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Q2 2016 Earnings Call

Company Participants

- Alistair Hargreaves, Head of Service
- Cristina Nestares, Head of Product-UK Motor
- David Graham Stevens, Chief Executive Officer
- Geraint Jones, Chief Financial Officer & Executive Director
- Martin Coriat, Chief Executive Officer

Other Participants

- David A. Bracewell, Analyst
- Greig N. Paterson, Analyst
- James A. Shuck, Analyst
- Kamran Hossain, Analyst
- Olivia Brindle, Analyst
- Ravi Tanna, Analyst
- Thomas Seidl, Analyst

MANAGEMENT DISCUSSION SECTION

David Graham Stevens {BIO 6807391 <GO>}

Good morning and welcome to our First Half 2016 Results. I'm David Stevens, the CEO. It's my first set of results. I took over from Henry in May of this year, Friday the 13th, to be precise. And it's lovely to be able to stand up in front of you and talking about such a good set of results, and the company is in such a robust state of health.

My colleagues and myself are going to talk about that in more detail. Geraint will start with an overview; then Alistair and Cristina, two of our key managers from the UK operation, will talk about the UK; Martin and myself will talk about price comparison in our international operations before I do a wrap-up.

Over to you, Geraint.

Geraint Jones {BIO 19738535 <GO>}

Thanks, David. Good morning, everyone. Okay. I'm going to cover the results, then move on to talk about solvency and the dividends, and finish up briefly on investments.

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So, we're very pleased with the first half's results. You'll see strong top line growth, both in the UK and outside. A record first half profit, a record interim dividend, strong solvency ratio, albeit impacted by big moves in interest rates, and good progress in our operations outside the UK.

This slide shows some of the highlights. At the top, very strong growth in customers and turnover. We had 15% more customers as of 30th of June 2016, 4.8 million in total. We're going to move past 5 million customers around the group in the next couple of weeks. And that growth came from all over the group, notably in the UK where we added 0.5 million customers over the past 12 months. Turnover results were up strongly, (01:40) 20% higher or £1.3 billion, double-digit growth in all segments. Both of those figures are new records for first half.

Pre-tax profit and EPS both up to record levels, and return on equity, still a pretty enviable 49%, which is in line with 2015 as a whole.

And finally, as I mentioned earlier, an interim dividend of £0.629 per share, that's a record for interim. The big increase compared to 2015 results from a second installment additional capital return of £33 million which we'll cover shortly.

Let's take a look at that top line growth in a bit more detail. So, the left hand side of this chart shows turnover by segment and the right hand side shows customer numbers by segment. Very nice to see lots of upward arrows on the slide.

UK Car Insurance firstly. Cristina and Alistair are going to talk about this in detail, so I'll just say that favorable market conditions meant we were able to grow in the UK to nearly £1 billion of turnover in the first half, and add 340,000 customers over the year to move past 3.5 million customers. It's 11% year-on-year growth. That's the fastest rate of growth since 2011.

Outside the UK, our insurance businesses grew their turnover by 44% to £159 million. That's a big step up on the 2015 growth rate. We also added about 125,000 customers over the past year to move past 0.75 million, that's 15% of the group's total customers.

Household Insurance and Van also growing strongly, adding 160,000 customers. Household is approaching 400,000 customers at the end of June, continuing its strong growth. And last but not least, good growth in price comparison turnover, 16%, including a very good first half results from Confused.com, which Martin will talk about shortly.

Let's move on to profit. This slide analyzes how the different business areas contribute to the overall results of £193 million for this half year. No surprise, of course, to see that the dark blue, which is UK Car Insurance results, continues to dominate with a slightly higher profit in H1, £223 million, more on which later. The proportion of the total is down slightly as you can see, and that's due to a better result from price comparison and lower other charges.

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International Insurance is in the green. Combined loss there was a touch under £13 million, which is a bit higher than the £11 million in the first half of last year. That result includes a further profit from ConTe in Italy, that's offset by continued investments, particularly in the U.S. and France. Positive combined ratio trajectory that were in those operations continues, especially in Europe.

Price comparison in total made a loss of about £1 million, which is better than the £4 million in H1 last year, and that's largely made up of continued investments in compare.com in the U.S., where our share of the loss was steady at about £10 million in H1 and a good profit from Confused.com, which improved to £8.3 million from £4.8 million last year.

Finally, in the yellow, that's the other segment which includes household, which made another profit whilst growing very strongly and also includes other costs such as share scheme charges, debt interest, and there are also some gains on forward foreign exchange contracts in there in the first half amounting to about £5 million. Those gains will reverse over the next year or two.

Turning now to our capital position and then on to dividends, this slide sets out the current solvency position. Just as a reminder, our capital requirement is currently based on the Solvency II standard formula plus the capital (05:20) add-on that we agreed with the PRA towards the end of last year. The position remains strong as you can see. The post-dividend solvency coverage of 180%. I'll cover the dividend you see in the light blue very shortly.

Now, up to the Brexit vote, the solvency ratio would've remained basically flat compared to the end of 2015. Capital generation minus the interim dividend minus the effects of the pre-Brexit moves in interest rates have basically netted off to pretty much zero. A further significant moves though in the yield curve since Brexit have negatively impacted the ratio.

Just as a quick reminder, the yield curve is used to discount technical provisions notably actual and set on potential PPO claims and the risk margin on our Solvency II balance sheet. So, lower interest rates means higher long-term liability valuation, and bigger risk margin, an increased capital requirement, with some offsetting moves in fixed income asset values. So, the combined impact of the post-Brexit moves in yield curve is a reduction of around 20 percentage points in the solvency ratio.

We currently use the standard yield curve in our calculations, but we have applications in both our European regulators to use the volatility adjusted curve, which allows a more appropriate discount rates.

As you can see on the slide, that adjusted solvency ratio is at even stronger 196%. So, we expect those applications to be reviewed shortly and hopefully approved during H2. In the back of the pack, we include solvency sensitivities including further yield curve movements.

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No change on our plans for the partial internal model and the program progresses well and we're on track to make our application during 2017. Once the model is approved, we'll confirm our targets to solvency coverage though, as you see on the slide, no change currently in our expectations where that target might sit.

I'm sure you'll remember that with our 2015 results, we reported that we moved into Solvency II with surplus capital, and that we intended to return that surplus to our shareholders in the form of additional special dividends over the first two years to three years of Solvency II being in effect, and that's broadly up to the point where our partial internal model is approved and in use. So, just to update things six months on, we still have surplus capital as you saw on the previous slides, the adjusted solvency ratio of 196%, or 180% on the standard yield curve, and our commitment to return surplus capital also remains.

Though the market conditions in H1, notably interest rates moves, means that we now project that the total of additional special dividends will be in the range of £100 million to £150 million, which is down from the £150 million to £200 million that we talked about six months earlier based on market conditions at that point in time. Those figures include the £33 million we're declaring today and the £33 million that we paid earlier this year with the final 2015 dividend.

