# S2 2012 Earnings Call

## Company Participants

- David Stevens, COO
- Henry Engelhardt, CEO
- Kevin Chidwick, Finance Director

## Other Participants

- Andrew Crean, Analyst
- Andy Broadfield, Analyst
- Andy Hughes, Analyst
- Colin Simpson, Analyst
- Fahad Changazi, Analyst
- Greig Paterson, Analyst
- James Pearce, Analyst
- Marcus Barnard, Analyst
- William Hardcastle, Analyst

## Presentation

### Operator

(Operator Instructions) Welcome to the Admiral Group 2012 interim results conference call. My name is Rob, and I will be the operator for your call this morning. We are now going live to the presentation room.

### Henry Engelhardt {BIO 3022947 <GO>}

Good morning, everyone. I'm Henry Engelhardt, Chief Executive of Admiral Group. Welcome to the Admiral first-half 2012 results announcement.

How many companies will be standing in front of you over the next couple of months, few months, and announcing record half-year profits and a 61% return on capital? Well, here we are.

So, I'll talk for a few minutes just to give you a brief overview; Kevin will go into more detail on the results; David will talk to you in depth about the UK market; and I'll come back and talk to you about International.

When we floated eight years ago we said we're different. Well we're still different. Why are we different? Well, we make money. And this time we're delivering a profit up 7% to GBP172 million. Put that in perspective, that is almost as much as we made in all of 2007.

And we're focused on profit growth; that's what we model for. When we do our models, we look for maximum profit over the short term, over the long term. It's not about customer growth, it's not about market share; it is truly about how we get the most bang for our buck.

And we're growing; we now insure over 3.5 million vehicles. It's all been organic growth. We take a long-term approach to things; we don't jump out and buy market share, and we adjust our growth according to market conditions.

We're in a cyclical business, and a few years ago we spent a couple of years growing 30% on the trot. That is not a sustainable growth rate. In a cyclical market like this, as the market declines in margin, as it's doing now with prices coming down and claims costs rising, it isn't the time to put the foot to the floor. And it's those companies that are growing rapidly that are actually reducing margins.

We're not playing that game quite the same way. We're balancing our growth against the cycle of the market, and David will go into more detail on that in just a couple of minutes.

We're a low risk option. We have no debt. Our cash balances are conservatively managed, as I'm sure you've seen by our investment returns. And we protect ourselves through the extensive use of co-insurance and reinsurance, where we put out some of the risk. We do pay for that a little bit, but we get the vast majority of the profits back, and it does help drive that superior return on capital.

We have very strong cash flow, and that is shown by the record interim dividend of 45.1p per share. And it's a very high payout ratio. We don't believe it's good for us if we leave copious amounts of cash sloshing about in the Company. It's, perhaps, been seen that companies tend to waste money when they have lots of cash sitting around, so we let you waste it instead. So we divi it out, and the payout ratio is in excess of 90%.

We do have aligned interests with our shareholders. Every member of staff in Admiral is a shareholder, or those who have joined in the last couple of months will be within the next couple of weeks a shareholder. Because of the superior results, every member of staff will receive GBP1,500 worth of shares in the coming weeks.

Simply put, we want every member of staff to feel like they own a part of the business, so we give them a part of the business to own. That's what it's all about. We want everybody to have that ownership feeling, so they all are our owners, and it's an important part of what makes Admiral so successful.

In addition, there is significant share ownership among the executives, and this further aligns the interests of the management with shareholders.

All in all, it goes to produce that superior return on capital in excess of 60%, consistently so.

So very, very quickly, the key things that we want to look at this morning. Kevin is going to talk to you in detail about those record profits and the dividend; David is going to update you on the UK, including the claims situation; and I'll come back and talk to you about the good growth we're enjoying in price comparison, and our Insurance businesses outside the UK.

Thank you. Kevin.

## Kevin Chidwick {BIO 15100612 <GO>}

Thank you, very much, Henry. Morning, everybody. Okay, our profits for the first year[ph] up 7%, GBP172 million. As Henry's mentioned, it's backed by a low capital base, so it is a return on capital of 61%, which it's been, I think, several years in a row now; well, north of 50%.

We grew our vehicles over the period to 3.5 million, which is 11% growth, which is, as Henry's talked about, a slower rate of growth in the UK -- we're running at about 4% growth at the moment -- but something like 60% growth in our International businesses so far this year.

The combined ratio on a Group basis now is getting more and more impacted by those International businesses. They now represent about 11% of all of our customers.

So when you look at the combined ratio of 95%, as a Group number, it's actually of course impacted by those businesses which are still immature and still making losses. And so the UK number after[ph], you split that out, is actually an improvement to 89%; down 1 point from 90%, which David will talk more about a bit later on.

And the consequence of all that, of course, is that record interim dividend of 45p, which I'll talk a bit more about in a moment.

If you look at the way the profit's spread out by the individual businesses, you can see here, on this familiar slide, that the Group -- sorry, the contribution towards the Group result from the UK business is now well over 100% of the total; 107% of the total in the first half of 2012. That number is up 9% year on year.

The International business, which is in the lime green color below the line there, the minus 5%, is a pretty consistent number the last few years in terms of its impact on the P&L. Obviously, a blend of numbers within those businesses are moving closer towards making less of it, a negative contribution. And those businesses are quite new, which obviously is just kicking off and still making quite more significant losses.

And then at above the line, the light blue color at the top, is Confused.com. We split out the price comparison businesses here, and which is slightly different to where they are in the accounts. So the International price comp businesses are in the minus 5% below the line.

And the light blue color at the top is just Confused.com in the UK. And that had a pretty good first half of the year, considering the context of a very competitive environment. It held its market share, it held its margins so, consequently, it grew its profits, up about 7%, I think, to GBP8.4 million, which is encouraging in the context of a very tough market.

And then the last number on this slide I want to mention is the red bar below the line, which, as Henry's already mentioned, is about our share schemes that we contribute -- give to all of our staff. And that is the major component of that minus 6% number there, which is, again, something that's been happening every period, I think, for quite some time.

Our investment strategy, I think, would also be quite familiar to you all. We've -- our investments have grown quite significantly over the last couple of periods; up 39%, actually, year on year now to GBP1.6 billion in investments.

But our investment strategy hasn't changed, which is that we look for capital preservation and minimal volatility over yield. Consequently, our investments are held in UK-denominated money market funds, and cash and deposits. And the yellow component here is the money market funds, which is the majority of the balance.

We don't -- we have a little bit of exposure to Italy and Spain, as you would imagine, because we've got operations running there. They represent about 2% of our investment balances. We have no exposure at all to Greece, Ireland, or Portugal.

