

A network diagram on a blue background. It features several white car icons and orange house icons connected by thin white lines. Some nodes are highlighted with circles: a solid orange circle around a car in the upper right, a dashed white circle around a car in the lower left, and a dashed orange circle around a house in the lower right.

ANNUAL **REPORT** AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2017

esure[®]
GROUP

FOCUSED | CONTROLLED | SCALABLE

Who we are

esure Group plc is an efficient, customer-focused personal lines insurer, founded in 2000 by Chairman, Sir Peter Wood, Britain's foremost general insurance entrepreneur. The Group is one of the UK's leading providers of Motor and Home insurance products through the esure and Sheilas' Wheels brands.



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2017 Overview

Delivering now, positioning for the future

Gross written premiums

£820.2m



In-force policies

2.373m



Profit before tax from continuing operations

£98.6m



Earnings per share from continuing operations

19.2p



Net Promoter Score – sales and service

45



Retention

75%



Sheilas Wheels

esure®

For further information visit
WWW.ESUREGROUP.COM

Chairman's statement

A year of positive momentum



2017 has been a year of positive momentum for the Group. We have delivered for our customers, colleagues and shareholders, while positioning the business for the future.

Full year dividend per share

13.5p



Solvency coverage*

155%



* The 2017 solvency coverage is estimated, unaudited and after allowing for the final dividend.

Five years on from the Group's listing on the London Stock Exchange we are a bigger and better business. The Group has grown in this period to 2.4 million in-force policies and delivered gross written premiums of over £800m in 2017. In addition, over a five-year period we will have returned just under £300m to shareholders through dividends and created significant value for our shareholders through the acquisition and subsequent demerger of Gocompare.com. Customers have been at the centre of what we do throughout our history and it is encouraging to see our service metrics continue to improve and we were recently ranked the third most customer-friendly insurer by Insurance Times.

However, that is all in the past and we are focused on staying at the forefront of our industry to deliver for all our stakeholders in the near and long term.

In the near term, we remain on track to achieve our three million in-force policy target by 2020 through our footprint expansion programme in Motor, supported by our Home account.

As we look to the future, it is clear that the world is changing at an increasing pace, with advances in digital and data analytics, shaping customer expectations of all businesses.

The Board and Stuart Vann agreed that he would step down as Chief Executive Officer on 18 January 2018. This will allow new leadership, steeped in digital and data experience, to take the business to the next level. Our search for a successor has commenced and we are looking for a leader with significant expertise and experience in a broad spectrum of customer-facing businesses.

I worked closely with Stuart throughout his 17 years with the Group and he has been instrumental in helping to create the great business we have today and the value we have created for shareholders over the years. In the interim period, while we find a successor, Darren Ogden, CFO, will be Interim CEO, subject to regulatory approval, and I will be taking a more active role in the business. I have worked closely with Darren for many years and have no doubt that he is the right person to lead esure through this interim period, providing the continuity and experience we need to press on with our positive momentum.

The Board continue to demonstrate the value they add and with the addition of Alan Rubenstein and Peter Shaw in March 2017, the business has benefited from their wide breadth of skills and insight. María Dolores Dancausa will not be seeking re-election at the Annual General Meeting in May. I would like to thank María for her enormous contribution to the business in the four years she has been with the Group.

'esure is a great business today and I am excited about the many opportunities we have to ensure we continue to be a great business in the future.'

Today, the Board has recommended a final dividend of 9.4 pence per share, taking the full year dividend to 13.5 pence per share. This represents a payout ratio of 70%, inclusive of a 20% special dividend. Excluding the contribution from Gocompare.com in 2016, this represents a year-on-year increase in the dividend of 31%, underpinned by a strong solvency coverage ratio of 155%. This demonstrates the Group's capital generative operations and the Board's commitment to returning excess capital to shareholders, while maintaining sufficient capital to fund its growth ambitions.

In summary, we have a great business today and I am excited about the many opportunities we have to ensure we have a great business in the future.

Sir Peter Wood
Chairman

Business model

How we create value



UNDERWRITING EXPERTISE

The Group utilises internal data, supplemented by the use of external data, to provide competitive prices to customers. Performance is monitored through regular and detailed analysis to allow agile decision-making.



CLAIMS EXCELLENCE

The Group has over 700 UK-based colleagues, focused on assisting customers in their time of need. Through effective claims management processes, the Group is able to deliver a great service, while minimising costs to the business.



CUSTOMER ACQUISITION & RETENTION

- c.90% of customers acquired through digital distribution
- 1 million new business policies
- 75% customer retention



CUSTOMER CENTRIC OPERATIONS

- 270,000 claims settled
- £450m claims paid
- 5.1 million operational calls handled



GROWTH OPPORTUNITIES

The Group has headroom to grow in its current markets of Motor and Home insurance where it has a 6% and 2% market share, respectively. The footprint expansion programmes in Motor have delivered over 300,000 in-force policies to date, with further opportunities to grow in these segments.



OPERATIONAL LEVERAGE

Through scalable infrastructure and lean operations, the Group is able to deliver a leading cost per policy, without compromising on service. The use of robotic process automation, artificial intelligence and self-service capability provide further opportunities to deliver an efficient cost base.

Agile, flexible technology



Technology underpins the Group's business model. With a stable and scalable IT infrastructure, the Group has been able to focus its attention on Application Programme Interface ('API') based digital strategies. These will provide the Group with opportunities to continue to evolve and enhance the customer experience.

Strong financial position



INVESTMENTS

The Group manages its investment portfolio to maintain liquidity and preserve capital. Investments are held to meet the Group's cash flow requirements, pay customers' claims and seek a suitable return for an acceptable level of risk.



CAPITAL

The Group has a robust capital position with capital coverage of 155%* of its solvency capital requirement (normal operating range of 130%-150%), giving it flexibility to pursue profitable growth opportunities.

* Capital coverage is estimated, unaudited and after allowing for the final dividend.



ADDITIONAL SERVICES REVENUES

The Group provides a diverse range of products and services that are complementary to the core insurance product. These products and services are sold to customers who choose to optionally enhance their cover or buy further services from the Group.



LIFETIME CUSTOMER VALUE

- Data-led decisions
- Competitive prices
- Improved Net Promoter Score



CONTRIBUTION FOCUS

Through underwriting expertise, claims excellence, operational efficiency and lifetime customer value, the Group is able to deliver value for its customers, colleagues and shareholders.



DIVIDENDS

The Group generates capital to fund growth and dividends. The dividend policy is to target a base dividend of 50% of the Group's profit and enhance this through a special dividend, after it has retained sufficient capital to fund its growth ambitions and regulatory requirements.

