £m
Trade and other payables	1.6	0.6
Amounts owed to subsidiary undertakings	344.5	188.8
Total trade and other payables	346.1	189.4

9. SHARE CAPITAL AND RESERVES

Capital within the Company is comprised of share capital and the share premium account, the fair value reserve (which reflects movements in the fair value of assets classified as available for sale, as reclassified in the period) and retained earnings.

9a. Share capital

	31 December 2018 £m	31 December 2017 £m
Authorised		
500,000,000 ordinary shares of 0.1 pence	0.5	0.5
Issued, called up and fully paid		
290,502,737 ordinary shares of 0.1 pence	0.3	0.3
	0.3	0.3

9b. Dividends

Dividends were declared and paid as follows:

	31 December 2018 £m	31 December 2017 £m
March 2017 (51.5 pence per share, paid June 2017)	–	143.7
August 2017 (56.0 pence per share, paid October 2017)	–	156.6
March 2018 (58.0 pence per share, paid June 2018)	163.3	–
August 2018 (60.0 pence per share, paid October 2018)	169.4	–
Total dividends	332.7	300.3

The dividends declared in March represent the final dividends paid in respect of the 2016 and 2017 financial years. The dividends declared in August are interim distributions in respect of 2017 and 2018.

A final dividend of 66.0 pence per share (£188 million) has been proposed in respect of the 2018 financial year. Refer to the Chairman's Statement and Strategic Report for further detail.

Notes to the Parent Company Financial Statements continued

For the year ended 31 December 2018

10. GUARANTEES

During the year, an SPE was set up in order to secure additional funding for the Admiral loans business. The Company acts as guarantor for certain operational performance conditions of its subsidiary, AFSL, as seller and servicer for the SPE, and indemnifies AFSL in respect of any amount that would have been payable by AFSL for non-compliance with such performance conditions.

11. POST BALANCE SHEET EVENTS

In January 2019, the operations and net assets of BDE Law Limited were transferred into Admiral Law Limited, with BDE Law Limited ceasing operations. As at 31 December 2018, both of these companies were 90% owned subsidiaries of the Company. Post transfer, the Company owns 95% of Admiral Law Limited, which in turn owns 100% of BDE Law Limited. There is no impact to the Group or Company on financial results in the year and no material impact is anticipated on results going forward as a result of this transfer.

12. CONTINUED APPLICATION OF FINANCIAL REPORTING STANDARD (FRS) 101 – REDUCED DISCLOSURE FRAMEWORK

Following the first time application of FRS 101 Reduced Disclosure Framework in 2015, the Board considers that it is in the best interests of the Group for Admiral Group plc to continue to apply the FRS 101 Reduced Disclosure Framework in future periods. A shareholder or shareholders holding in aggregate 5% or more of the total allotted shares in Admiral Group plc may serve objections to the use of the disclosure exemptions on Admiral Group plc, in writing, to its registered office (Tŷ Admiral, David Street, Cardiff CF10 2EH) no later than 30 June 2019.

Consolidated financial summary (unaudited)

BASIS OF PREPARATION

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

Income statement

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Total premiums	2,766.4	2499.4	2,193.9	1,805.2	1,675.6
Net insurance premium revenue	671.8	619.1	548.8	467.0	464.9
Other Revenue*1	460.6	401.1	360.6	319.8	332.5
Profit commission	93.2	67.0	54.3	85.4	71.8
Investment and interest income	36.0	41.7	53.1	32.6	15.4
Net revenue	1,261.6	1,128.9	1,016.8	904.8	884.6
Net insurance claims	(350.1)	(347.1)	(394.6)	(226.5)	(259.1)
Net expenses	(424.0)	(366.9)	(332.4)	(298.5)	(270.2)
Operating profit	487.5	414.9	289.8	379.8	355.3
Finance costs	(11.3)	(11.4)	(11.4)	(11.1)	(4.6)
Profit before tax	476.2	403.5	278.4	368.7	350.7

*1 Includes net interest income from loans.