And as a consequence of this investment strategy, of course, you end up with very low investment returns. So our investment return in the first half of '11 was an annualized rate of about 1%, which is the way it's been again for the last couple of years, and no change there.

Similarly, on solvency, on this slide you see our solvency position remains very strong. This slide shows our net assets offset against our minimum solvency requirements on the Insurance Group Directive basis, and our solvency requirements, in the green bar there, on our own ICA basis. And on both counts the capital is obviously, at the balance sheet point, significantly ahead of our requirements. And that's the position that hasn't really changed that much; it's got slightly larger since last year.

And I wouldn't anticipate as we work our way through the Solvency II project, that project still rolls on, as we eventually get to the end I don't anticipate any great change in our solvency requirements as a consequence of that project and, therefore, any particular change in this position.

And then the last slide from me, my favorite slide, is the dividend slide, which, again, our dividend policy hasn't changed at all either. Our dividend policy is to pay out all of our spare cash to our shareholders. And we do that by paying a normal dividend of 45% of post-tax profits, and then a special dividend of all the spare cash over and above that as to whatever that number works out to be.

That means that, as you see from the calculation on the right-hand side here, the dividend is a straight forward one. We take our net assets and deduct the goodwill and solvency requirement and the buffer, and that's left us with GBP122 million at the end of the first half of 2012. And divide that into all the shares, you end up with 45.1p, which is a growth of 15% on the dividend from the first half of last year, and is a 95% pay out on post-tax profits.

That dividend will go -- the shares will go HD[ph] on September 12, and the dividend will be paid on October 12.

Thank you, very much. That's all from me; I'll hand you over to David.

## David Stevens {BIO 6807391 <GO>}

Thank you, Kevin. I'm just going to do some highlights on the UK, then one page on the UK market as a whole, and a number of pages giving more detail on Admiral's own performance.

So, overview of the first half, profit in the UK up 9% versus the first half of 2011; up considerably more than 9% against the second half. You may recall that there was a much bigger proportion of the profits last year in the first half; we don't anticipate the same asymmetry in the UK results in 2012.

UK vehicle count, up 7% on a year ago; up 2% in first half, annualizing to 4%. And I'll talk more about growth later on.

Combined ratio, down a point on the first half; down 3 points on the second half. No repeat of the -- it's increasingly looked like an abnormal claims experience in the middle of 2011, and improvements on the loss ratio projections for the prior years overall, which are both encouraging observations.

However, prudently, we've not taken full credit for those improvements in the prior years in this set of results, and I'll talk more about that as well.

Other revenue per vehicle, down from GBP86 in the first half to GBP82. A little bit of that about slower growth. We've talked in the past a bit about this metric being sensitive to growth rate, mainly though, very largely, about change in the way we recognize legal cover, which I will also talk about.

So a little bit about the market, the 2011 results are out in their entirety. And this shows the combined ratio. You can see a substantial fall in 2011 for the market as a whole, down from 115% to 107%, essentially driven by two factors; very -- a substantial increase in average earned premium of 11%, and a big drop in frequency. Only partially offset by a continuing trend for more and more claims to have an element of bodily injury, and that feeding into claims inflation.

Now when the market's making 107% and it's got a little bit of investment income and it's got a lot of other income it's making money. And some people within the market are making decent money, and that has an impact on rates.

This graph on the right-hand side shows you the rate history as shown by the AA, in yellow, non-aggregator, and Confused, in blue. And the two surveys largely agreed with each other until the middle of last year, showing over the previous 24 months very rapid premium inflation. But they've diverged in the second half of 2011/first half of 2012, as you can see, with Confused showing quite a material drop in prices in the first half.

I wish I could stand here and tell you the AA is telling you the truth and Confused is wrong; sadly, I feel that Confused actually is a more accurate representation of what's happening. And with a number of players at least reporting high levels of profit in 2011, and going into the first half of 2012, there are people out there looking for market share gains, and that is feeding through into the rating.

Right, I will talk more detail about Admiral itself. We grew 7% versus the middle of last year.

Vehicle count, 2% in the first half. As you can see, that's a relatively modest rate of growth, certainly relative to the previous two years. We've actually doubled our vehicle count over the past four years. We felt that 2010/2011 was a good time to grow the business. We do feel strongly that modest growth is more appropriate in 2012.

The claims experienced, particularly in quarter 3 of last year, is slipping into the past. But it did relate to big claims, and these things have a tail to them so, in terms of certainty about profitability, it's appropriate to allow the elapse of time.

And also, we did feel strongly, particularly in the first half, that it was appropriate to avoid the risk of chasing the market rates down further than they're going down anyway. Two reasons for that; particularly, and the main reason, is when the perception is that business is being written profitably by most of our competitors, they don't like to see change[ph]. It's not a good time to be aggressive on pricing, quite the opposite.

And this particular, I think, feature of the last six months, which was three of our major competitors had the prospect of a potential capital event, IPO, or such like. I think that potentially influences their decisions on volume aspirations. Again, it's not necessarily appropriate to try and counter their aspirations in that context in the short term.

Going on from volume to claims trends, as I mentioned, the claims trends have been encouraging. This graph on the left-hand side is picking out some information about the ultimate loss ratio.

As you'll see in the appendix, the full details on ultimate loss ratios by accident year. This focuses on, in a sense, the two key years in terms of materiality, 2010 and 2011 accident year. As you can see on the left, we had that significant deterioration in quarter 3 in terms of the ultimates, 3% on '10, and 6% on '11; stable in the final quarter of last year; and, encouragingly, the projected loss ratios improving over the six months, so 2010 down 1 point, 2011 down 3 points.

As I mentioned, we haven't taken full credit for this improvement. We've chosen instead to increase the size of the buffer that we hold between ultimate loss ratios and reported loss ratios. And we've increased that buffer both in absolute terms and in relative terms, relative to the size of the book.

Notwithstanding that decision to increase the buffer, we still have had enough leeway, due to these developments, to slightly increase our reserve releases. So on the left-hand side, again, you see a graph of our historic reserve releases expressed as a percentage of premium. Our reserve releases, which were 2.5% in the whole of '11, have risen to 4.8% in the first half of 2012.

Now, we aren't anticipating a return to the mid 20%s that we saw in the middle of the decade. And I'll just remind that's because earlier in the decade we had very conservative actuarial projections due to the lack of information on which to base those projections, and so those were exceptional years. However, we're glad to see a return to more substantial releases than 2.5%.

A really important part of our long-term competitive advantage is the expense ratio advantage, so it's appropriate to talk briefly about that as well.