Value creation

New business volumes

1m



ASR per IFP

£55



Cost per policy

£79



Return on equity

28%



On continuing operations

Strategy

'We are delivering on our profitable growth strategy. Our ambition remains to deliver three million in-force policies by 2020, all with profitability in mind. We look forward to 2018 with confidence and continue to position the business for the future.'

Darren Ogden

Interim Chief Executive Officer

STRATEGIC FOCUS

Profitable growth

APPROACH

The Group targets profitable growth through its focused and controlled approach to underwriting. On a test and learn basis, the Group continues to widen its customer footprint as it looks to grow its market share in Motor and Home insurance.

In recent years the Group has expanded its quote footprint in Motor from 40% to c.70%–80%.

Claims excellence

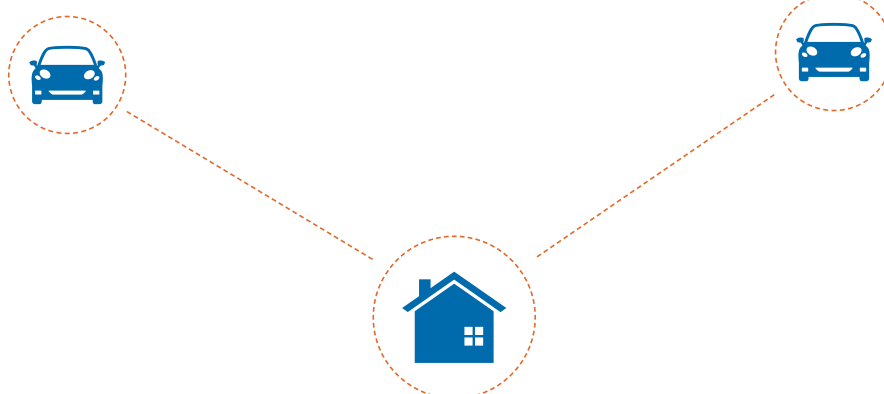
Settling claims is what we are here to do when our customers need us the most and that is why our processes aim to put the customer at the centre. UK-based claims centres, with over 700 specialists, our approved repair network, and market-leading fraud capabilities help to deliver an excellent customer service while minimising costs.

Expense efficiency

Low cost philosophy set from the top and embedded throughout the business. Customer acquisition costs largely flex with policy volumes given the fixed cost of acquisition per policy on price comparison websites.

Contribution

Contribution analytics allow the Group to make value-based decisions on customer acquisition and retention. A diversified suite of additional insurance products and services provide further opportunities to deliver enhanced customer contributions.



Update

Gross written premiums

£820m

In-force policies

2.373m

Claims paid

£450m

Fraud savings

£20m

Cost per policy

£79

Expense ratio

24.4%

Income from ASR

£125m

Total ASR per IFP

£55

Update

Market share in Motor

6%

Market share in Home

2%

Claims settled

270,000

Claims handled within our own network

>90%

Customers acquired digitally

c.90%

Robotic process automation procedures

23

Motor ASR per IFP

£65

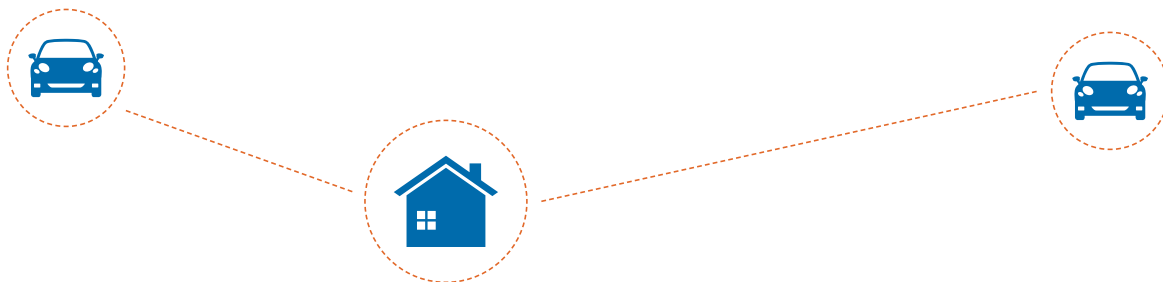
Home ASR per IFP

£21

Interim Chief Executive Officer's statement and financial review

2017 has been another good year for the Group





INTRODUCTION

In January 2018 it was an honour to be asked by Sir Peter Wood and the Board to lead the business in the interim period during the search for a new Chief Executive Officer.

We have a great business and our performance in 2017 demonstrates this. We exceeded our premium growth expectations for the year with an increase of 25.2% to £820.2m, we grew in-force policies by 9.2% to 2.373 million, and we increased profits by 35.6% to £98.6m. This is an outstanding achievement by all my colleagues, and I am continually impressed by their hard work, energy and dedication in making sure we provide a great service to all our customers.

Gross written premiums

£820m

2017 **820**
2016 **655**

In-force policies

2.373m

2017 **2.373**
2016 **2.174**

CUSTOMERS

During 2017 we increased in-force policies by almost 200,000 as customers were attracted to the Group through its strong brands, competitive pricing and excellent customer service.

In Motor, we continue to build momentum in our new segments and have over 300,000 policies in these segments. It is encouraging to see more and more new customers choosing the Group for their Motor insurance alongside a significant proportion of customers choosing to stay with us year after year.

Customers are demanding more of businesses and I am pleased that our Net Promoter Score increased to 45 in 2017, demonstrating the customer centric approach we take. I was delighted to see

that our Sheilas' Wheels brand ranked first for sales, renewals and service in a recent benchmarking exercise across insurance brands (source: ServiceTick Q4 2017).

It is important, however, that we do not stand still and continue to evolve our proposition and digital offering to meet and exceed our customers' expectations. As a Group, we have delivered digital sales for over a decade, primarily through our focus on price comparison website distribution. During 2017 we implemented a number of changes to help customers administer their policy, such as live chat and self-service forms, or to make a claim online. We are also in the process of finalising our new online customer portal that will be launched in 2018, making it even easier for customers to interact digitally with us.

Our moment of truth is when a customer makes a claim and in 2017 we settled over 270,000 claims and made payments totalling £450m. While many of our customers like to talk to us during a claim, we are piloting new technologies to provide an omni-channel approach for our customers. This will allow them to submit and assess claims electronically and through the use of artificial intelligence techniques the Group will be able to settle claims more quickly.

COLLEAGUES

The Group has 1,851 colleagues who are the lifeblood of our business and we strive to make esure a great place to work. We continue to invest in our people agenda and it was encouraging to see the Group's engagement score improve to 72% in 2017 (2016: 65%). Through

improved communications, better training and development, and leadership courses, colleagues are well informed and possess the skills necessary to keep delivering for our customers. We are proud of the work and support we provide to our local communities in Glasgow, Manchester and Reigate.