Now, based on what we see today, we envisage that the final 2016 dividend in six months' time will include about £20 million of additional capital return based on that new range. And just to reiterate, this is something we'll continuously reassess as we move through the next 12 months to 24 months. And, of course, if market conditions, notably interest rates, they change or business plans change or other circumstances change, then these numbers could change. Also important to repeat that are our expectation for the foreseeable future is to carry on paying underlying dividends in the order of 90% to 95% of earnings. That doesn't change.

Turning next to the interim dividend. So, like six months ago, we split our interim dividend into three parts. First up, the normal dividend, which is 65% of post-tax profits. And the first part of the special, which, combined with the normal, gets us to the familiar 90% to 95% level. And then the additional capital return in the light blue, which sits on top. The actual amounts you see it on the slides, £0.359 (09:12) per share for the normal part, £0.151 (09:15) per share for the first part of the special. Add those two together, you get to £0.51 per share, which is a H1 payout ratio of 91%. Then the additional return, that's the second installment in the £33 million, that's £0.119 per share. Grand total of £0.629 per share, which gets paid on October 7 and the dates that you see there on the slide along with our dividend policy.

Just quickly, this slide shows our dividend history. As you can see, a pretty impressive record of growth, slightly moves in line with earnings over time. The first two installments of the additional capital return you see in the yellow on the top of the final two bars. And in the box, we've updated the totals that we've paid out since flotation back in 2004. It's £2.2 billion with the dividends in total, split broadly evenly between the normal and special parts.

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Final slide for me is on investments. So, on the left-hand side of the slide, we show credit quality and the allocation between category of our assets at the end of last year-and-a-half, middle half of this year. And as you can see, there's basically no significant change in either since the end of 2015.

On the right-hand side, you see how investment income has moved over the past few half years. And as we flagged over the past year or so, 2015 number particularly, it was distorted by negative adjustment relating to withheld quota share reinsurance funds, that accrual has now been fully released. The negative £5 million in H1 2015 being replaced by a positive £9 million in H1 this year. The current period also benefits from the £5 million or so of foreign exchange gains I mentioned earlier. Happy to discuss that with anyone later on, if you'd like more detail.

That's it from me. Next up, we're going to hear about the UK insurance business from Alistair and Cristina. Thank you.

Alistair Hargreaves {BIO 20595748 <GO>}

Good morning, everyone. My name is Alistair Hargreaves. I've been with Admiral for around eight years, working in a number of different areas of the UK business. I'm currently Head of Service, responsible for Operations, Claims and Marketing. I'm going to talk about the UK Motor market and our performance. And then Cristina will talk about some exciting aspects of Motor and also Household.

So, let's start with the results for the market as a whole. Here, we see the market net combined ratio for 2015 at 102%. Compared to the last 30 years, it's one of the most profitable, but it's driven by a 12% reserve release. By adding back the reserve release, we get a gross combined ratio for 2015 of 114%. And let's use this to see the overall profitability of business written in 2015. If we start with the gross combined ratio of 114% and take away an estimated ancillary profit of 10% of premium and investment income of 3%, we get an all-in combined ratio of 101%. Basically, without reserve releases, the market is only just breaking even.

Now, history suggests that in 2016, reserve releases will be lower so market profitability will be dependent on current year business. Or in other words, there's plenty of motivation for increases in premium.

So, let's take a look at what's happening with premiums in the market. The ABI index shows increases in premiums written of 6% year-on-year. Earned premium, which is what flows through to market profitability, is also up 6%. Now, earned premiums are still 11% below the first quarter of 2012. But 2016 is the first year in five years that we'll see an increase in earned premium. We expect to see more premium increases in the second half.

The volume of increases and the 2016 market results is dependent on three factors: first, the amount of reserve releases still in the tank; second, large BI inflation; and third, the rationality of the market as a whole. As shown on the last slide, historically, the Motor

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market cycle has increased well beyond the gross combined ratio of 114%. This time, we're seeing premiums increase already, earlier than was the case at previous turns, is this an indication of a slightly less volatile cycle going forward.

Now, the price increases are leading to more people shopping for their car insurance and increase in new business volumes for the market as a whole. Here, you can see changes in our price competitiveness as measured by Times top on price comparison indexed to 100 in December 2013. Our competitiveness dropped in 2014, then we regained it, and we've maintained it for the last 12 months.

To maintain our competitiveness, we've been increasing prices in line with the market. This, combined with people shopping, helped us grow new business volumes. At the same time, I'm pleased to say we've maintained our customer retention and renewal volumes. The end results is our 11% vehicle growth.

So let's look at loss ratios. Here, we're comparing the reported results for the market on an accident year basis with Admiral's ultimate loss ratios. You can see some very positive movements in ultimate loss ratios on our back years. The 2015 year is at a similar level to 2014 at the same point. It's a relatively conservative early pick, reflecting the inherent uncertainty around large BI.

But why is the gap between the two lines narrowing? Well, there are two potential answers to that; the first is that our competitors are becoming more disciplined, and this has led them to improve faster than we have; the second is conservatism within our ultimate loss ratios. These have historically improved over time.

Here you see that 18 months after the start of the accident year, our 2015 ultimate loss ratio is 6 points better than the market. This is comparable with previous experience. For example, at the same point, 2013 was 7 points better than the market. 2013 is now 11 points better. Only time will tell how 2014 and 2015 mature. We don't publish the loss ratio for 2016 this early, but we've been increasing premiums and seen moderate claims inflation, so a positive start.

Now, how do those loss ratio improvements translate into reserve releases? On the left-hand side, we're looking at releases on our retained share. The positive developments on our back years have contributed to substantial reserve releases. In addition, the buffer we hold against best estimates also remained strong and at the top end of our range.

What are the prospects for releases in the second half? Well, they should remain significant partly because the 2015 ultimate loss ratio is relatively conservative. The chart on the right-hand side shows retained and commuted reserve releases. We typically choose to commute our reinsurance agreements two years after the start of the underwriting year, when we're confident in final outcomes.

In the first half, we commuted the 2014 underwriting year. This was booked to the combined ratio of over 100%. Upon commutation, we wrote off reinsurance recoveries relating to 2014, which reduced commuted reserve releases. However, on an ultimate

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basis, 2014 is profitable or in other words, we expect future commuted reserve releases from 2014.

Our key piece of the puzzle is our expense ratio. We've increased our new business volumes resulting in increased payments to price comparison sites and an increase in the expense ratio from 16.2% to 17%. Overall, this graph shows we've continued to maintain our expense ratio advantage, which is very important to us.

So, how does all of this come together? On this slide, you can see the increasing customer numbers, it's flowing through to increases in premiums and other revenue, and resulting in a 16% increase in turnover. We have a strong combined ratio due to improvements in our loss ratios, which more than offset the slight increase in expense ratio.