This graph shows, the red line, the market-earned expense ratio, the blue line the Admiral-written expense ratio. A strange kink in the market numbers attributable to some strange UKI numbers. I think a fairer representation of the market is to back out the UKI from '09, '10, and '11, and then you get 29%, 27%, and 26%, with the benefits of premium inflation feeding through into better expense ratios for the market, and, of course, for ourselves.

But, interestingly, 2009, our advantage, 17% versus 29%, 12 points; 2011, 13% versus 26% (sic; see slide 16, "28%"), 13 (sic -- see slide 16, 15) points. So, encouraging, despite the market and ourselves both going up in premium, we've managed to slightly widen that outperformance.

H1 2012 a little better than 2011, but not sufficient to knock it down due to rounding.

You will notice in the reported results, that our earned expense ratio is just over 12%, which is down from last year. This is partly attributable to a one-off event, historical -- sorry, reserving for levies, MIB and other similar levies to Prudential, and we've unwound some of that. But there won't be a repeat of that.

Okay, one thing that I also would like to mention is that the long-term trend that we've referred to a couple of times now of our portfolio tending to nudge in the direction of slightly lower premium, lower frequency risk continues. And it's reflected in the average premium.

This shows the average written premium calculated on a relatively crude basis that you can replicate from the accounts; rising 23% in 2010 versus 2006, reflecting the price increases we put through, but also reflecting some portfolio mix towards slightly higher risk sections of the market; 2011, 11% increase; and then in the first half of 2012, down 3%.

Now portfolio changes, what sort of thing are we talking about? I just thought I'd take a couple of illustrations to give you both an idea of what we're talking about and the scale of what we're talking about.

So if you look at our low risk segment over 35, and look at our high risk segment, zero no claims bonus, if I index their share of our portfolio to 100 at 2009, you can see that for the over 35s we dropped a bit in '10. And we've come up, not an irrelevant amount, in '12 versus 2011.

Zero no claims bonus; we rose quite substantially, 10% in '10. And it's come down 16%, 17% since in 2012.

Now, just to set this in context, we remain a business that tends to write disproportionately higher premium risks. And that's reflected in the fact that the 2011 average premium of GBP637 compares with a market average earned premium of GBP400.

Right, we talked a bit about the underwriting results, and now we'll talk about the other revenue lines.

In the area of other revenue, or ancillaries, regulatory changes are, obviously, the big issue of interest to a lot of our investors and analysts. A lot of changes have been happening, most of them well flagged and well discussed. But I'll just do a quick overview of those changes and how things have evolved since.

So the oldest chestnut, in a sense, or the longest standing issue, is personal injury referral fees. And the ban on those was announced in September 2011; it will go live on April 2013.

The associated changes in the environment in terms of legal cost changes are yet to be announced so, pretty much, the only fixed feature is the ban on referral fees.

A more recent development is that the OFT conducted a survey of the car insurance market, mainly in the first half of 2012. And it was a wide survey of the healthiness and the appropriateness of the structures in the car insurance market in general, and focusing on a number of specific issues.

In the end, their conclusion was that there was only really one area of concern, which was the credit hire and repair area, which they felt was dysfunctional; I think quite correctly. Their recommendation is that the Competition Commission should take a further look, and that recommendation is likely to be approved in October and a Competition Commission process likely to start.

Now on the right-hand side we've talked a bit about the quantums here. What we can say is that from April 2013, GBP7 of other revenue in the form of personal injury referrals that is at risk. And, obviously, the credit hire referral thing creates some risk to that income stream, which currently equates to GBP6 per vehicle.

The timing is very difficult to know. The Competition Commission has to come to a view. There may need to be legislative changes. We've plugged in mid-2014 but, obviously, there's a lot of leeway around that date.

A point we'd make, and have made on a number of occasions, is both these changes have offsetting improvements in claim cost implications, and that they impact all insurers and brokers. And, obviously, if you fundamentally -- if you reduce the profitability of some of these streams in a market that overall isn't profitable there has to be a search by the players for substitute sources of profit; probably, actually, just in the core car insurance product in this context.

More recently, the Financial Conduct Authority has laid out its priorities for its first couple of years of existence, and has said that one of those is to look at the sale of add-ons alongside general insurance. And so, obviously, there is some possible risk that the changes they may implement as a result of that may have an impact on margin in that area.

Again, we would say it impacts everybody. And if you reduce the overall profitability of other revenue, it will probably knock onto the profitability of underwriting revenue.

Now I'd like to just get something off my chest, which relates to some of the coverage that accompanies some of these changes. Often, we see coverage announcing an initiative in this area alongside the comment that Admiral is particularly vulnerable to changes in the regulatory environment. I'd just like to lay out our view, which is that, in fact, we're less reliant on other revenue than other insurers, and to explain that, and perhaps explain why that misconception exists.

First important point to make is, as a Company, we're essentially indifferent between revenue from underwriting and other revenue. The nature of our reinsurance contract is such that we receive as much from one source as from the other in terms of share.

So this graph shows that in 2011 we get 93% of any other revenue flows flowing to the Group. The long-term co-insurance partner gets a proportion of installment income, which explains why it's not 100%. And we get 89% of the underwriting income. So, you can see, GBP1 of underwriting income/GBP1 of other revenue doesn't make a difference to us.

Now, if you look back in history, to the time of the MBO and the flotation, you're seeing numbers more around 50% of the underwriting income. And so at that time GBP1 of ancillary income or add-on income was very differentially worthwhile to us, but that is no longer the case.

The other element of the argument that we're less reliant on other revenue is just, actually, unlike most insurers, we make money on the underwriting. So what we've done is just an exercise to look at the profitability of ourselves and two major direct players who produce accounts that make this possible to do.

We've look at the profitability excluding investment income, and we've split it between underwriting income and other revenue. Now, any of the analysts can replicate this work. You might not come up with exactly the same numbers because it involves some modeling, but I think you'll have the same sort of directional thrust.

So, in 2011, 32% of our income was from underwriting, 68% from other revenue. In the case of one the major directs that competes against us it was 8% from underwriting, and 92% from other revenue. And in the case of one other major competitor, it was minus 33% from underwriting, and 133% from other revenue.

Right, I've got that off my chest. I'll move onto talk a bit more about a couple of initiatives in the other revenue area. The first one is a change in the way we recognize legal cover, and the introduction of something we're calling a reinsurer vehicle commission charge.

Now, for over a decade now Admiral has included legal cover as a standard feature of its policy, rather than selling it as an optional add-on, like most players in the market, and this graph illustrates how we've accounted for it.