'Our digital proposition continues to evolve as we deploy innovative technologies across the business to deliver for our customers. I am continually impressed by all my colleagues' hard work and dedication in making sure we provide a great service to all our customers.'

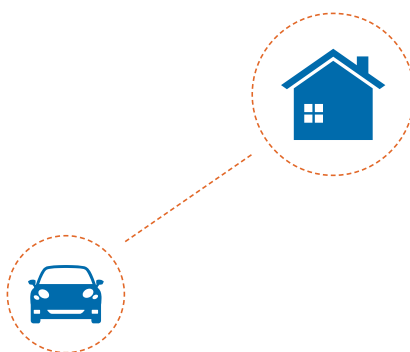
SHAREHOLDERS

The growth in premiums, policies and profits has been achieved all while positioning the business for the future. Through strong profitable growth, we are able to retain sufficient capital to continue our positive momentum, while paying a significant proportion of our profits to shareholders through strong dividends. As we move forward, we will remain disciplined in our capital management strategy, balancing growth with returns to shareholders.

SUMMARY & OUTLOOK

2017 has been a year of significant delivery and I look forward to 2018 with great confidence. In 2018, we are targeting a similar combined operating ratio to 2017, assuming normal weather, as we look to deliver a positive contribution and grow the business. We remain on track to achieve our three million in-force policy target by 2020.

Darren Ogden
Interim Chief Executive Officer



Interim Chief Executive Officer's statement and financial review continued

GROUP

| | 2017 | 2016 |
|--|--------------|-------|
| Gross written premiums (£m) | 820.2 | 655.0 |
| In-force policies (millions) | 2.373 | 2.174 |
| Trading profit from continuing operations (£m) | 111.3 | 84.6 |
| Profit before tax from continuing operations (£m) | 98.6 | 72.7 |
| Earnings per share from continuing operations (pence) | 19.2 | 14.3 |
| Dividend per share (pence) | 13.5 | 13.5 |
| Combined operating ratio (%) | 96.7 | 98.8 |
| Loss ratio (%) | 72.3 | 74.2 |
| Expense ratio (%) | 24.4 | 24.6 |
| Investment return – gross (%) | 1.5 | 2.2 |
| Solvency coverage (%)* | 155 | 152 |

* The 2017 solvency coverage is estimated, unaudited and after allowing for the final dividend. The 2016 solvency coverage is audited.

PREMIUMS, POLICIES AND PROFIT

| | 2017 | 2016 |
|--|--------------|-------|
| Gross written premiums (£m) | 820.2 | 655.0 |
| Motor (£m) | 734.3 | 563.7 |
| Home (£m) | 85.9 | 91.3 |
| In-force policies (millions) | 2.373 | 2.174 |
| Motor (millions) | 1.895 | 1.606 |
| Home (millions) | 0.478 | 0.568 |
| Profit before tax from continuing operations (£m) | 98.6 | 72.7 |

Gross written premiums increased 25.2% to £820.2m (2016: £655.0m) through strong growth in Motor in-force policies and higher average written premiums. In-force policies increased 9.2% to 2.373 million (2016: 2.174 million) as the Group delivered growth across all its Motor segments. Profit before tax from continuing operations increased 35.6% to £98.6m (2016: £72.7m) reflecting the Group's positive momentum in underwriting and non-underwritten additional services profit streams.

MOTOR

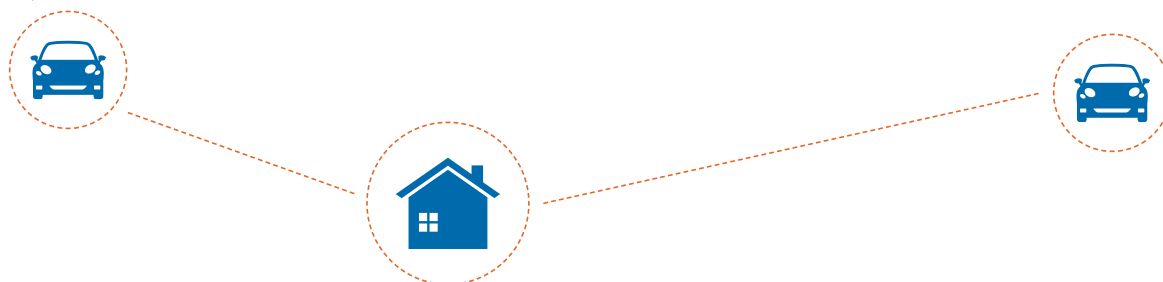
| | 2017 | 2016 |
|---|--------------|-------|
| Gross written premiums (£m) | 734.3 | 563.7 |
| In-force policies (millions) | 1.895 | 1.606 |
| Combined operating ratio (%) | 95.8 | 98.1 |
| Loss ratio (%) | 73.2 | 75.7 |
| Expense ratio (%) | 22.6 | 22.4 |
| Trading profit (£m) | 102.7 | 75.7 |
| Underwriting (£m) | 24.9 | 8.9 |
| Non-underwritten additional services (£m) | 65.8 | 50.7 |
| Investments (£m) | 12.0 | 16.1 |

Gross written premiums increased 30.3% to £734.3m (2016: £563.7m) through a combination of in-force policy growth and market pricing. In-force policies increased by 18.0% to 1.895 million (2016: 1.606 million) with all customer segments growing year-on-year through the Group's footprint expansion programmes. In addition, the Group continues to retain a significant proportion of its customers.

Trading profit is 35.7% higher at £102.7m (2016: £75.7m). The underwriting performance of £24.9m (2016: £8.9m) reflects an improvement in the current accident year loss ratio of 5.0 percentage points to 76.9%, as the Group's positive rating actions earned through ahead of claims inflation, more than offsetting the reduction in favourable development of prior accident year reserves. Favourable development of prior accident year reserves of £22.2m equated to 3.7% of net earned premiums (2016: £29.4m; 6.2%). Non-underwritten additional services increased 29.8% to £65.8m (2016: £50.7m) largely due to an increase in in-force policies.

The combined operating ratio improved by 2.3ppts to 95.8% (2016: 98.1%) and this was driven by an improvement in the loss ratio of 2.5ppts to 73.2% (2016: 75.7%), with the expense ratio broadly stable at 22.6% (2016: 22.4%).

| | 2017 | 2016 |
|---|-------------|------|
| Reported net loss ratio (%) | 73.2 | 75.7 |
| Prior year reserve releases (%) | 3.7 | 6.2 |
| Current accident year net loss ratio (%) | 76.9 | 81.9 |



HOME

| | 2017 | 2016 |
|---|--------------|-------|
| Gross written premiums (£m) | 85.9 | 91.3 |
| In-force policies (thousands) | 478 | 568 |
| Combined operating ratio (%) | 102.8 | 102.9 |
| Loss ratio (%) | 65.6 | 66.0 |
| Expense ratio (%) | 37.2 | 36.9 |
| Trading profit (£m) | 8.6 | 8.9 |
| Underwriting (£m) | (2.3) | (2.4) |
| Non-underwritten additional services (£m) | 9.9 | 9.3 |
| Investments (£m) | 1.0 | 2.0 |

Gross written premiums reduced 5.9% to £85.9m (2016: £91.3m) and in-force policies reduced 15.9% to 478 thousand (2016: 568 thousand) as a consequence of disciplined underwriting in soft market conditions. The Group implemented price increases ahead of the wider market during 2017 as it looked to mitigate against claims inflation and this impacted its competitiveness to attract and retain customers.