As Geraint explained, we've also benefited from a positive investment return. These positive impacts are reduced by lower commuted reserve releases due to the 2014 commutation. But overall, profits are up 2%.

That's all from me. I'll now hand over to Cristina.

Cristina Nestares {BIO 18674745 <GO>}

Good morning, everybody. I have been here presenting the results of our European operations a number of times. But this time, I'm going to focus on a few aspects of our UK operation, namely telematics, our new IT system, Guidewire, and the Household book. (18:30), a year ago, and now I am Head of Product, (18:33) pricing, analytics and devices (18:36), but also ancillaries, telematics and Household.

Now, we have been asked a number of time, what are we doing in telematics? How big our book is? And I'm very pleased to say that Admiral has the largest telematic book in the market. We have around 190,000 policies, followed by Insure the Box, Direct Line and Hastings.

Telematics is still – is quite a niche product. It accounts for about 5% of total market share. Because we have to take into account that the telematics policies have a very high expense ratio, due to the fact that the cost of the device is still very significant. You have to pay for the box, for installation, and for data cost. But there is also now a very important cost, which is the discount we give to the customer to show these policies.

So at the end of the day, we have these higher expense ratio which is compensated via a better loss ratio. And Admiral has a strong interest in understanding telematics better because we think this is a very important technology that is going to play a bigger role in the future. So having the largest dataset in the market allow us to understand it better, allow us to price it better and understand how to sell this product in the future.

So, let's move to Guidewire. We have been quite busy during 2016, basically continuing the roll out of our new IT system. And today, almost all of our policies are still using Guidewire. One of the main advantages that this system brings is that we can add new products more easily to the system. It also makes cross-selling, the process of selling different products to the customer much easier and faster.

Guidewire also brings operational efficiencies. Today, many processes are faster than with our old system, I90, particularly mid-term changes and renewals. And the system also allows for faster development of changes in the future and it makes easier to train the staff.

Let's take a look now at the Household market, the market continue to be profitable in 2015, that the combined ratio deteriorated due to the bad weather events during the last part of the year. 2016 also started with bad weather events which had an impact on the loss ratio, and there is also pressure in the expense ratio due to the (20:53).

The market remains quite competitive, but after a few periods of premium decline, we are starting to see some signs of market stabilizing. And also, we're getting very good news coming from distribution, (21:06) year-on-year, and now they account for about 50% of total new sales.

So in this contest, our results have been quite good. We have continued growing our book, and we now have about 380,000 policies, which represents a growth of 23% since the end of last year. Also the combined ratio continues to improve. We finished 2015 just over 100% and during the first half of 2016, we have continued improving our combined ratio.

Our loss ratio, remains stable despite the bad weather events, and our expense ratio continues to improve. We're getting more efficiencies and we're also getting a larger proportion of renewals. You don't have it in the graph, but in the first half of 2016, our expense ratio finished at 30%, very similar level to 29% for the full year 2015. But when you take into account that this 30% includes 5 points for Flood Re, our underlying expense ratio is 25%, which is a significant improvement from the last year.

So, we're very pleased with the progress of our Household books. We have our combined ratio very close to breakeven. And we have our expense ratio which are already much better than the market. And our loss ratio is higher than the market, but this is partly explained from the fact that we acquire most of our business from aggregators. So, for the future, we expect market – for the market an upward trending prices, more shopping and more growth for the aggregators. And for the Admiral Household book, more growth coming.

So, this is all from me, and now I'll pass you to Martin.

Martin Coriat {BIO 20266744 <GO>}

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Thank you, Cristina. So, my name is Martin Coriat. As you probably already noticed, I'm French. I joined Admiral Group eight years ago and spend my time in the price-comprising business line, both in France and the UK. And since 2013, I've been the CEO of Confused.com based in Cardiff. I'm here to present the results of our different price comparison operation. As you can see, we have business up and running in several countries; in the UK, Spain, France and the U.S. And we're working towards the launch of the new operation in China. We also partnered with big name for this internationalization and that's the reason why Admiral does not always own 100% of these businesses.

As you can see, we have now a nice portfolio of price comparison operation in a variety of countries in term of maturity and size. UK is probably the most mature market as far as price comparison penetration is concerned. We still see a big potential in some underdeveloped markets where price comparison is still a very new concept such as the U.S. or China. So, let's have a look in more detail of the performance of these businesses.

So, after few years of slow and limited growth in the UK market, the market is growing. This growth that can appreciate at the bottom left of the slide is mainly driven by two factors. First, the turn of the insurance cycle as indicated by several indexes including our own Confused.com index, and (24:27) market. But on top of the insurance cycle per se, the increase of the insurance premium tax at the back end of last year gave another push to the aggregator market.

Second, car sales, it's an all-time peak in the first half of 2016 for both new cars – and new cars. As you can imagine, car buying is a natural trigger for insurance shopping and that definitely fuels the aggregator market. So, overall, it's very pleasing for me to see this market growing again. However, you should not jump to the wrong conclusion. The aggregator market remains a very competitive place. If you're watching TV, you know that the main aggregators are spending a lot to grab customer attention, to grasp customer attention.

In the first half of the year, we estimate that the industry have spent just short of £70 million in media. That's the second biggest amount in history. So, media spend is one out of many drivers of the level of competition in the market. Another evidence of the toughness of this market is the difficulty for new entrants to succeed in the market, whether the name Google or Tesco.

Overall, the industry remains very competitive and challenging, but at least this competition occurs in a growing market.

So, how did Confused.com perform in that environment? It was a good first half of the year for Confused.com, and we have pleasing numbers to report in term of customers and profit. So, a number of customers recorded on the Confused.com website in the first six months of the year has grown in line with the markets with an 8% growth compared to last year. More importantly, profit has risen significantly to reach £8.3 million for the first half of the year. So, we're talking about a very pleasing 73% increase in profits compared to last year.

Looking at the drivers of the Confused.com profits, there are two main factors to highlight on top of the customer growth. First is a better acquisition cost as we experienced lower-than-usual media inflation and we used smarter online acquisitions strategies. And second is a better conversion on the back of the several and different promotion ran on Confused.com.

Looking at what the future has in store for Confused.com, we have decided to focus our marketing efforts on the Motor-related product as it remains, by far, the biggest market for aggregator. It's also an area where Confused.com has probably more legitimacy and expertise. This current products, driver-centric positioning is supported by a new advertising campaign, featuring Mr. James Corden, and it positioned Confused.com as a car specialist in the category.

Moving to operation in Continental Europe. We have seen good some performances from operation in both France and Spain. We have indeed seen some healthy numbers, in term of volume, with quote numbers up by 7% to reach 4.4 million quotes combined.

Turnover has grown by 10% explained by the launch of new products as well as continuous improvements in our customer experience. In Spain, Rastreator has experienced strong growth in the first half of the year across several product lines, insurance, telephony, and finance. So, they pursue a clear multi-product strategy and expands the product range. In France, LeLynx remains the market leader for car insurance and continues to educate the consumer to the benefit of comparing insurance prices.