Of the 100% of the price paid by the customer, 95%, historically, has been treated as car insurance premium, and roughly 5% as legal cover, going through into other revenue. We have moved, since April, to a different way of recognizing it; now, 100% of the cost to the customer is recognized as car insurance premium. Roughly, 5% of that is held back by Admiral, and then the remaining 95% passes through to our reinsurers and co-insurers.

Why have we made this change? Well, the legal cover benefit is free to our customers, and we feel this accounting convention better reflects that reality than the historical accounting[ph] convention.

The rules of accounting is such that although the underlying economic reality between these two options is, as you can see, in a sense, unchanged, the actual timing of recognition of income is changed so that some of the reinsurer vehicle commission is taken on an earned basis, rather than a written basis.

The outcome of this is that our other revenue per vehicle in the first half is GBP3.50 lower than it would have been had we been working to the old convention. And so the move from GBP86 to GBP82, as you can see, is largely attributable to that accounting change.

The impact will increase for the full year as a whole, such that for the full-year results the other revenue per vehicle will be just under GBP6 lower than it otherwise would have been. GBP3 of that will unwind in 2013, and more thereafter.

Now although we're looking at other revenue per vehicle being GBP6 lower than it would have otherwise been in 2012, we are happy to say that our expectations of Group profits for the year as a whole, we expect to meet those.

The second change that we're making relates to the underwriting of some of our major core add-ons or optional ancillaries in-house. We're talking here about things like breakdown and personal injury sold alongside the motor products at point of sale.

We're doing this now because we feel we can, in terms of competence. We've become increasingly familiar with these products over the years, and increasingly rich in terms of the data on claims and profitability.

The benefits to us are twofold. We feel that we can improve the features and benefits to our customers of our add-on products, underwriting in-house more cost effectively than if we were to continue to underwrite out of house, or outsource the underwriting.

I think most important also we feel the underwriting in-house of these products gives us maximum flexibility to respond to any changes in the environment to amend the products and the pricing, as appropriate.

It doesn't change our risk profile. We understand the claims drivers and the processes here. It's non-cyclical products. They're not unlimited liability, or exposed to catastrophe risk, or anything like that. No short-term impact on profitability.

Over the long haul, we anticipate the additional flexibility that we're looking for from this move that will be beneficial to us in terms of profitability.

Okay, so last graph, my favorite graph, in a sense, three rosettes; 10th in '10, 9th in '11, and first in '12. The UK operation of Admiral was voted the best place to work for in the large company category in 2012. And we were particularly pleased to see that happen. It is a vote based on anonymous surveys done with our staff and other people's staff and is very gratifying for us.

A quick summary. We're seeing a potential accelerated cycle versus our expectations six or 12 months ago; higher than anticipated premium reductions, alongside the continuing environmental claims inflation.

For Admiral itself, we've been seeing, and we continue to see, encouraging loss ratio trends, and anticipate modest growth from a larger base.

I'll hand over to Henry.

## Henry Engelhardt {BIO 3022947 <GO>}

Thank you, David. My turn to talk to you about the International businesses. I'd like to start just by reiterating what we're doing there. And the key is a very simple philosophy; that we believe the Internet is an irresistible force, and all of these markets over time are going to go Internet. That it's the perfect distribution method for car insurance.

You don't really want to touch it, kick it, smell it, feel it. Consumers don't really want intermediation and the Internet becomes the perfect way for them to buy car insurance. And, over time, the current 22 year olds in Italy, in Spain, in France, and the US are going to buy car insurance on the Internet, and we'll be there.

We also think that we should take what we do well and do it elsewhere. That's again been a driving force behind our expansion outside the UK. We do car insurance. It's kind of all we think about 24/7, although we're moving on slightly to something else soon. It does make us rather dull at cocktail parties, but hopefully makes us really good at car insurance.

It's a long-term investment. We have targeted large, mature markets. Why? Because they're large and mature.

We like large markets; you can go in, you can pick off 2% or 3% market share and lead a very happy life. If you go into a small market, you need to be 10%, 15%, 20% of the market. You're going to draw the ire and fire from competition straight away. But if you go into a big market, nobody pays much attention to you and you can actually do quite well on small volumes.

Mature markets come with mature distribution systems, they come with legacy systems, etc. Channel conflict is a big problem for many of our competitors. They've got distribution networks that have been in place for decades and they can't just automatically swing to the Internet and telephone distribution, and that is our friend.

The goal is to create profitable, growing, sustainable businesses. It's not about size; it's not about being the biggest; it's not about market share. It's about profits; it's about steady growth, and the sustainability of that growth and those profits. That's what we're trying to create.

What's the timeframe? It's five years to 10 years. We've done a little bit of a study in the marketplace of other operations that have gone in and done similar with telephone distribution, and now more with Internet distribution, and they're virtually all five to 10 or even more years. We put kind of a five to 10 frame around it.

Our oldest operation is coming up on six years. Balumba in Spain will be six on Halloween. So, you see, we're just starting to move. And the other operations in France, and in Italy, and in the US are quite a bit younger and so we do believe that these operations need a fair amount of time before they do produce the good results we expect.

It's an organic growth approach. I wouldn't say we would never -- necessarily we wouldn't close the door and say we would never do an acquisition, but that's not how we've gone about it so far. It's all been organic. And we do minimize risk with long-term partnerships with reinsurers in every jurisdiction.

It's a modest investment; typically been about 5% of profit. But there's no golden rule here, it could go up, it could go down. But, basically, we keep it well within the means of the Company.

Let's take a look, first, at the price comparison businesses we've created in Spain and France. As you can see, they've grown very rapidly; 64% growth between H1 '11 and H1 '12 on the number of quotes that they generated. That's quite good.

In addition, you can see that we've had a 30% increase in turnover from the end of December through to the end of June, and the losses have reduced by about 90%. So very positive trends in both Spain and France for price comparison, and that's exemplified on this chart.

The blue line shows you the French searches in Google for compare car insurance and the like, and you can see that the trend is upwards. It's even more radical in Spain, where the trend is even sharper upwards.

How does that compare with, say, Confused? At the same point in time, and you can see that on the right, that actually in the early years both Le Lynx and Rastreator were ahead of Confused, whereas[ph] Confused did really surge in its third and fourth and fifth years. And Le Lynx and Rastreator will be hard-pressed to keep up with that, but they are on a very good trajectory and off to a very good start.