Trading profit is marginally lower than 2016 at £8.6m (2016: £8.9m). The Group's underwriting loss of £2.3m was similar to 2016 (loss of £2.4m), albeit 2017 has benefited from weather event costs that were lower than normal. Favourable development of prior accident year reserves of £4.7m equated to 5.8% of net earned premiums (2016: £9.3m; 11.0%). Non-underwritten additional services increased by 6.5% to £9.9m (2016: £9.3m) aided by an improvement in non-underwritten additional insurance products.

The combined operating ratio was stable year-on-year at 102.8% (2016: 102.9%).

| | 2017 | 2016 |
|---|-------------|------|
| Reported net loss ratio (%) | 65.6 | 66.0 |
| Prior year reserve releases (%) | 5.8 | 11.0 |
| Current accident year net loss ratio (%) | 71.4 | 77.0 |

ADDITIONAL SERVICES REVENUES

| | 2017 £m | 2016 £m |
|--|---------------|------------|
| Non-underwritten additional insurance products | 11.9 | 9.8 |
| Policy administration fees and other income | 22.3 | 19.5 |
| Claims income | 7.8 | 7.6 |
| Instalment income | 48.5 | 37.6 |
| Non-underwritten additional services | 90.5 | 74.5 |
| Underwritten additional insurance products | 34.8 | 32.0 |
| Total income from additional services | 125.3 | 106.5 |
| Motor | 114.4 | 96.1 |
| Home | 10.9 | 10.4 |
| Non-underwritten additional services | 90.5 | 74.5 |
| Other operating expenses | (14.8) | (14.5) |
| Non-underwritten additional services trading profit | 75.7 | 60.0 |
| Motor | 65.8 | 50.7 |
| Home | 9.9 | 9.3 |
| ASR per IFP – Motor (£) | 64.8 | 63.6 |
| ASR per IFP – Home (£) | 21.1 | 18.1 |

Total income from additional services increased 17.7% to £125.3m (2016: £106.5m) driven by a strong performance across all income lines. Non-underwritten additional services trading profit increased 26.2% to £75.7m (2016: £60.0m) ahead of the Group's in-force policy growth and leveraged the efficient expense base. Instalment income, where customers choose to pay monthly, has also benefited from an increase in both Motor and Home average written premiums in the year.

Interim Chief Executive Officer's statement and financial review continued

INVESTMENTS

| | 2017 £m | 2016 £m |
|--------------------------------|-------------|------------|
| Investment income | 12.9 | 14.3 |
| Net gains on investments | 1.0 | 3.8 |
| Investment charges | (4.1) | (3.5) |
| Net investment return | 9.8 | 14.6 |
| Other income | 3.2 | 3.5 |
| Total investment return | 13.0 | 18.1 |
| Investment return – gross (%) | 1.5 | 2.2 |
| Investment return – net (%) | 1.1 | 1.8 |

The Group's net investment return of £9.8m (2016: £14.6m) was aided by another year of strong equity returns, albeit to a lesser extent than that seen in 2016. In addition, increases in the shorter end of the UK Gilt Curve resulted in a reduction in the fair value for a number of fixed income positions, partly offsetting the one-off gain of £2.0m from the partial disposal of a long-dated gilt.

Other income reduced to £3.2m (2016: £3.5m), primarily as a result of lower income from the Group's investment in IMe Law Limited, operated by the Group's partner, Irwin Mitchell.

TRADING PROFIT

| | 2017 £m | 2016 £m |
|--|--------------|------------|
| Trading profit from continuing operations | 111.3 | 84.6 |
| Motor | 102.7 | 75.7 |
| Home | 8.6 | 8.9 |
| Trading profit from discontinued operations | – | 24.5 |
| Gocompare.com | – | 24.5 |

Trading profit from continuing operations, being earnings before interest, tax, non-trading expenses and amortisation of acquired intangible assets, is management's measure of the overall profitability of the Group's operating activities. The Group's reportable segments are Motor and Home and these delivered a trading profit of £111.3m (2016: £84.6m).

The Group generated a trading profit from discontinued operations (Gocompare.com) of £nil (2016: £24.5m). Gocompare.com was demerged from the Group on 3 November 2016.

RECONCILIATION OF TRADING PROFIT FROM CONTINUING OPERATIONS TO PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

| | 2017 £m | 2016 £m |
|---|--------------|------------|
| Trading profit from continuing operations | 111.3 | 84.6 |
| Non-trading costs | (1.8) | (0.9) |
| Finance costs | (8.7) | (8.7) |
| Amortisation of acquired intangible assets | (2.2) | (2.3) |
| Profit before tax from continuing operations | 98.6 | 72.7 |

The Group incurred £8.7m in finance costs (2016: £8.7m) relating to the £125.0m of 6.75% ten-year Tier 2 Subordinated Notes issued on 19 December 2014 ('the Notes').

PROFIT AFTER TAX

Profit after tax from continuing operations

The Group's profit after tax from continuing operations increased 35.1% to £80.4m (2016: £59.5m) largely driven by an improvement in the underwriting and non-underwritten additional services revenues performance.

Profit after tax from discontinued operations

The Group generated profit after tax from discontinued operations (Gocompare.com) of £nil (2016: £209.7m). In 2016, the Group recognised a fair value gain on disposal of Gocompare.com of £213.6m. Gocompare.com was demerged from the Group on 3 November 2016.

EARNINGS PER SHARE

Earnings per share from continuing operations

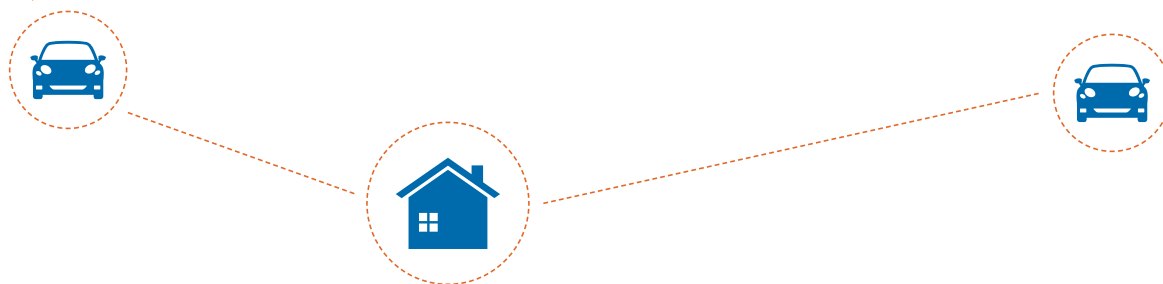
Earnings per share from continuing operations increased by 34.3% to 19.2 pence (2016: 14.3 pence) broadly in line with the increase in profit after tax from continuing operations.