So, overall, it was a very positive start of the year for both to Rastreator and LeLynx. They continue to successfully build strong profitable, market leading businesses and by capitalizing on their expertise and solid brands in their respective countries.

We now go across the pond to look at our U.S. Price Comparison operations that we launched back in 2013 in this huge but underdeveloped market in term of price comparison adoption.

As you can see on the graph, their operational metrics continue to improve dramatically. Let's take three key metrics for this business: volume, acquisition cost, and panel development. And they all – and see how they developed. The volume, measured in quotes, rose again and we reach a symbolic milestone earlier this year with more than 2 million quotes since inception. If you compare it to last year, 2016 quotes volume have already exceeded 2015's totals. Acquisition cost measured by the cost per click for insurers has been reduced dramatically in the year. Panel development, as were committed to grow a panel of insurers, it's also going in the right direction. We have now partnered with more than 80 car insurance brands, including 13 of the top 25 carriers. And that includes well-known brand name such as MetLife that has just joined our panel.

So overall, we see a substantial and promising improvement to the metrics in our U.S. operation. It's also interesting to note that in states where we operate for longer, we have better than this average metrics and economics numbers. That give us confidence in the success of our operation, but it still requires time, patience, and long-term investments.

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And as a result, we expect compare.com to incur losses in 2016 in the range of $30 million to $35 million.

So, this concludes this very rapid tour of our Price Comparison Operation. Overall, a very positive first half of the year with encouraging developments for all of Price Comparison businesses. That's all from me, and I'm happy to leave the stage to David who will present the latest results of our International Insurance Operation.

David Graham Stevens {BIO 6807391 <GO>}

Thank you, Martin.

When you look at the international insurance operations on a regional basis, the Europe which is Italy, Spain and France; and there's the U.S. It's been a year of accelerating growth, our direct insurance operations. The European operations account for 80% of the policyholders, about 50% of the premium, and the U.S., about 20% of the policyholders and 40% of the premium.

The European operations are tantalizingly close to profitability, making a loss of €2 million in the second – in the first half 2016. The U.S. operation saw an increased loss from €8 million to just under €11 million and I'm going to expand on each region separately.

So first, looking at Europe, we saw here a growth in customers of 19% and the growth in premium of 30%, and this country-by-country breakdown shows you that Italy dominates that growth. It has benefited from a 20% growth in the price comparison market in Italy, and it's managed that growth of 21% in customers while also delivering its third successive profit, third successive reporting-period profit.

The other striking feature of this exhibit, I think, is the growth in the French operations, 74% in customers. You may recall that we initially outsourced our operations and claims in France, and over the last 18 months, we've been in-sourcing. We've held back on growth until that's been completed. That has been completed, and we are, in a sense, taking the shackles off in France and are looking to grow the business to its potential.

I want to focus on one key priority for each of the regions. Not the only priority, but a key priority. In the case of Europe, it's to expand our share of sales coming from price comparisons. So, take a bigger share of all the price comparison sales that happened. And there are three things we're doing to achieve that. We're widening our footprint where that's possible, and that's – the biggest example of that is France. We're improving our operational effectiveness to make sure that when someone does click through from a website, from a price comparison site, or when they phone as a result of a quote on a price comparison site, we are maximizing our effectiveness at turning that into a sale, and that's a key skill in these markets.

And lastly, we're investing behind marketing, TV marketing and sponsorship to build some brand awareness. We spend 2% to GDP in the first half of – GWP in the first half of 2015 and 6% in the first half of 2016 on TV and sponsorship. And the goal there is not so

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much to drive direct traffic. It's to persuade the customer that sees our price at the top of a price comparison list of prices, to persuade them to accept that pricing go with us and to drop their insurer, often a traditional insurer, or alternatively to persuade them if they see our price second or third to buy us rather than to buy the first price. And part of that is about brand awareness.

So, moving on to the U.S., also a period of rapid growth, customers up 23%, premium up very substantial, 46%. The half had a one notable event which was an unusually dramatic hail season in Texas. Texas accounts for roughly half of our business in the U.S. And there is a hail season typically in the second quarter of any individual year, which had it been a normal level of hail, it would have cost us roughly £2 million. And in the event it costs substantially more, cost around £8 million, because there were a lot more events and the severity of events, the location of events, unfortunately, was rather more urban.

What are we focusing on in the States? Well, one of the things we're focusing on is improving our loss ratio. We've seen some rapid price increases in our U.S. operation, 15% in Texas, 8% in Virginia. We've also decided to reduce the generosity of our renewal capping. What we have seen in the U.S. market this year is a very good outcome in terms of acquisition economics. And those improved acquisition economics have given us a bit more space to be less generous in terms of trying to maximize retention.

So we've concentrated more on increasing the renewal loss ratio. And we've invested in the size of the team and in our rating software to accelerate the rates of pricing refinement in the U.S. market as we get more and more experience as the business grows.

Other notable feature of the U.S. market is our expansion out into Tennessee and Indiana, two new states. So, we've gone from four states to six states. Two advantages to this, it gives us a route to faster scale, and the other advantage is it gives us a blank sheet of paper where we can trial different marketing approaches. Both of those have considerable value to the long-term health of the company.

So, that's the direct insurance operations internationally, rapid growth, good progress. It seems to me appropriate, given this is my first set of results, to attempt to bit of a big picture overview. And this is the big picture. It's – in our case, the value of our shares predominantly built around the value of our core business, our UK personal lines business.

And our strategy has two legs to it. One is to ensure that we maximize the value of that core business in the long term, realize its full potential, and the other is that we create future sources of additional value.

And I hope from the presentation today you gain confidence that we are doing what's necessary to maximize the value of our core business. I think that points to our telematics leadership, our better understanding of a key technology. I'd point to our renewal of our core systems laying the foundation for the next 10 years or 15 years of growth. And I would point to the fact that the franchise still has significant room for growth. 0.5 million new customers put on over the last 12 months, third of the million from the Car Insurance

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business, and 150,000 from the Household Insurance business. So, signs of health and progress on the core business.

In terms of creating future value, the opportunities you're familiar with are the direct insurance operations overseas, and our price comparison business is notably our price comparison businesses overseas, which are on an early-stage of development. All these businesses, we feel, have a very manageable downside and a very substantial potential upside.

Lastly, and perhaps a bullet point you wouldn't necessarily see in the past, all the rest you have seen in the past is UK new products. We do believe that the skills we have and the assets that we have may allow us to develop a competitive advantage in some products beyond insurance. And one of our objectives for the next two years or three years is to test whether there are such products, particularly in the UK; products that play to our strength, that fulfill certain characteristics, that likely to be business-to-consumer Internet products, that likely to be products with hedging element (38:09), have an element of risk selection involved, that likely to be in markets which are experiencing or likely to experience disruption. And ideally, although not necessarily, we'd also like them to be products that we can readily sell to our now 4 million Admiral customers in the UK.