Saying that, there's a lot of competition, new competition. Since we stood up in front of you in March, for instance, two new price comparison sites have gone onto television advertising in Spain. And that gives that that Rastreator a lot more competition. And Le Lynx is waiting now for the start of the advertising campaign from the French Meerkat as the Budget Group made a purchase not too long ago and is putting out a Meerkat-type animal in France in the coming weeks, I believe.

All of this competition, we're a bit schizophrenic about it, to be honest. From the price comparison side, we prefer actually that the competitors didn't show up. That would suit us quite well. But on the insurance side, the competitors help create this new distribution channel, which is very much where we're playing and fishing, and so we don't mind at all. So we're a bit schizophrenic on the competition.

The Insurance businesses are also growing quite rapidly. You can see 60%-plus growth over the period from the end of June last year to the end of June this year.

The results, yes, we are investing more in terms of absolute investment. The newer markets, the US and France, in particular, are at their worst points, getting towards their worst points in their plans.

Premium income is up.

The loss ratio has improved a little bit since the end of the year. I would say this is an area that we are dedicating a lot more time, effort, and resource to. It's not something we're completely happy with. We would like to be showing a bigger improvement in the loss ratio side.

The expense ratio number you're looking at and you're going, oh, boy, that's up now, that's going to be rough trouble, that's actually very misleading because every one of our operations actually improved their loss ratio in the period. But the mix towards the younger operations leads to a higher overall loss ratio. So, actually, we're not displeased at all with what's happening on the expense ratio. We're not displeased at all with what's happening on the expense side.

And, as Kevin said, it's accounting for a lot more importance within the Group. A couple of years ago, the internationals accounted for 5% or less of the policyholders; it's now over 10%, and growing. So I think this will become an ever more important part of the Admiral story into the future.

As David pointed out, we are very proud at being able to export the culture. And we've got our blue ribbons, and so forth as well. We were fourth as best work places in all of Europe this year, which is a fantastic achievement. And that is exemplified by being third in Spain; fourth in Canada, which isn't yet in Europe but we were fourth there; eighth in Italy; and we also won awards for the culture we have in Richmond, which also doesn't appear to be in Europe.

This is just a recap of this slide you've seen before and, as David mentioned, on the bottom added one bullet point, which is that we are firmly on track to meet our expectations for 2012.

As I said, we are very boring because all we think about is car insurance. But by the time we stand up in front of you again, we'd hope to be selling home insurance. After 20 years of just car, we are now taking a very small step into home insurance, hoping to launch this product in the UK either before the end of the year or some time in the First Quarter.

We are very excited about this product. We now have enough customers, over 3 million customers in the UK to market to. The growth of home insurance on price comparison leads us to believe that this can be done, that acquisition costs can be contained, because very often in home insurance it's the acquisition costs that make it very difficult to build a book from scratch.

But we like the trends that are happening in home insurance, and we're very excited in this future. But this will be a very slow burn. We would not expect to be even a blip on the results for several years. We will test, and learn, and make sure that we've got everything right before we accelerate any growth there.

Well, thank you very much for your attention here this morning. Now, before we open up for questions, I would just like to thank UBS for this excellent facility and their hospitality. So, thank you very much.

And now happy to take your questions, comments, indignant remarks. Greig?

# Questions And Answers

## Q - Greig Paterson

Greig Paterson, KBW. I was going to say a request; please don't change your accounting, it makes life very difficult. Three questions. Frequency and severity of the large BIs, you've given us an index movement from '10 to '11, I was wondering how that has happened into 2012. I'm talking about the large bodily injury claims.

Second one is could you give us your increase or change in your base rate over the first half of the year? I notice it's omitted this time from the results.

And the third question is, these ancillaries that you're going to underwrite, I was wondering if you could just venture a percentage out of the -- was it value two[ph] that is now going to be underwritten, and give us a flavor of what these sort of products are going to be so we get an idea what the risks are.

## A - David Stevens {BIO 6807391 <GO>}

Okay, let's do bodily injury, first. What I would say on bodily injury is that we said there hasn't been any repeat of the unusual patterns from 2011. So I think you can take from that, that the evolution of existing claims and the number of new claims hasn't surprised us adversely in the last six months in relation to any accident -- not material in relation to any accident year, including 2012.

In terms of -- the next question was how many of the -- base rate, sorry. Base rate, our base rate, the market as a whole is down, as you saw in the presentation. Our rates are slightly down less than the market, but slightly down.

## Q - Greig Paterson

(inaudible).

## A - David Stevens {BIO 6807391 <GO>}

I'm not going beyond slightly down.

And then the ancillary thing, the products in question are the long established simple products sold alongside, and they include personal injury, and breakdown, and car hire as the most material ones.

In the past, we've talked about our ancillary income splitting simplistically, somewhat evenly, between legal cover, fees, and optional extras. And legal cover is obviously replaced by reinsurance vehicle -- will be replaced by reinsurer vehicle commission. Fees are unaffected by this. So, essentially, you're looking at a proportion, which is not a million miles away from one-third, of optional ancillaries, where, by value, the bulk of those will move in-house over the course of the next 12 months.

## Q - Greig Paterson

Just one-third of the total, or one-third of the optionals?

## A - David Stevens {BIO 6807391 <GO>}

No, the optionals are roughly one-third of the total, and most of that will move in-house.

## Q - Andy Hughes {BIO 15036395 <GO>}

Andy Hughes, Exane BNP Paribas. Three questions, if I could. The first one is on Simmons versus Castle, which obviously came in after the half year, July 26, which is 10% increase in bodily injury claims, damages for any court case after April 1. Now I understand for new claims you get an offset for legal expenses, but for all the back book that you've got, presumably, you don't get any legal expense offset, so you still have to pay both the legal expenses and the 10% higher bodily injury claims?

## A - David Stevens {BIO 6807391 <GO>}

Okay, just a bit of context on this one. This relates to the Jackson reforms, which are due to go in on April 1, 2013, where there were a number of changes which were designed to reduce legal costs, such as banning after the event legal cover, and things like that, alongside 10% increase in general damages.

The court case that Andrew's referring to was a court case where a judge said -- sorry, and the intention was that would, in a sense -- those two would offset each other. And our view looking at the changes was that was probably about right; those two impacts would roughly offset each other and be cost neutral.

What the judge has said is that the 10% applies on old cases, if they're settled after April 2013. And of course on those old cases you don't get any of the benefit of a different legal environment.

Now the -- that judgment is being appealed because it certainly wasn't the intention of the government that they would -- sorry, it's been appealed not by the government, I should say, but it's been appealed by the insurance industry, where our view is it wasn't the intention of the legislation for[ph] that would be the outcome.