Earnings per share

Earnings per share decreased 70.3% to 19.2 pence (2016: 64.6 pence) as a consequence of the profit after tax on discontinued operations not recurring.

DIVIDEND PER SHARE

The Board has proposed a final dividend of 9.4 pence per share, comprised of a base dividend and special dividend, which together with the interim dividend of 4.1 pence per share, takes the full year dividend to 13.5 pence per share. The full year dividend of 13.5 pence per share represents a payout ratio of 70% of the Group's earnings per share. Excluding the profit contribution from Gocompare.com in 2016, this represents a year-on-year increase in the dividend of 31%. The dividend has been set with reference to the Group's profit after tax and allows for the approximate proportion of one-third (interim dividend) and two-thirds (final dividend), respectively. The ex-dividend date is 12 April 2018, the record date is 13 April 2018 and the payment date is 25 May 2018. These dates are in respect of both the base and special dividend.



CASH FLOW

| | 2017 £m | 2016 £m |
|---|---------------|------------|
| Profit after tax | 80.4 | 269.2 |
| Net cash generated from/(used in): | | |
| Operating activities | 99.5 | (3.8) |
| Investing activities | (9.4) | (25.7) |
| Financing activities | (69.0) | 23.1 |
| Net increase/(decrease) in cash and cash equivalents | 21.1 | (6.4) |
| Cash and cash equivalents at the beginning of the year | 25.5 | 31.9 |
| Cash and cash equivalents at the end of the year | 46.6 | 25.5 |

The Group's cash and cash equivalents at the end of the year are £46.6m (2016: £25.5m).

Operating activities were a net inflow of £99.5m (2016: net outflow of £3.8m) largely driven by the Group's strong premium growth over the year ahead of the settlement of expected claims in the future. In 2016, the net outflow was largely driven by cash flows being invested into the Group's investment portfolio.

Investing activities were a net outflow of £9.4m (2016: net outflow of £25.7m) reflecting the Group's investment in property, plant, equipment and software. In 2016, investing activities included fees of £14.5m relating to the demerger of Gocompare.com that did not repeat in 2017.

Financing activities were a net outflow of £69.0m (2016: net inflow of £23.1m) of which £61.0m reflects the Group's 2016 final and 2017 interim dividends, and £8.4m relating to the interest payable on the Notes. In 2016, the financing activities included the Group's dividend payments of £42.9m, the inflow of cash from Gocompare.com of £73.1m prior to the demerger of Gocompare.com and the interest payable on the Notes.

The Group's cash flow statement can be found on page 78.

INVESTMENTS

The Group manages its investment portfolio to maintain liquidity and preserve capital. Investments are held to meet the Group's cash flow requirements, pay customers' claims and seek a suitable return for an acceptable level of risk.

Strategic investment allocations

The Group's investment portfolio is in the process of transitioning towards the following strategic asset allocations and target returns. The Group's target allocations and target returns are outlined below:

| Investment categories | Target allocations | Gross target returns |
|-----------------------|--------------------|----------------------|
| Cash & Liquidity | 5% | 0.1% |
| Claims backed | 65% | 1.0% |
| Surplus | 30% | 3.5% |

As a result of the Group's strategic asset allocation review in 2017, capital commitments of £150m to new asset classes are recognised within its surplus liquidity funds at year end, ahead of these commitments being invested in 2018.

As at 31 December 2017 the Group held the following investments:

| | 2017 % | 2017 £m | 2016 £m |
|-----------------------------|------------|--------------|------------|
| Total | 100 | 975.9 | 862.9 |
| Cash & Liquidity | 8 | 76.6 | 45.5 |
| Liquidity funds | | 30.0 | 20.0 |
| Cash | | 46.6 | 25.5 |
| Claims | 63 | 613.5 | 551.8 |
| Liquidity funds | | 149.7 | 46.2 |
| Fixed income | | 463.8 | 505.6 |
| Surplus | 29 | 285.8 | 265.6 |
| Liquidity funds | | 192.5 | 143.0 |
| Equity | | 53.9 | 42.5 |
| Fixed income | | 39.4 | 80.1 |

The Group's total assets under management are 13.1% higher at £975.9m (2016: £862.9m), driven by the growth in premiums.

The Cash & Liquidity portfolio continues to reflect accessible cash for operational activities and includes a buffer for adverse events. At 8%, the allocation is higher than the Group's target allocation due to the timing of certain contractual outflows payable in early January 2018. The target allocation of 5% is in line with the Board-approved liquidity risk appetite.

The Claims portfolio is constructed with reference to the expected future cost of the Group's technical liabilities as defined under Solvency II. The duration of the Group's assets and liabilities has remained broadly stable across the period at 3.7 years (2016: 3.6 years) and 2.9 years (2016: 3.4 years) respectively. The Group continues to designate newly acquired assets within this portfolio as available for sale ('AFS') to minimise the impact of interest rate changes on the Group's earnings. At 31 December 2017 the Group has designated £342.0m as AFS (2016: £192.6m) and £160.3m as fair value through profit and loss (2016: £359.2m).

Interim Chief Executive Officer's statement and financial review continued

The Surplus portfolio seeks to deliver returns in asset classes that are aligned with the Group's risk appetite, in particular with reference to its solvency capital requirements. The Group's strategic asset allocation review was finalised in 2017. This resulted in a divestment from its high yield fixed income assets and a subsequent commitment of £150.0m to infrastructure equity and direct lending. Commitments are expected to be invested during 2018.

The remaining surplus assets continue to be invested across a mixture of liquidity funds, equities and fixed income.

The Group's total investment duration was 2.2 years (2016: 2.6 years).

Claims portfolio – Fixed income

| | 2017 £m | 2016 £m |
|---------------------------|--------------|------------|
| Total fixed income | 503.1 | 505.6 |
| Corporate bonds | 227.5 | 216.7 |
| Government bonds | 159.6 | 189.7 |
| Floating rate notes | 39.0 | 84.3 |
| Covered bonds | 37.6 | 14.9 |

Claims portfolio – Credit risk quality

| | 2017 % | 2016 % |
|--------------|-----------|-----------|
| AAA | 17 | 21 |
| AA | 36 | 37 |
| A | 26 | 25 |
| BBB or below | 21 | 17 |

The credit risk quality of the claims backed fixed income portfolio remains strong with 79% held in assets rated 'A' or above.