The first of these products, and one I think that very much fits those criteria is personal lending. So, from quarter one of next year, we will be trialing an Admiral loans product, primarily a car finance product, initially focused on our – primarily on our own customer base but with the potential to expand beyond that. And we'll be going through a process in a very Admiral way of testing and learning and understanding if there is an opportunity to create something interesting, to create a competitive advantage, to create some differentiation in a world, which we think may well be changing quite rapidly over the next 10 years to 15 years, and these are indeed long-term plays. There might be another one coming along behind it, maybe two. And those will be part of our focus for the next two years or three years.

So, all in all, very glad to be reporting very rapid growth, bigger profits, a sustained phenomenal return on equity and continued evidence of the amazing cash generative powers of this business. And lastly, I think I have to say with some pride as a sort of parent looking on a child, Italy has achieved second best work place to work in 2016, eclipsing the UK performance, which is still very creditable of sixth best work place. And I think also demonstrating how those cultural aspects of Admiral, which have been key to our success, are being diffused throughout our operation.

Thank you very much for your attention, and we'll open it up to questions.

Q&A

Q - David Graham Stevens {BIO 6807391 <GO>}

(40:09-41:14) A couple of questions. Firstly, could you tell us what the duration of your assets and liabilities (40:20-40:43).

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Thirdly, in terms of U.S., is there any operational (40:47-41:02)

And lastly, you mentioned that the results (41:05-41:15)

Do you want to take the first of those? Alistair, you take the reserving buffer. Martin will take the compare one.

A - Geraint Jones {BIO 19738535 <GO>}

The assets and liabilities, (41:26) the duration of our assets or liabilities over the past six months. The liability side is the number of claims, obviously, dominated by relatively short-tailed stuff, but a growing proportion of the reserve over the past five years is now coming from PPO claims and have, obviously, got a much longer life.

If you just look at pure straight average of asset and liability durations, it's not that great a difference. But clearly, we don't have any part of our asset portfolio that's out into 30-, 40-, 50-year (41:53) duration territory, hence, the impact on solvency ratio we saw.

So, the asset side is two years or three years. The longer stuff we've got is UK (42:03) as you know. So, there's not a particularly big mismatch. We'll look at whether it makes sense for us to move some of our assets out into longer dated (42:13) stuff over the current months and years without rushing into anything clearly. And we'll update you should we do anything.

The next one was volatility adjustment and sensitivity. So, the sensitivity, I think, remains basically the same. It just starts from a higher level.

A - Alistair Hargreaves {BIO 20595748 <GO>}

On the reserve releases, I don't think we've disclosed the actual range. But the stock there is slightly down on the full year, but it's still towards the top end of the range. I think we have said that reserve releases will average out to about 14% over time and that's not changed.

A - Martin Coriat {BIO 20266744 <GO>}

Regarding Compare.com and the result of U.S., it's true that U.S. is a big country and as far as insurance is concerned, it's more juxtaposition of states, than one-third (42:57) country. So, we see very – a lot of differences from one state to the next level of performance. But we still continue to see U.S. as one country and one operation, and we're to grow and succeed on the other country, country level, not state level. So, we only report the figures at a country level.

Q - Ravi Tanna {BIO 16926941 <GO>}

Thank you. It's Ravi Tanna, Goldman Sachs. Three questions, please. The first one is on pricing and claims, and you've made a reference to – or you'd alluded to the 2016 outlook and prices tracking a little bit ahead of claims inflation. I was just wondering on an

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average premium basis, it looks like premiums were up about 3%, presumably because of de-risking of the book. And I'm just curious; A, How far along are you in that kind of bordered de-risking journey; and B, once adjusted for that, what is the pricing claims kind of dynamic look like in terms of 2016 on that basis?

Second question was on reserving buffer. And again, the comments around it being at the top end of the range, in the last six months here, you'd obviously changed your prudency reserving policy on kind of – on new business on accounts of the fact that the reserve buffer was up at the top end of the range. I'm just wondering whether there we should assume there'll be implications for how you book policies going forward, given the buffer is still at the top end of the range?

And the third question is just on the Solvency II ratio. When the £150 million (44:39) Solvency II and dividends, but when the £150 million to £200 million dividend guidance was originally set, I'm just wondering what were the kind of underlying interest rate assumptions that that was predicated on, please?

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

I'll just make one comment and then hand it over to Mr. Alistair and then Geraint. I don't think we have changed our initial reserve prudence on new claims merging. I don't think (44:59) that's a misunderstanding on some of the agreement we may have said (45:02). The reserve improvements that we put on our initial claims and what the levels we book on our initial years are very much in line with previous experience. Alistair?

A - Alistair Hargreaves {BIO 20595748 <GO>}

So, in terms of pricing, yeah, average premiums have gone up by about 3% and I alluded to the fact that our price increases are similar to the ABI. And so, the difference between the two is a change in mix. It's – the change in mix isn't a long-term plan. We write business according to what is most profitable as we always have done.

In terms of claims inflation, the other side of that, I think if you look at the industry data, the ABI data on frequency looks fairly benign. The MOJ portal information suggests that claims registered in first half of 2016 was down about 5% from the first half of 2015. So, frequency looks reasonably positive and we're fairly consistent with that.

In terms of severity, there is some inflation that I think others have commented on the repair side, which we're also seeing some of as well. But the big thing is bodily injury. I don't know about the market, I think we've probably seen its very early days. But for 2015 and the first half of 2016, we've seen some positive trends in terms on what we're seeing on the large BI, which hopefully links back to that slight shift in mix we've seen. But it's very early days, so we'll have to wait and see how that comes through. And...

A - Geraint Jones {BIO 19738535 <GO>}

The final point was UK. So, six months ago, we said that we expected to pay £150 million to £200 million in additional special dividends, that was based on what we saw at the time. So, it's based on our business plans and our projections and the yield curve, at the date of that report, which is effective at the end of January. (46:58)...

Q - Ravi Tanna {BIO 16926941 <GO>}

No. That was all (47:00). Can I just maybe follow up on just the very first one around – it may well be my misunderstanding, but I understood that you were booking your loss ratios closer to ultimate going forward than you have historically on the basis the reserve buffer was at the top end of the range? But I may have misunderstood.

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

Do you want to comment on that, Geraint.

A - Geraint Jones {BIO 19738535 <GO>}

So, one way, we certainly move our range – our position in the range down from the top end to the middle end, there are a couple of ways you can do that. You can obviously reduce the level of conservatism on the back book or you can book a lower ratio on the current year. And to us, we think about the margin as a whole across all the years, it's not particularly important which part it comes from. Naturally, we might hold a bigger buffer on the most underdeveloped years which tends to be the most recent years. So, it's quite likely that there'll be (47:46) initial margin will remain pretty consistent (47:48) on the most recent years.