But what I would say is general damages are actually surprising. They're roughly one-quarter, a bit more than one-quarter of total personal injury costs. And if all our general damages were to be 10% higher than they're currently reserved at, it would eat roughly somewhere between 15% and 20% of our buffer.

So that's the sort of thing a buffer is there for, and there's quite a substantial likelihood or probability that -- that's a worst case scenario, and a probability that, in fact, there's further judicial toings and froings to go on, on that one.

## Q - Andy Hughes {BIO 15036395 <GO>}

So just a short follow-up question, before I get onto the other two, so that doesn't actually trickle down? So if a GBP20,000 claim goes up by 10%, that doesn't mean that claims of less than that amount necessarily would also go up in terms of impacting the level of small bodily injury claims as well?

## A - David Stevens {BIO 6807391 <GO>}

Well, there's an element to general damages to small claims, and there's quite a material element, and there's an element to general damages to big claims. But, overall, it accounts to roughly 25% of bodily injury costs.

## Q - Andy Hughes {BIO 15036395 <GO>}

The second question was on the average premium. So I know you showed the average premium come down over the half year by about 3%.

## A - David Stevens {BIO 6807391 <GO>}

Yes.

## Q - Andy Hughes {BIO 15036395 <GO>}

And I think what you're trying to say is that that's reflecting the business mix, as you're reducing the risk, within the portfolio, so is that fully complete now or is that an ongoing thing? And to what extent does that reflect the 6% reduction you're flagging in new business rates?

So in terms of when I'm looking at my average premium for the full year and next year, what kind of -- because, obviously, the growth in the portfolio's only 2% over the half year, and the fall in average premium was 3%. So I'm just trying to work out the direction of revenue for the full year in terms of the UK motor insurance and where we're going.

## A - David Stevens {BIO 6807391 <GO>}

Well, I didn't flag a 6% reduction in new business rates. What I was saying, I think, the bulk of the 3% relates to portfolio changes. What we do is we tend to do about four or five rate changes a month, and just the balance of those rate changes over the last 12 to 18 months has tended to favor lower premium segments.

But it's a variable-by-variable process where we make decisions on the balance based on the loss ratio. And if the loss ratio by segment continues to suggest that slightly lower premium within our higher premium book is the profit-maximizing place to go then we'll go there. But there have been times where the analysis has suggested the other way. And we don't pre-predict entirely what that direction's going to be. It's a continual process of refinement of the book.

## Q - Andy Hughes {BIO 15036395 <GO>}

The third and final question, I promise, was on the legal expense change to the reinsurance. When you've wrapped this into the reinsurance, presumably, the reinsurers are a much lower risk position than they were before. Because not only do they only pay out when the combined ratio's more than 100%, it's now the combined ratio including legal expenses has to be more than 100%. Is that reflected in the -- have they reduced the terms as a result of this? Or what was the driver, frankly, in legal expenses?

## A - David Stevens {BIO 6807391 <GO>}

Essentially, the economic outcome is unchanged because in the history they got 95% shared between co-insurers and the reinsurers, having had 5% taken off as a legal cover, and now they get 95%, having had 5% taken off as reinsurer vehicle commission. And in the calculation of the combined ratio relevant to recovery, an appropriate adjustment is made to make it neutral.

## Q - Andy Hughes {BIO 15036395 <GO>}

So what's actually the point of doing it then, if it doesn't change the economics in any way?

## A - David Stevens {BIO 6807391 <GO>}

Because it's a better reflection of the --- relative to the fact that we include legal cover free in our policies.

## Q - Andy Hughes {BIO 15036395 <GO>}

Thank you.

## Q - Andy Broadfield {BIO 7273415 <GO>}

Andy Broadfield, Barclays. Just a couple of questions. One, on the ancillaries, so you bring some of these activities in-house, does it -- how does that actually change operationally? Because I'm assuming you're not getting a fleet of breakdown recovery vehicles and running them, so I'm assuming that's still outsourced. So how does that actually work in terms of you're providing it, but which bits are you actually providing now?

Are you taking some sort of risk? And if you're taking some sort of risk, therefore, is there a capital charge? And is it of any meaningful amount? And do we need to think about it?

And attached to that is -- presumably, this means you're taking underwriting risk; you're now shifting this into your underwriting results, rather than as an ancillary. Maybe you've said that already, apologies if you have.

Second question, your point about the referral fees, the credit hire fees and the impact it has on other stakeholders, I'm thinking the garages, brokers, the impact it has on their profitability, does this -- I'm just wondering whether you can take the second order impact to say does this drive what residual amount of broker-driven motor insurance further onto direct distribution and destroy the brokers harder?

Do we have to think about other parts of the industry you don't worry about so much, but maybe you will do with house insurance, etc., where potentially organizations are making money on something they no longer make money on? I'm just trying to think of the second order impact there. And also garages, where they've made some money on this in the past, does that impact the fees that you get charged for your garages?

And then just a final one, a small one actually, but there was a small minority interest increase, I think, in your balance sheet, space of[ph] GBP5 million went up. I was wondering what that related to?

## A - Henry Engelhardt {BIO 3022947 <GO>}

Kevin, why don't you take the last one first?

## A - Kevin Chidwick {BIO 15100612 <GO>}

The minority interest is in relation to a business development activity we've got ongoing. We don't really want to talk about it just yet because it's in too early a stage, so we'll probably talk more about it next time around.

## A - Henry Engelhardt {BIO 3022947 <GO>}

Ancillaries[ph]?

## A - David Stevens {BIO 6807391 <GO>}

Yes, essentially, our existing products are underwritten by external insurers, who are involved in conversations around pricing and product definition. We're not taking all[ph] business structure in-house. So, for example, for breakdown, we're simply replacing an external insurer with an internal insurer and continuing to use the same supplier of breakdown services in terms of who turns up at the roadside and fixes the car. So it's not material to the actual process.

The materiality is around our ability to control the pricing and price sub-segments as we like, and to control the product definition and change that if we want like, if we want to.

In terms of capital, the majority of the turnover in relation to these optional ancillaries is held by the distributor, rather than the insurer. And the actual quantum of premium written is not hugely material, and, therefore, the capital requirements aren't hugely material.

In terms of the impact of potential elements of reduction on referral fees and stuff like that, I would, in a sense, agree with what I think you're implying, that the most exposed sub-sector of the market is, in fact, brokers, who have to be much more aggressive than we are in maximizing some of these revenue flows in order to be able to get to the top of the list on price comparison.

And if some of the options to maximize are excluded by regulatory changes then, yes, I think it will accelerate the increase in the share of direct players in the market.