Balance sheet

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Property and equipment	28.1	31.3	32.0	34.9	32.3
Intangible assets	162.0	159.4	162.3	142.3	107.2
Deferred income tax	0.2	0.3	8.4	20.6	22.9
Reinsurance assets	1,883.5	1,637.6	1,126.4	878.7	829.8
Insurance and other receivables	1,082.0	939.7	784.9	537.1	435.3
Loans and advances to customers	300.2	66.2			
Financial investments	2,969.7	2,697.8	2,420.2	2,323.5	2,194.1
Cash and cash equivalents	376.8	326.8	326.6	265.3	255.9
Total assets	6,802.5	5,859.1	4,860.8	4,202.4	3,877.5
Equity	771.1	655.8	581.7	632.9	580.9
Insurance contracts	3,736.4	3,313.9	2,749.5	2,295.0	2,097.4
Subordinated and other financial liabilities	444.2	224.0	224.0	223.9	203.8
Trade and other payables	1,801.5	1,641.6	1,292.2	1,015.0	965.8
Current tax liabilities	49.3	23.8	13.4	35.6	29.6
Total equity and total liabilities	6,802.5	5,859.1	4,860.8	4,202.4	3,877.5

Glossary

ALTERNATIVE PERFORMANCE MEASURES

Throughout this report, the Group uses a number of Alternative Performance Measures (APMs); measures that are not required or commonly reported under International Financial Reporting Standards, the Generally Accepted Accounting Principles (GAAP) under which the Group prepares its financial statements.

These APMs are used by the Group, alongside GAAP measures, for both internal performance analysis and to help shareholders and other users of the Annual Report and financial statements to better understand the Group's performance in the period in comparison to previous periods and the Group's competitors.

The table below defines and explains the primary APMs used in this report. Financial APMs are usually derived from financial statement items and are calculated using consistent accounting policies to those applied in the financial statements, unless otherwise stated. Non financial KPIs incorporate information that cannot be derived from the financial statements but provide further insight into the performance and financial position of the Group.

APMs may not necessarily be defined in a consistent manner to similar APMs used by the Group's competitors. They should be considered as a supplement rather than a substitute for GAAP measures.

Turnover	Turnover is defined as total premiums written (as below), other revenue and income from Admiral loans. It is reconciled to financial statement line items in note 13a to the financial statements. This measure has been presented by the Group in every Annual Report since it became a listed Group in 2004. It reflects the size of the revenue generated by the Group and analysis of this measure over time provides a clear indication of the size and growth of the Group. The measure was developed as a result of the Group's business model. The core UK Car insurance business has historically shared a significant proportion of the risks with Munich Re, a third party reinsurance Group, through a co-insurance arrangement, with the arrangement subsequently being replicated in some of the Group's international insurance operations. Premiums and claims accruing to the external co-insurer are not reflected in the Group's income statement and therefore presentation of this metric enables users of the Annual Report to see the scale of the Group's insurance operations in a way not possible from taking the income statement in isolation.
Total Premiums Written	Total premiums written are the total forecast premiums, net of forecast cancellations written in the underwriting year within the Group, including co-insurance. It is reconciled to financial statement line items in note 13a to the financial statements. This measure has been presented by the Group in every Annual Report since it became a listed Group in 2004. It reflects the total premiums written by the Group's insurance intermediaries and analysis of this measure over time provides a clear indication of the growth in premiums, irrespective of how co-insurance agreements have changed over time. The reasons for presenting this measure are consistent with that for the Turnover APM noted above.
Group's share of Profit before Tax	Group's share of profit before tax represents profit before tax, excluding the impact of Non-controlling Interests. It is reconciled to statutory profit before tax in note 13d to the financial statements. This measure is useful in presenting the limit of the Group's exposure to the expenditure incurred in starting up new businesses and demonstrates the 'test-and-learn' strategy employed by the Group to expansion into new territories. In 2018, Group's share of Profit before Tax is presented on a '-0.75%' and a '0%' Ogden basis. -0.75% represents the Group's share of estimated profit before tax at an Ogden rate of -0.75%, before the impact of the change in actuarial best estimate to an Ogden rate of 0% following Royal Assent of the Civil Liability Bill in 2018.
Underwriting result (profit or loss)	For each insurance business an underwriting result is presented showing the segment result prior to the inclusion of profit commission, other income contribution and instalment income. It demonstrates the insurance result, i.e. premium revenue and investment income less claims incurred and insurance expenses.