Q - Ravi Tanna {BIO 16926941 <GO>}

Okay. Thank you.

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

(47:52) keep in the same place and then we'll move it around a bit.

Q - David A. Bracewell {BIO 16394801 <GO>}

Hi. It's David Bracewell here of Redburn. A few questions. One, you've reiterated the range for solvency, the 125% to 150%, when you get your internal model approved. I'm just wondering, given the sensitivity that you've published today were quite large in some of the scenarios, I just wonder why you could – if you could confirm why you're happy with that kind of low buffer, whether or not those sensitivities will change under an internal model basis?

Second question is on the European operations. Growth is fantastic, but I was expecting to see larger growth from Spain rather than the Italian operations. And equally on the price comparison, I was hoping to see the Spanish price comparison website doing a bit better there given the changes that's going on in that market. So, I wonder if you can comment there about your thoughts on what's happening in Spain.

And the third question, just really on cross-selling ability. On the Home Insurance, I'm just curious, you have mentioned a few times now, the new systems cross-sell will be a lot

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easier going forwards. And you've also mentioned there the price comparison for the home insurances is increasing significantly. I'm just wondering if you can give me an idea of where you expect policy growth to come from? Will it be from cross-sell or will it be from the growth from the price comparison?

And then equally, just on the new products you've mentioned. I'm just wondering what your ability really is to kind of a cross-sell a car finance loan to your customers and then what your expectations are there for kind of marketing developing that product?

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

I'll do Spain, and I'll do new products and then hand it over to Cristina for household. Spanish operation has been held back over the last few years because of the economic situation in Spain, the premiums falling and frequency falling, the numbers of cars uncovered are falling. We are looking forward to a time when that changes. It has partially changed in the sense that the economic activity is picking up, car sales are picking up. But the actual premium changes are being relatively modest so far, maybe 1% or 2%, and that hasn't yet set through to a substantial increase in shopping. So, although we have grown the business somewhat, it's not growing very rapid at this stage, simply because the price comparison market and the shopping market isn't growing very rapidly at this stage.

In terms of new products, don't get me wrong, it's not easy to cross-sell household to motor. It's not easy to cross-sell loans to motor, there's an interesting interaction that we have with customers around their change of vehicles, which means we are very aware when a customer is considering or making a change. And we also have an awful lot of information about the car they currently have, how long they've had it, or things like that. And one of the big things we will be testing is part of the loans operation in 2017 is can we leverage that knowledge into a cost-effective, cross-selling operation?

Household, Cristina?

A - Cristina Nestares {BIO 18674745 <GO>}

Yes. So, similar to what you were saying, I think the new system allow us to cross sell much easier. First, because we cannot – product, we can change them, but also because it makes the customer (51:04). So, instead of having to ask all the questions, we can start to give an indicative price after just asking five questions. And if you imagine after you have been the phone for a while talking about your motor insurance, it makes it very easy if you can say, five more questions and we'll give you a price.

So, with now almost all new sales on Guidewire that allow us to start doing a lot of sales and cross sell, the cross sell is quite a difficult technique to achieve although they have done it in the market. So, for us, it's a beginning of a journey. We're going to start to do it in different ways, start to offer different promotions. But I wouldn't want to overpromise that it's going to be a significant growth in the next few months. It will be just be a journey.

A - Geraint Jones {BIO 19738535 <GO>}

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The final one was the guidance of the solvency coverage. I think what we're saying is that we haven't firmed up a range, and we'll do that once we get the internal model approval in a year-and-a-half's time or whatever that will come. I think your challenge is fair if we just started the start of the year with a 125% solvency ratio and then saw a 1.23% (52:04) move in the UK downwards, that would've been an uncomfortable situation. We won't comment on how things might look under the partial internal model. I think it's too early to do that. And we'll continue to look at ways to dampen our sensitivity to interest rate moves over the next months and years.

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

Thank you. We'll go into the right and then we'll come back to the front and over to the back. Thank you.

Q - Olivia Brindle {BIO 17273762 <GO>}

Hi there. It's Olivia Brindle from Bank of America. Two questions. One again on the target solvency range. Just wondering when you originally gave that guidance, what was your thinking around this whole volatility adjuster issue because obviously as you said, the base starting point would then be higher. So, it's unchanged. How do we think about the whole volatility adjuster issue within that?

And secondly, just in terms of conditions in the UK, obviously, expectations are for a recession, certainly a downturn in the macro environment, which we haven't seen yet. Just wondering how you think about what the market does in that scenario, and you've talked about maybe competitors being a bit more rational, maybe responding to trends a bit more quickly. And how do you think pricing and competition looks if we do go into a much worse environment?

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A - Geraint Jones {BIO 19738535 <GO>}

So, the volatility adjustment first. The volatility adjustment application is something that we would have done anyway. It's accelerated clearly as a result of the interest rate movements we've seen. And what occurs is basically gives a more appropriate discount rate, the purely risk-free rate, which is in our view wholly appropriate.

Our view of the target solvency range doesn't really change that much, and the volatility adjustment improves our solvency position by about 15 percentage points. So, the start point of where we go from here, but hopefully these 16 points are also higher. Doesn't really change the endgame, I don't think.

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

Alastair, do you want to talk to the impact of the recession on...

A - Alistair Hargreaves {BIO 20595748 <GO>}

Yeah. I think we went through recession through the sort of 2008 and after the crunch and beyond, and the current insurance cycle seemed to have been fairly independent of those wider macroeconomics. And I think there will be impacts in terms of maybe people drive less, claims frequency. But last time, I think what we saw was those things were offset then by other dynamics within car insurance. And so, I think we'd expect something similar going forward.

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

What we certainly did see also is even in the depth of the recession, people really didn't give up on their cars. They largely kept them and just drove them less. And that's not the end of the world from a car insurance point of view. We're coming forward now. Okay.

Q - Kamran Hossain {BIO 17666412 <GO>}

Good morning. It's Kamran Hossain from RBC. I've got three questions. The first one is just coming about Alistair's comments about commutations. So, obviously the first half came down a fair way from the level we saw last year. (54:54) I guess, for the second half of this year? And then, let's think about the, I guess, your loss ratio pick for next year. It looks about in line with where you are or where you were for 2014. So, should we expect commutations next year to be equally high?

The second question is on U.S. price comparison. Do you think you need to invest more in that market? And I guess what's stopping the 60% of the top 10 that aren't on your platform joining you?

And the third question, just on the loan – well, about the potential loan book. Just a quick question. Is that going to be on your balance sheet or is that – or would the model be – you'd find the loan, take your fee and then pass on to someone else's balance sheet? So, those are my three. Thank you.

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

In terms of commutations?

A - Alistair Hargreaves {BIO 20595748 <GO>}

In terms of commutations, there aren't any commutations in the second half. The next commutation is going to be 2015, which would likely be in 2017. The 2015 underwriting year is booked at a lower loss ratio than 2014 was at the same point in time. And for that reason, we expect the – if then, that flows through as anticipated, we'd expect it to be lower the impact of the 2015 commutation in the first half of 2017.