## Q - James Pearce {BIO 16758460 <GO>}

James Pearce, UBS. A couple of questions. First of all, is 3% a good indication of the size of additional conservatism in your reserving, given trends in ultimates?

And second, is it a coincidence that the FCA is having a look at add-on products and you are moving now to in-housing, rather than outsourcing these products?

## A - David Stevens {BIO 6807391 <GO>}

I'll do the second one first. One of the things I said was that the advantage of taking them in-house was flexibility. And I think what we would say is the world is a faster-changing world than it was when we maybe did three-year deals on a fixed product at a fixed price with some of our suppliers, and we need the ability to move fast if, in a sense, there are changes in the environment in which we operate. And that is -- and one of those possible changes is decisions made in the regulatory context. And the FCA is an important part of the regulatory context.

The first question --?

## A - Henry Engelhardt {BIO 3022947 <GO>}

3%.

## A - David Stevens {BIO 6807391 <GO>}

Is that taken from the 2011 reduction? Is that where you're getting the 3% from?

If you look at the claims ratio in the first half of 2012 versus first half of 2011, it's slightly up; marginally, it's practically flat. I think it would be fair to say that implies that a very significant proportion of any good news has been taken into the buffer.

## Q - Andrew Crean {BIO 16513202 <GO>}

Andrew Crean, Autonomous. Could you, on the UK fill us in with what's going on, on average claims and frequency to run against what's happening to the rate?

Secondly, you don't talk about an in-house lawyer, but is that what you're referring to with the minority, because that was always the deal, that you counterbalance the loss of referral fee income with an in-house lawyer?

And then, Henry, one for you. When you talk about the break-even point being five years to 10 years, is that for each individual operation, or for the portfolio of operations? Because you might be reaching profitability in Spain after six years but then, if that's being drowned out by a new operation in a new state, what point can we look for a stable portfolio of businesses so there isn't something in the tail coming along to upset the movement into profitability.

## A - Henry Engelhardt {BIO 3022947 <GO>}

If I take that one first. It is each individual operation is five years to 10 years. So we depend then on the growth of the operations as to when all of them as a competence reach steady state.

So some of them are growing at different rates. And others, the Spanish although the oldest operation, is not the biggest operation. The Italian operation is bigger than the Spanish operation. But it's meant each individual. So the French operation is coming up on two years and so you might say we're -- four years, at the minimum, before in a sense they're all reaching a level of profitability.

## Q - Andrew Crean {BIO 16513202 <GO>}

But I suppose the issue here is at that point in time where there are some newer operations in newer states in the States which are then -- I guess what the shareholders are interested in is, as a package, when does this thing come in to make profit?

## A - Henry Engelhardt {BIO 3022947 <GO>}

It's very difficult to say, like I say, because of the growth rates. And there are opportunities often to grow and take bigger losses at an early stage to make profits later on because acquisition is, especially in the US, is the expensive bit. So you might say we have the economics in order, but we've got to grow and, therefore, we're going to take the hit now.

So there's no set rule as to when they'll all as a composite, hit, but we would like each individual operation to be profitable within six years to 10 years of its beginning.

## A - Kevin Chidwick {BIO 15100612 <GO>}

Your question about minority investment, I said before, it's too early a stage in the development of the thing that we won't make any comments about it. So I won't say any more about it than that.

But I think we have said before that we are looking at alternative arrangements if and when the referral fee ban comes through and it has the impact that it has. It depends on how that position really changes. So the fact that we're still investigating those options is I think not a secret move[ph]; we've said that before as well.

And the other questions were --

## A - Henry Engelhardt {BIO 3022947 <GO>}

David, average claims frequency.

## A - David Stevens {BIO 6807391 <GO>}

Historically, we've often talked and thought about the world with frequency and average claim cost as a separate thing. And I think that gets harder and harder in the environment, particularly the last 18 months, where what we've seen is a lot of frequency reduction but basically it's because people aren't making the smaller claims. And alongside that, the claims that people do make have got more likely to have a bodily injury element to them.

So, in a sense, I think you have to bundle it together and say the average claims cost per vehicle year is continuing to rise. And it's a more volatile measure than people would necessarily assume, but I think it's still plausible to look at 3%, 4%, 5% -- 3%, 4% above inflation as the underlying level.

## Q - Andrew Crean {BIO 16513202 <GO>}

And it begs the question what's the inflation (multiple speakers)?

## A - David Stevens {BIO 6807391 <GO>}

Well our[ph] --

## Q - Andrew Crean {BIO 16513202 <GO>}

Well, bodily injury inflation is slightly different to repairing cars.

## A - David Stevens {BIO 6807391 <GO>}

Overall, if you just took the whole picture, I think it's fair to say that, probably, we're looking at 5% or 6% as the underlying level of increasing claims cost per vehicle year.

## Q - Andy Broadfield {BIO 7273415 <GO>}

Andy Broadfield. Sorry, just one quick one. Just on the home insurance, you piqued my interest now that it's really going live, how are you structuring the capital provision behind it? Are you having similar reinsurance type arrangements? Is this something you are going to tell us about more later, or can you tell me about it now, in terms of how you're structuring that?

## A - David Stevens {BIO 6807391 <GO>}

I think reinsurance has been part of our model in our expansion abroad. It's been a successful part of our model in motor. I don't think we're in a position to announce anything at this point, but I think you would be surprised if we weren't exploring it as an option.

## Q - Marcus Barnard {BIO 2103471 <GO>}

Marcus Barnard, Oriel Insurance. Just carrying on from the household point, how aggressively do you expect to expand that? Are you going to just dip the toe in to start with and gradually increase share? Or are you going to try and build that up, ramp that up quite aggressively in the next four or five years?

And secondly, on the International business, with the growth in the UK a bit slower now and the International picking up the growth, perhaps a request; could we see more breakdown of the International figures? I know you used to give this. We can still get some of it from the regulatory filings, but I'd be particularly interested to see what volume and profit or loss you're putting on in the US.

## A - Henry Engelhardt {BIO 3022947 <GO>}

For the household, it's a toe in the water. Five years is a long time, but certainly the first couple of years we would not expect to make much noise in household.

The International, we don't feel it's in the best interest to shareholders to break out the International because it does give a lot of information to competitors that we don't really want to give, so we're unlikely to be doing that in the near future.

## Q - Fahad Changazi {BIO 15216120 <GO>}

Fahad Changazi, Nomura. Just a question on the market behavior. Could you provide some more detail on the competitive behavior in the UK market because the comment[ph] from a certain French insurer suggested they[ph] were maintaining discipline in Q2 after a change in UK management?