Loss Ratio	Reported loss ratios are expressed as a percentage of claims incurred divided by net earned premiums. There are a number of instances within the Annual Report where adjustments are made to this calculation in order to more clearly present the underlying performance of the Group and operating segments within the Group. The calculations of these are presented within note 13b to the accounts and explanation is as follows. UK reported motor loss ratio: Within the UK insurance segment the Group separately presents motor ratios, i.e. excluding the underwriting of other products that supplement the car insurance policy. The motor ratio is adjusted to i) exclude the impact of reserve releases on commuted reinsurance contracts and ii) exclude claims handling costs that are reported within claims costs in the income statement. International insurance loss ratio: As for the UK motor loss ratio, the international insurance loss ratios presented exclude the underwriting of other products that supplement the car insurance policy. The motor ratio is adjusted to exclude the claims element of the impact of reinsurer caps as inclusion of the impact of the capping of reinsurer claims costs would distort the underlying performance of the business. Group loss ratios: Group loss ratios are reported on a consistent basis as the UK and international ratios noted above. Adjustments are made to i) exclude the impact of reserve releases on commuted reinsurance contracts, ii) exclude claims handling costs that are reported within claims costs in the income statement, iii) exclude the claims element of the impact of international reinsurer caps and iv) exclude the claims impact of extreme weather and subsidence on UK Household.
Expense Ratio	Reported expense ratios are expressed as a percentage of net operating expenses divided by net earned premiums. There are a number of instances within the Annual Report where adjustments are made to this calculation in order to more clearly present the underlying performance of the Group and operating segments within the Group. The calculations of these are presented within note 13c to the accounts and explanation is as follows. UK reported motor expense ratio: Within the UK insurance segment the Group separately presents motor ratios, i.e. excluding the underwriting of other products that supplement the car insurance policy. The motor ratio is adjusted to i) include claims handling costs that are reported within claims costs in the income statement and ii) include intra-group aggregator fees charged by the UK price comparison business to the UK insurance business. International insurance expense ratio: As for the UK motor loss ratio, the international insurance expense ratios presented exclude the underwriting of other products that supplement the car insurance policy. The motor ratio is adjusted to i) exclude the expense element of the impact of reinsurer caps as inclusion of the impact of the capping of reinsurer expenses would distort the underlying performance of the business and ii) include intra-group aggregator fees charged by the overseas price comparison businesses to the international insurance businesses. Group expense ratios: Group expense ratios are reported on a consistent basis as the UK and international ratios noted above. Adjustments are made to i) include claims handling costs that are reported within claims costs in the income statement, ii) include intra-group aggregator fees charged by the Group's price comparison businesses to the Group's insurance businesses and iii) exclude the expense element of the impact of international reinsurer caps..
Combined Ratio	Reported combined ratios are the sum of the loss and expense ratios as defined above. Explanation of these figures is noted above and reconciliation of the calculations are provided in notes 13b and 13c.
Return on Equity	Return on equity is calculated as profit after tax for the period attributable to equity holders of the Group divided by the average total equity attributable to equity holders of the Group in the year. This average is determined by dividing the opening and closing positions for the year by two. The relevant figures for this calculation can be found within the Consolidated Statement of Changes in Equity.
Group Customers	Group customer numbers reflect the total number of cars, households and vans on cover at the end of the year, across the Group. This measure has been presented by the Group in every Annual Report since it became a listed Group in 2004. It reflects the size of the Group's customer base and analysis of this measure over time provides a clear indication of the growth. It is also a useful indicator of the growing significance to the Group of the different lines of business and geographic regions.
Effective Tax Rate	Effective tax rate is defined as the approximate tax rate derived from dividing the Group's profit before tax by the tax charge going through the income statement. It is a measure historically presented by the Group and enables users to see how the tax cost incurred by the Group compares over time and to current corporation tax rates.

Glossary continued

ADDITIONAL TERMINOLOGY

There are many other terms used in this report that are specific to the Group or the markets in which it operates. These are defined as follows:

Accident year	The year in which an accident occurs, also referred to as the earned basis.
Actuarial best estimate	The probability-weighted average of all future claims and cost scenarios calculated using historical data, actuarial methods and judgement.
ASHE	'Annual Survey of Hours and Earnings' – a statistical index that is typically used for calculation inflation of annual payment amounts under Periodic Payment Order (PPO) claims settlements.
Claims reserves	A monetary amount set aside for the future payment of incurred claims that have not yet been settled, thus representing a balance sheet liability.
Co-insurance	An arrangement in which two or more insurance companies agree to underwrite insurance business on a specified portfolio in specified proportions. Each co-insurer is directly liable to the policyholder for their proportional share.
Commutation	An agreement between a ceding insurer and the reinsurer that provides for the valuation, payment, and complete discharge of all obligations between the parties under a particular reinsurance contract. The Group typically commutes UK car insurance quota share contracts after 24 months from the start of an underwriting year where it makes economic sense to do so. Although an individual underwriting year may be profitable on an ultimate basis, the margin held in the financial statement claims reserves means that an accounting loss on commutation must be recognised at the point of commutation of the reinsurance contracts. This loss on commutation unwinds in future periods as the financial statement loss ratios develop to ultimate.
Insurance market cycle	The tendency for the insurance market to swing between highs and lows of profitability over time, with the potential to influence premium rates (also known as the "underwriting cycle").
Net claims	The cost of claims incurred in the period, less any claims costs recovered under reinsurance contracts. It includes both claims payments and movements in claims reserves.
Net insurance premium revenue	Also referred to as net earned premium. The element of premium, less reinsurance premium, earned in the period.
Ogden discount rate	The discount rate used in calculation of personal injury claims settlements. The rate is set by the Lord Chancellor.
Periodic Payment Order (PPO)	A compensation award as part of a claims settlement that involves making a series of annual payments to a claimant over their remaining life to cover the costs of the care they will require.
Premium	A series of payments are made by the policyholder, typically monthly or annually, for part of or all of the duration of the contract. Written premium refers to the total amount the policyholder has contracted for, whereas earned premium refers to the recognition of this premium over the life of the contract.
Profit commission	A clause found in some reinsurance and coinsurance agreements that provides for profit sharing.
Reinsurance	Contractual arrangements whereby the Group transfers part or all of the insurance risk accepted to another insurer. This can be on a quota share basis (a percentage share of premiums, claims and expenses) or an excess of loss basis (full reinsurance for claims over an agreed value).
Securitisation	A process by which a group of assets, usually loans, is aggregated into a pool, which is used to back the issuance of new securities. A company transfer assets to a special purpose entity (SPE) which then issues securities backed by the assets.
Special Purpose Entity (SPE)	An entity that is created to accomplish a narrow and well defined objective. There are specific restrictions or limits around ongoing activities. The Group uses an SPE set up under a securitisation programme.
Ultimate loss ratio	A projected actuarial best estimate loss ratio for a particular accident year or underwriting year.
Underwriting year	The year in which the policy was incepted.
Underwriting year basis	Also referred to as the written basis. Claims incurred are allocated to the calendar year in which the policy was underwritten. Underwriting year basis results relate to the 2018 underwriting year, are calculated on the whole account (including co-insurance and reinsurance shares) and include all premiums, claims, expenses incurred and other revenue (for example instalment income and commission income relating to the sale of products that are ancillary to the main insurance policy) relating to policies incepting in the relevant underwriting year.
Written/Earned basis	A policy can be written in one calendar year but earned over a subsequent calendar year.

Directors and advisors

DIRECTORS

Annette Court
Chairman

David Stevens, CBE
Chief Executive Officer

Geraint Jones
Chief Financial Officer

Mike Brierley
Non-Executive Director

Karen Green
Non-Executive Director

Justine Roberts, CBE
Non-Executive Director

Owen Clarke
Non-Executive Director

Jean Park
Non-Executive Director

Manning Rountree
Non-Executive Director

Andy Crossley
Non-Executive Director

COMPANY SECRETARY

Mark Waters

Tŷ Admiral
David Street
Cardiff CF10 2EH

AUDITOR

Deloitte LLP

Hill House
1 Little New Street
London
EC4A 3TR

ACTUARIAL ADVISOR

Lane Clark & Peacock LLP

95 Wigmore Street
London W1U 1DQ

BANKERS

Lloyds Bank plc

City Office
Bailey Drive
Gillingham Business Park
Kent ME8 0LS

REGISTRAR

Link Asset Services

The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

JOINT CORPORATE BROKERS

Bank of America Merrill Lynch

2 King Edward Street
London EC1A 1HQ

UBS Investment Bank

5 Broadgate
London EC2M 2QS

SOLICITORS

Clifford Chance LLP

10 Upper Bank Street
London E14 5JJ

CORPORATE WEBSITE

The Group's corporate website is at www.admiralgroup.co.uk. A range of information about the Admiral Group is presented, including the Group's history, financial reports and press releases, corporate responsibility and governance. The website also includes the contact details for investor relations.

FINANCIAL CALENDAR

Final 2018 dividend

9 May 2019 – Ex dividend date
10 May 2019 – Record date
31 May 2019 – Payment date

Annual General Meeting

25 April 2019

Interim results

14 August 2019

The Group does not produce printed copies of interim results for shareholders unless requested. The interim results will be available on the corporate website from 14 August 2019.

REGISTERED OFFICE

Tŷ Admiral
David Street
Cardiff CF10 2EH

Designed and produced by emperor
Visit us at emperor.works

Registered office

Tŷ Admiral
David Street
Cardiff CF10 2EH

www.admiralgroup.co.uk