RESERVING

The Group holds claims reserves, to cover the future cost of settling claims that have been incurred but not settled at the balance sheet date, whether already known to the Group or not yet reported, net of associated reinsurance recoveries.

For known periodic payment orders ('PPOs') and potential PPO awards, indexed cash flow projections are carried out in order to estimate an ultimate cost on a gross and net of reinsurance basis. The Group currently has 11 PPOs (2016: 11). The cash flow projections were undertaken on a discounted basis.

Due to the inherent uncertainties in reserving, the Group adopts a prudent approach to reserving through reserving in excess of the actuarial best estimate. Over time, the inherent uncertainties in the actuarial best estimate reduce and the Group releases the margin above the best estimate. The Group's current reserve margin is comfortably in excess of its actuarial best estimate.

On 27 February 2017, the Lord Chancellor changed the Ogden discount rate from plus 2.5% to minus 0.75%, effective 20 March 2017. The impact of this change on the Group's 2017 performance was not material.

The Group benefited from favourable development of prior accident year reserves, with total prior year releases of £26.9m in 2017 (2016: £38.7m). The favourable development represents 4.0% of net earned premium (2016: 7.0%).

REINSURANCE

The Group purchases reinsurance as a risk transfer mechanism to mitigate risks that are outside the Group's appetite for individual claim or event exposure and to reduce the volatility caused by large individual and accumulation losses. By doing so, the Group reduces the impact that an event can have on its capital position and its underwriting results in both Motor and Home.

Currently, the Group has in place excess of loss reinsurance programmes for its Motor and Home underwriting activities. The purpose of these programmes is to provide cover for both individual large losses, for Motor and Home, and accumulation losses arising from natural and other catastrophe events for Home. Motor and Home reinsurance treaties are in place covering all years in which the Group has underwritten policies in each line of business.

The Group's Motor reinsurance programme was renewed on 1 July 2017 and subsequently extended for six months to the end of 2018:

| Layer | Placement | Placement | Placement |
|-----------------|-------------------------------|--------------------------------|------------------------------------|
| | 1 Jan 2017 to 30 June 2017 | 1 July 2017 to 30 June 2018 | 1 July 2018 to 31 December 2018 |
| £1m x £1m | 100% | 85% | 100% |
| Unlimited x £2m | 100% | 100% | 100% |

The like-for-like cost increase of the programme renewed on 1 July 2017 was 33%, equating to an increase of £10 per vehicle, as a consequence of the change in the Ogden discount rate in February 2017 from 2.5% to minus 0.75%. The Home reinsurance programme was renewed on 1 July 2017 with no material changes to the programme.

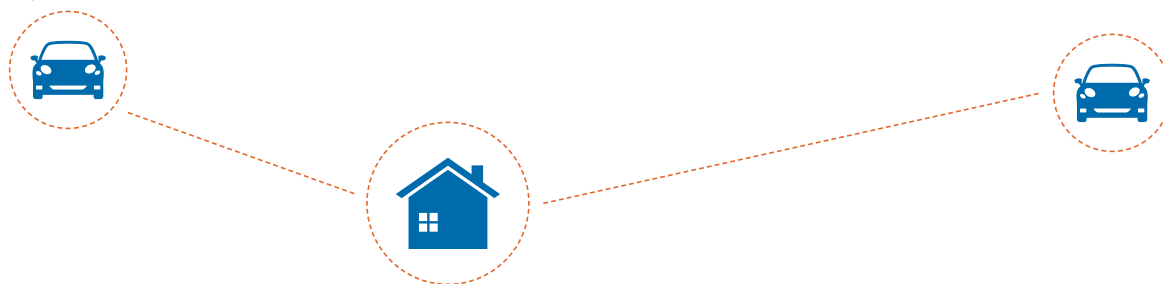
The Group's reinsurance programmes are reviewed on an annual basis and capital modelling is used to identify the most appropriate structure and risk retention profile, taking into account the Group's business objective of minimising volatility and the prevailing cost and the availability of reinsurance in the market.

The Group has no quota share reinsurance or co-insurance arrangements in place.

CAPITAL

The Group seeks to manage its capital in order to maintain a level of capitalisation and solvency to ensure that regulatory requirements are met with an appropriate buffer and that there is sufficient capital available to fund profitable growth opportunities.

The solvency capital requirement ('SCR') is the level of capital the Group is required to hold to meet its obligations if a 1-in-200-year event were to occur in the next 12 months. The Group's normal operating range of coverage of its SCR is 130%–150%. The capital surplus above the SCR provides an



appropriate level of capital coverage and should enable the Group to continue to meet its regulatory capital requirements. The Group adopts the standard formula to calculate its capital requirements under Solvency II.

The Group's capital position, after allowing for the final dividend, is outlined below:

| | 2017 £m* | 2016 £m |
|-------------------------------------|-------------|------------|
| Own Funds | 411 | 355 |
| Tier 1 | 286 | 238 |
| Tier 2 | 125 | 117 |
| Solvency Capital Requirement | 265 | 233 |
| Coverage Ratio | 155% | 152% |

* The 2017 figures quoted are estimated, unaudited and after allowing for the final dividend. The 2016 Solvency coverage is audited.

The Group's Own Funds have increased 15.8% to £411m (2016: £355m) reflecting the capital generative nature of its operations and the increase in qualifying Tier 2 capital, net of its foreseeable dividends. The SCR increased 13.7% to £265m (2016: £233m) as a consequence of the Group's strong growth in the year, albeit the SCR at year end has benefited from a timing difference of £7m as the Group transitions its investment portfolio towards its strategic asset allocation.

Own Funds comprise Tier 1 and Tier 2 qualifying capital. The Notes meet the qualifying criteria of a Tier 2 capital instrument and qualify up to a maximum of 50% of the SCR. The quality of the Group's capital remains strong with 70% in Tier 1 and 30% in Tier 2.

Solvency Capital Requirement

The Group's SCR allocation by risk type, based upon the undiversified capital requirement, can be seen below:

| | 2017 | 2016 |
|-------------------|------|------|
| Underwriting risk | 76% | 72% |
| Market risk | 14% | 18% |
| Operational risk | 8% | 8% |
| Credit risk | 2% | 2% |

The main risk driver is underwriting, consisting of premium, reserve and catastrophe risk, reflecting the capital requirements of the core business activities for the Group. The movement between underwriting risk and market risk is a timing difference as the Group transitions its investment portfolio towards its strategic asset allocation.