And, going forward, could you envisage a realistic scenario where you're UK policy count will be flat, or even negative?

## A - David Stevens {BIO 6807391 <GO>}

I think AXA[ph] are a bit unusual in the sense that their personal mode[ph] to combined ratio in 2010 was 127, I believe, and 121 in 2011. So in that context they're a bit of an outlier and maintaining discipline seems appropriate.

Conversely, there are players that are reporting considerably lower combined ratios and growth. And so you've got people like Aviva and Liverpool Victoria who have made it clear that they -- who have reported substantial growth and decent combined ratios; and, obviously, also you're no longer in a situation where Direct Line is shedding, as it did for the couple of years during the benign period of 2010/2011.

So, generally, in a sense, there's more people out there that want to grow than there is people who want to shrink, and in that context prices tend to go down.

It is impossible that we don't grow. As Henry said, we're constantly making profit-maximizing decisions for the benefit of the shareholders, and it would be ridiculous for me to say that it is impossible that a profit-maximizing decision would always imply growth.

## Q - Colin Simpson {BIO 15894636 <GO>}

Colin Simpson, Goldmans. Just a quick one, please. Could you update us on your thinking ahead of gender-neutral pricing, please?

## A - David Stevens {BIO 6807391 <GO>}

We're making necessary amendments to be compliant with the legislation that comes in towards the end of December. It will create a degree of uncertainty in the market; I don't think it's likely to have a material relative competitive impact.

## Q - Andy Hughes {BIO 15036395 <GO>}

Andy Hughes, Exane BNP Paribas. A couple of questions, if I could do. First one, Ogden discount rate, I think you've said before you use 0.5% in your reserves already, I'm just wondering if that's pre or post a negative IBNR.

And when I'm looking at the Ernst & Young best estimate numbers, presumably, they're not doing best estimate on the basis of 0.5%. So if it were to come out 0.5%, would the E&Y best estimate suddenly jump up, and would your reserve buffer, therefore, decline quite a bit?

And coming back to the previous answer of the reserve buffer of 20% to 25% for the impact of 10% in bodily injury claims, could you explain that in a little bit more detail because it seems quite a small number? Thank you.

## A - David Stevens {BIO 6807391 <GO>}

Okay, let me do the first one first. There isn't a 10% impact on bodily injury claims; it's a 10% impact on general damages, which is just over one-quarter, so there's less than 3%

impact on bodily injury claims. And I'm not planning to go beyond that in terms of an explanation.

The best estimate done by our actuaries includes an allowance for a move in the Ogden discount rate, such that a move in the discount rate should not affect the best estimate value. It allows for a move in the best -- in the discount rate. That's something I think we've always said in the past, because it's appropriate to be cautious in that because, obviously, as everyone knows, the Ogden discount rate is under continual discussion.

I think encouragingly, actually, in the latest news on it, the government is asking for a consultation on whether or not it's appropriate for claimants to enjoy the risk-free rates of return, which isn't necessarily a realistic reflection of what actual investments will take place. And I think that's flagging quite a material possibility that simplistic view based on UK index-linked gilts isn't necessarily the outcome of any review.

## Q - William Hardcastle {BIO 16346311 <GO>}

Will Hardcastle, Bank of America. Just a really quick one; what would change the thinking of the GBP30 million surplus on your dividend calculation?

## A - Kevin Chidwick {BIO 15100612 <GO>}

If we spent it, that would change. Well, we think of it in terms of a general buffer for something that might come up that we want to use the money for. So it's the alternative to holding back capital in the business as an unspecified amount, an unspecified thing. We hold a certain amount for something that may occur at some point.

So it's completely unrelated to the business in terms of the reserves and the solvency, it's just for some potential event. So if we felt as if there was a shift in some potential event that we might be thinking about, or we wanted to have more capacity for more unspecified events[ph], then we may rethink the number. But we're quite comfortable where the number is for now.

## Q - William Hardcastle {BIO 16346311 <GO>}

So it's not really correlated to the volume, or anything like that?

## A - Kevin Chidwick {BIO 15100612 <GO>}

Correct.

## Q - Colin Simpson {BIO 15894636 <GO>}

David, could you talk a bit more about how you see the soft cycle developing over the next year or two?

And secondly, could you talk about any developments on PPOs, and whether they're showing up as a material issue, or whether it's just one of those slow burn issues in the background?

## A - David Stevens {BIO 6807391 <GO>}

Let's do PPOs, first. We continue to settle some of our claims on a PPO basis. The Institute of Actuaries reports that tracks[ph] on behalf of the market PPO uptake showed significant increase in importance of PPOs in 2008/'09, and going into '10.

Interestingly enough, it appears to have plateaud in '11, and going into '12, at around 30% to 35% of 1-million-plus claims settling on PPO, and certainly our best estimates allow for that sort of outcome, and a little bit more.

Soft cycle, soft cycle's difficult to call in a sense. I think some of our competitors are looking at nice results for 2011 and the first half of 2012 and, in a sense, potentially looking a bit backwards in terms of their volume calls. And it might be that we have to wait until the reported profitability deteriorates before they recognize that, perhaps, some of the business they're writing isn't going to be as profitable as it was in '11 and the first half of '12 in reported terms.

So, yes, I think the second half will continue to be competitive. The only element that slightly confuses the picture is some of the decision making being influenced by capital event considerations, and that's really difficult for an outsider, like ourselves, to call.

## A - Henry Engelhardt {BIO 3022947 <GO>}

Any last questions?

## Q - Greig Paterson

And just a point of clarity, the 5% of the premiums for legal, is that going to come through in the profit commission line now?

## A - David Stevens {BIO 6807391 <GO>}

The vast bulk of it will just come through within the other revenue line.

## Q - Greig Paterson

So really just, in terms of modeling and profit commission, we must just ignore that item?

## A - David Stevens {BIO 6807391 <GO>}

There's some complexities around reinsurance contracts that mean there's a little bit of complexity beyond just a straight one-for-one slot, but it's a tiny proportion.

## Q - Greig Paterson

Right. And so you've only included two months of it here in this period, so it basically hasn't affected accounts in this first half?

## A - David Stevens {BIO 6807391 <GO>}

No. And one thing we'll have to work on is how we reflect our numbers in a way that's clearly understandable and comparable going forward.

## Q - Greig Paterson

Well, some detail in terms of, maybe, a separate release in terms of exactly where the pluses and minuses would be useful. Thanks.

## A - Henry Engelhardt {BIO 3022947 <GO>}

Great, thank you very much. We appreciate your attention here this morning, and we look forward to seeing you again in the spring. Thank you.