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

(56:22)

A - Martin Coriat {BIO 20266744 <GO>}

Yeah. I think regarding compare.com in the U.S., I think it requires still more investment because it's a huge market that requires marketing. Price Comparison is still a relatively new concept for insurance in this country. And I think the results we have achieved so far

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support an ongoing investment because we see this dynamic and we'll continue to invest in this; operations have a huge potential given the size of the market.

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

I think it's very rational also for the – for – at this point in the developments of Price Comparison for some of the top players to hold off as they did in a number of markets. In a sense of what we – the hypothesis is going into compare is that there's a large number of U.S. players that find competing against GEICO and Progressive and Allstate and State Farm increasingly challenging. And the U.S. market is concentrating towards those players and that's partly because these are brands that people migrate to, it's a big TV spend.

And so, in that context, it makes sense for the other players to come in supportive of compare. And that's the growing evidence that that's the way the world is growing. But it will have to be a much bigger player and a much bigger part of the market before some of the biggest brands decide it makes economic sense to go on board.

In terms of lending – when it's very small, it will be on our balance sheet. It's not worth the effort to try and go very complicated in terms of funding. As it gets bigger in the same way that we, for example, you have the reinsurance capital to help fund our insurance operations, we certainly will look at a number of different ways of building the business capital efficiently.

It's coming forward to – go on the front, please. Sorry.

Q - James A. Shuck {BIO 3680082 <GO>}

Thanks. It's James Shuck from UBS. I have three questions, please. I wanted to just return to the Solvency II issue again, and just looking at the sensitivity. So, the slide you gave at the full year I think kind of indicated about 6 points of sensitivity based on the January experience.

And I think the January experience would have been around 25 basis points. So, in the first half we probably had closer to 100 basis points of reduction in the wake of Brexit, certainly looking at the first year, which would have been consistent with about 20-point decline that you've indicated. The slide you give at the back of the pack now is suggesting that a 50-basis-point reduction leads to 25 points of the Solvency II ratio, which indicates sensitivity about twice as much as previously indicated. So, if you could just discuss the drivers of that, that'd be helpful.

And then, if I update the Solvency II ratio for now, so ignoring the VA application for the time being, but 180% would go to just updating for what's happened since half year, I mean, about 155% now. I mean, how do you view that in the context of your 125% to 150%, which I appreciate is on a partial internal model basis. But I know you don't really want to comment on where that partial internal model is going to end up versus standard formula, but are you able to give some guidance on, at least directionally, which way it might go?

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And then, secondly, how you'd actually view that volatility in general? I mean, is it just a quirk of interest rates and risk margins and discussions with PRA, et cetera, or is it something you're actually going to take into account and to reduce that volatility and, perhaps, bring up some of your insurance excessive loss, for example?

And then, two quick extra ones. Just the accident – if I look at the combined ratio ex the prior-year development in the UK, we actually kind of improved by about 60 basis points. So, just given the comment at – this is the H1. Just given the comments around pricing and claims inflation, I'm just interested to know why wouldn't see the accident year combined ratio improve more than that? So, I appreciate there's a number of moving parts. But if you help me understand that, why that didn't get better.

And then, finally, just on claims and experience at H1. Just a little bit more, I mean, you gave kind of indicative kind of directional things, but are you actually able to give a number about what your claim experience was and how do you think it compared versus the market, and any insight on large BI experience would be helpful. Thank you.

A - Geraint Jones {BIO 19738535 <GO>}

Okay. Solvency II to start. So, the sensitivity point is it's a fair observation. I think the sensitivity reported at the end of the year was December to January yield curve. It was uneven moves across the yield curve, so it was 20 basis points, some points less than the other points.

What we're showing here is a flat 50-basis-point move across the curve, particularly in the later point of it. So, the sensitivity is, as you know, bigger. Obviously, our post-Brexit was about 40 basis points to 50 basis points move from the 20-something basis points from June to the end of July, and that's consistent with this 25-ish basis points, 5 percentage point movement here in solvency. So, I think it's partly an issue of having gone through it. We understand it, 50 basis points is flat across the curve, as it's consistent with what we saw post-Brexit pretty much.

The second point was partial model guidance and trajectory to our 150%-ish, 125% to 150%. We're not giving guidance on what we expect, the partial internal (01:01:43) model to deliver. I don't think you should expect game-changing solvency capital requirement changes from the partial model approval. And in the absence of other guidance, there are lot of moving parts in the projections of these things over the next couple of years. So, a growth in the capital requirement, have capital generation moves or we pay out some dividends. And I think you should take £100 million to £150 million (01:02:02) as guidance based on what we see today in terms of the (01:02:05) to get us then to that range in two years' or three years' time. Well, two years time.

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

Alistair, do you want to pick up the...?

A - Alistair Hargreaves {BIO 20595748 <GO>}

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So, sensitivity in general, we'll look at obviously whether we can dampen our sensitivity to interest rate, we would see in general. But at the end of the day, we're a car insurance company. We have PPO claims on our books. The way the Solvency II mean that – apply means you use very low or a punitive discount rates to value those claims on the balance sheet. Hence we are sensitive to interest rates.

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

In terms of the accident year loss ratio, I think you were asking about the movement from 2014 to 2015 for our...

Q - James A. Shuck {BIO 3680082 <GO>}

H1 actually.

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

In H1, okay. So, we haven't disclosed our accident year for H1, our accident year loss ratio – oh, you're looking at the account. Sorry. Okay.

So, as at H1, what we've written in the first half is it's very early days. So, what we'll be putting in there will be driven by – very much by our conservatism and the first pickup because of uncertainty of large BI. And I think that feeds through into your follow-up question on claims experience. I think I've talked about frequency and on large BI, I said that we had seen improvements. It's hard for me to say what that is relative to the market because we don't really have insights into that. And we've been cautious in terms of quantifying it because we won't know what the large BI experience will be for 2015 and 2016 for a couple of years yet.

Q - James A. Shuck {BIO 3680082 <GO>}

So perhaps if I could just follow up on that. If I look at other peers that recently reported, some of those have reported quite strong improvements in the accident year loss ratio, i.e., the calendar year, the accounting metric ex-reserve leases at H1. And you haven't seen that coming through in your numbers. Is that because – I mean, is the implication that the ultimate loss ratio pick for H1 2016 is actually flat to slightly up on the 2015 number?

A - Geraint Jones {BIO 19738535 <GO>}

Can I comment on that by saying that the price increases we've put through in the last 18 months to 24 months. We would anticipate the loss ratios would improve. But we don't take credit for those improvements, and so we've got strong evidence of them and reliable (01:04:34). In the case of our move to de-risk, as Alastair mentioned previously, a lot of what we were expecting as an outcome is lower big bodily injury claims. We have seen that on 2015 and in the first half of 2016, but we're reluctant to take credit for it yet, because we've seen in the past the timing and the size of the claims has a high degree of randomness. So if you want to take credit for, then make sure it's true. And that tends to leave us to be very conservative on current years. Is that all right, James?