Sensitivities

The Group's capital structure is positioned to minimise the impact that adverse capital events have on its ability to meet its solvency capital requirements, were they to occur. The adverse capital events below are outlined to demonstrate the Group's capital resilience to such events.

| | Impact on coverage* |
|------------------------------|---------------------|
| Motor loss ratio 5ppts worse | (10)ppts |
| Yield curve 50bps lower | (0)ppts |
| Equities fall 25% | (2)ppts |
| Credit spreads widen 50bps | (2)ppts |
| 1987 Hurricane | (3)ppts |
| Ogden discount rate of +0.5% | (1)ppt |

* Capital coverage movements are stated after earnings, tax and dividend impact.

DIVIDEND POLICY

The Group's dividend policy is to target a base dividend of 50% of profit after tax and enhance the base dividend with a further special dividend, if the Group has excess capital and distributable reserves. In determining the level of special dividend at the interim and final stage the Board will consider a number of factors which include, but are not limited to: the level of available distributable reserves; opportunities for growth; potential strategic opportunities; the outlook for future capital generation; and headroom required to absorb adverse capital events. The Board remains committed to returning excess capital to shareholders where it does not believe it can utilise the retained capital for further opportunities to enhance shareholder value. The interim dividend will be paid in October of the relevant financial year and the final dividend in May of the following financial year, in the approximate proportions of one-third and two-thirds, respectively.

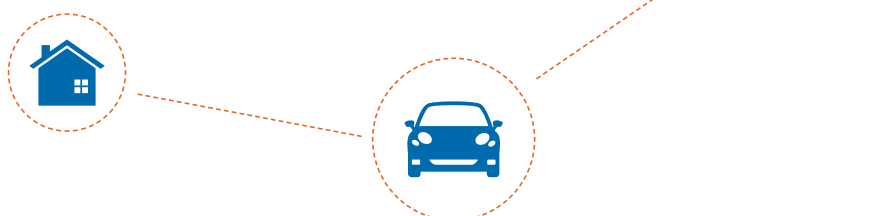
esure Group plc, the Parent Company of the Group, is a non-trading holding company that derives its profits from dividends paid by its subsidiary companies. The Board reviews the level of distributable reserves at least bi-annually, to align with the proposed interim and final dividend declaration dates, and aims to maintain distributable reserves that provide sufficient cover for these dividends.

SEGMENTAL REPORTING

In 2017, the Group changed its reportable segments to Motor and Home to reflect its contribution approach. In 2016, the Group's reportable segments were: Motor underwriting; Home underwriting; Non-underwritten additional services; Investments; and, prior to the demerger of Gocompare.com, Price Comparison.

Key performance indicators

The following six key performance indicators provide an overview of the Group's performance.



In-force policies – millions

2.373



DEFINITION

The number of core Motor and Home insurance products held by customers at the end of the year.

COMMENTARY

A wider customer base provides the Group with opportunities to deliver profitable growth.

Combined operating ratio – %

96.7



DEFINITION

A metric for assessing the underwriting performance of the Group, calculated as the loss ratio plus the expense ratio.

The loss ratio is the Group's claims incurred, net of reinsurance, as a percentage of earned premiums, net of reinsurance.

The expense ratio is the Group's net insurance expenses plus claims handling costs as a percentage of earned premiums, net of reinsurance.

COMMENTARY

The combined operating ratio is an industry wide metric that measures underwriting profitability, which is a key contributor to the profitability of the Group.

Trading profit from continuing operations – £m

111.3

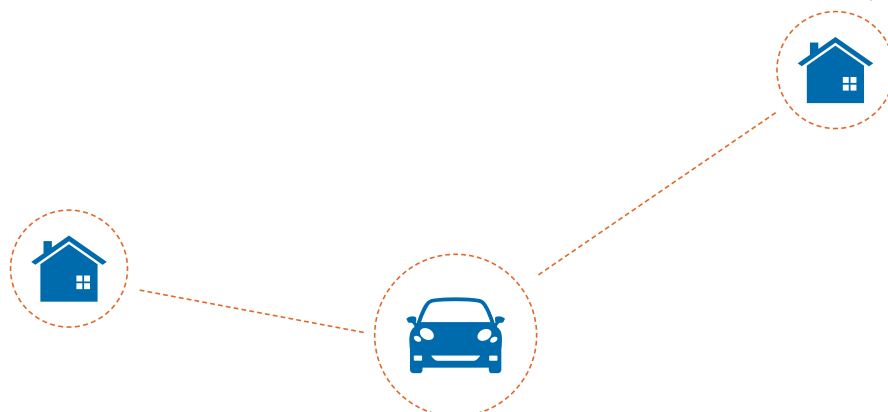


DEFINITION

The Group's trading profit from continuing operations includes Motor underwriting, Home underwriting, Investments and Non-underwritten additional services.

COMMENTARY

Trading profit from continuing operations, being earnings before interest, tax, non-trading expenses and amortisation of acquired intangible assets, is the management's measure of the overall profitability of the Group's activities.



Net Promoter Score for sales and service

45



DEFINITION

The Net Promoter Score is calculated as the percentage of customers who are promoters (scored 9 or 10) minus the percentage of customers who are detractors (score 0–6). The percentage left is the Net Promoter Score.

COMMENTARY

If a customer feels they are provided with an excellent service within operations, at a competitive price, then they may recommend esure to a friend.

Complaints – %

0.6



DEFINITION

Number of complaints as a percentage of the Group's core insurance in-force policies.

COMMENTARY

High customer satisfaction leads to a low level of complaints.

Customer retention – %

75



DEFINITION

The percentage of customers who choose to renew their policy with the Group.

COMMENTARY

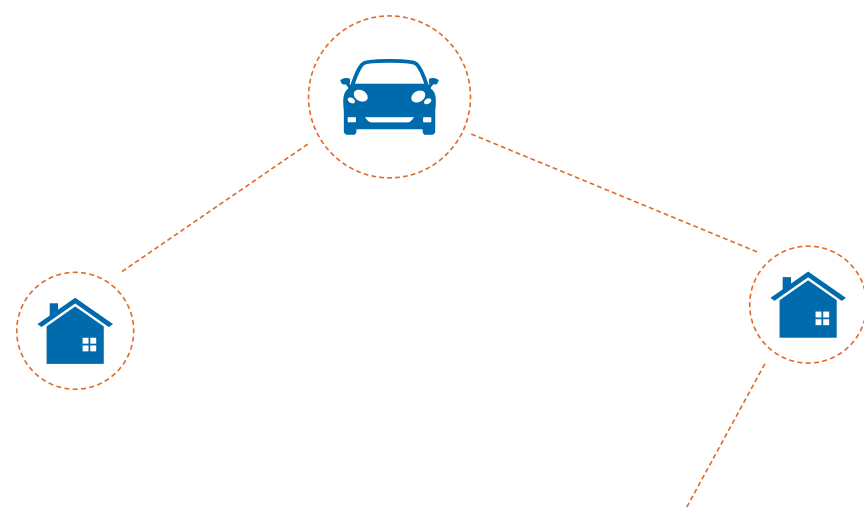
The Group aims to retain customers through offering competitive prices and excellent customer service.