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Q - James A. Shuck {BIO 3680082 <GO>}

Yes. Thank you.

Q - Thomas Seidl {BIO 17755912 <GO>}

Thanks. Thomas Seidl from Bernstein. Three questions. First, on Compare.com, so are you sure there's linear improvement in growth? My question here is, number one, assuming this continues to – are you confident that you'll reach breakeven by end of 2017?

Second question, if you don't reach or come close to breakeven 2017, are you continuing with this investment of some £30 million?

And third question with this mix at shift to lower-risk business, does this allow you to earn the same underwriting margin, or is it – you have lower opportunity in lower risk business to earn the same margin as in the higher risk business?

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

I'll do the first one, and then maybe Alastair will do the last one. On Compare, I think a key issue on Compare is that you cannot say that evolution is going to be linear. And therefore, it's impossible for us to say exactly when the revenue and the expense line might cross. We are making good progress on both of those lines, but they haven't crossed yet. And we do anticipate continuing losses in the second half of 2016 and into 2017.

Do we give up if it's not making money at the end of 2017, which I think was your question? Because I think if that's too simplistic a question, if someone else has asked about state experience, if we were seeing a number of states where we were seeing positive outcomes and particularly if you were seeing profits in a number of states. That would certainly give us a lot of confidence to say ultimately this model can work and we should persevere and make the investment to try and realize the opportunity yet.

Last year, the U.S. car insurance market grew from $188 billion in GWP to $198 billion in GWP. So, $10 billion of growth in one year. So, it is a very big price if we can actually capture material proportion of the shopping. And we would only give up, if we thought the numbers were telling us that this operation does not have the potential ultimately to be very valuable to our shareholders.

Q - Thomas Seidl {BIO 17755912 <GO>}

And are you sort of – how do you do versus competitors? So, do you see progress versus competitors taking market share?

A - Alistair Hargreaves {BIO 20595748 <GO>}

Well, we're actually pioneering a different approach to price comparison in the U.S. And so although there are operations which are similar, are trying to generate "in a similar space" and sometimes even can run the risk of looking a bit light compared to the

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consumer. The actual delivery of a number of truly accurate immediately acceptable prices is only really currently being offered by Compare in the price comparison model. There are few Internet brokers that look – who do something similar, but it hasn't got the same breadth of offer. Can I go back? And then we'll move across the other side who are probably feeling very neglected.

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

(01:07:47)

A - Alistair Hargreaves {BIO 20595748 <GO>}

So in terms of mix, the reason why we're shifting mix is because we're driven by profitability, and so we're looking at the margin and we're shifting that average per unit because of the attractiveness of it. And I think it's worth saying that the reason why we've come down is because in 2011, 2012, we were very high premium business, and that was the exception rather than the rule. I think David showed a graph at the full year. And if you look back further than that, the differential between our average premium and the market now is similar to what it has been that makes points in our history.

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

Can we move across to – sorry, to Greig (01:08:24) long time. This may be the second last or maybe the last. How much time we got? Okay. Greig, make it short, please.

Q - Greig N. Paterson {BIO 6587493 <GO>}

Yes. No chance of that. Greig Paterson, KBW. One is clarification. You did make some comment about your rates in the – average rates in the first half (01:08:43). Could you just explicitly state, what was your base rate increase year-on-year to June? So, there's no ambiguity for what you're saying in terms of the rate increases.

The second question, in terms of 2014 underwriting year which you have said has experienced elevated, probably, injury claims. If you listen to what Hastings said, and they've recently increased the loss ratios on 2016, they said it was about notifications they received in the first half of this year. I was wondering if your increase in 2014 over 2013 BI was to do with increased IBNR or increased extra notifications that you've had.

And then, the third question is China. Should we pencil in the same amount of marketing spend as we've seen in the U.S. for the next few years on China? If you can give us some kind of guidance. There were, obviously, significant losses in the U.S. and we need to factor a few in for China.

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

Okay. I'll go backwards and I'll start with China. China is a new price comparison site that we're looking to launch under our Preminen joint venture with Mapfre, looking to launch it with a number of local Chinese partners. The dilution of ownership that results from the joint venture and the involvement of Chinese partners means that our share of the Chinese operation is in the 20%. And it's at a very early exploratory stage in terms of how

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much the appropriate investment is, really, initially as at a provincial rather than a national launch. So we will use that opportunity of working alongside local partners and a fellow investor in the form of Mapfre to understand the Chinese market before we make any decisions which would allow me to answer that question, I think, accurately.

In terms of 2014, before I hand it back to Alistair for premium inflation. I'll just refer you back to our previous presentation where we show you the market data that said 2014 was just an unusual year with like I think 10% higher level of big claims and a much bigger average value to those big claims. So, I think 2014 was just – it was a surprisingly unusual market. And I'm very happy to refer back to that paper and that presentation (01:11:11).

Q - Greig N. Paterson {BIO 6587493 <GO>}

In terms of IBNR or notification – you actually had the notifications or you're speculating because of industry data that the notifications are a bit higher?

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

No. I mean, we know about big claims in relation to 2014. By now we don't necessarily know all that ultimate values, where we're selling that without them. Alistair?

A - Alistair Hargreaves {BIO 20595748 <GO>}

I think, I've said base rate increased across new business and renewals were in line with the increases in the ABI, and that was up 6% or so.

Q - Greig N. Paterson {BIO 6587493 <GO>}

Just to clarify, so that's average over the period, 6% including new business, renewal business and premium fixed?

A - Alistair Hargreaves {BIO 20595748 <GO>}

That's the increases over the last – year-on-year?

Q - Greig N. Paterson {BIO 6587493 <GO>}

Yes.

A - Alistair Hargreaves {BIO 20595748 <GO>}

It's 6% and that's across new business and renewal.

Q - Greig N. Paterson {BIO 6587493 <GO>}

Is that up to June or the average over 1H 2016? It makes a difference. It makes a difference.

A - Alistair Hargreaves {BIO 20595748 <GO>}

It's year-on-year.

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Q - Greig N. Paterson {BIO 6587493 <GO>}

So, that's in June?

A - Alistair Hargreaves {BIO 20595748 <GO>}

As at June, yeah.

Q - Greig N. Paterson {BIO 6587493 <GO>}

All right. So 6% June including new business renewal, business (01:12:05)?

A - Alistair Hargreaves {BIO 20595748 <GO>}

The spend in June versus a year ago, yeah. Okay.

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

(01:12:09)

A - Alistair Hargreaves {BIO 20595748 <GO>}

Okay. Apologies. I'm sorry. I think I won't be able to answer – I think this – couple of questions (01:12:15). I will catch you later.

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

Thank you very much for your attendance. See you next time.

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