Risk management



Darren Boland
Chief Risk Officer

'A key strength of the Group's Risk Management Strategy is the integration of risk assessment and evaluation into the Group's business operations, planning and capital management.'



RISK MANAGEMENT SYSTEM

The Board is responsible for prudent oversight of the Group, ensuring that it is conducted in accordance with sound business principles and within applicable law and regulation. This encompasses responsibility to set and monitor adherence to strategic risk objectives and risk appetite statements. The Board also ensures that measures are in place to provide effective monitoring, identification, control and acceptance of risk.

RISK GOVERNANCE

In accordance with recognised good practice, the Group operates a 'three lines of defence' governance framework.

The Group's risk governance is overseen by a Risk function headed by the Chief Risk Officer, a member of the Executive Team reporting to the Chief Executive Officer, but with independence assured through direct and separate access to the Chair of the Risk Committee.

The Group's risk management framework and Own Risk & Solvency Assessment ('ORSA') processes are proportionate to the risks that the business faces.

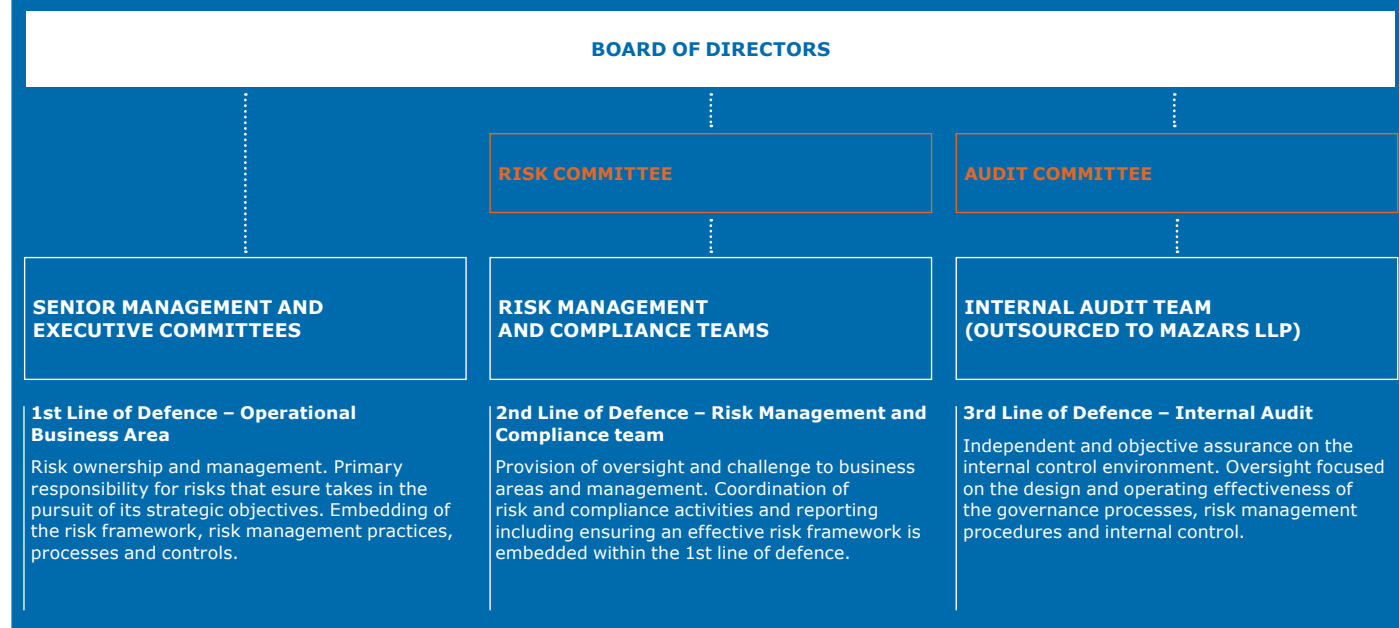
The risk strategy, appetite and framework are articulated in a suite of policies covering material risks that the business faces. Each of these policies is subject to annual review and approval.

The Group's governance framework is shown in the diagram opposite.

THE OWN RISK & SOLVENCY ASSESSMENT ('ORSA') PROCESS

The ORSA policy outlines the Group's approach to the taking and managing of risk and solvency on a forward-looking basis. It is supported by a number of processes and procedures. Key elements include:

- Risk Strategy & Appetite: defining how the Group considers the risks that it faces in delivering on its strategic objectives;
- Capital Management: maintaining a capital structure consistent with the risk profile and the regulatory and market requirements of the business; and
- Risk Management and Internal Control Framework: confirming that the overall risk management and control framework is operating adequately and effectively, allowing the Group to

BOARD AND BOARD COMMITTEES

identify, assess, manage, monitor and report on risks across the business.

The key processes that underpin the ORSA in determining solvency requirements include:

- stress testing and scenario analysis including reverse stress testing;
- business planning and assessment of the key risks;
- forward-looking assessments of solvency position;
- own assessment of solvency, based on our capital modelling;
- assessment of the appropriateness of standard formula for regulatory capital setting;
- risk appetite process;
- material and emerging risk process;
- reportable event process;
- the findings, recommendations and management actions arising from reviews conducted by the Risk, Compliance and Internal Audit functions; and
- detailed reviews of key risks.

The ORSA process supports the viability statement as set out below:

Viability statement

In accordance with provision C.2.1 and C.2.2 of the UK Corporate Governance Code 2016, the Directors have assessed the Group's prospects and viability for the three-year period to 31 December 2020, taking into account the Group's current position and the potential impact of the principal risks as detailed on pages 21 to 23.

In making this statement, the Board carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance or solvency. This assessment is based on the ORSA process as described above; the report on this process was submitted to the UK financial services regulator, Prudential Regulation Authority ('PRA'). The Directors consider the ORSA process to represent a robust assessment of the current and future principal risks facing the Group as well as the viability of its business operations.

The assessment period of three years has been chosen as it is in line with our business planning horizon and the period for the ORSA process; this is based on the following rationale:

- We have an annual renewal cycle; which means that three years provides

sufficient scope to see the impact of changes to the business.

- The cyclical nature of the business means that projecting for periods much longer than three years creates material uncertainty; however, we do look at longer-term strategic developments and emerging risks over longer time periods, for example, vehicle technology and car ownership.
- The stress and scenario tests and reverse stress tests are considered over a three-year period as such a period allows consideration of the impact of the stresses as well as associated management actions and mitigations to return to 'business as usual'.

Based on this robust assessment, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment.

RISK REPORTING

The risk reporting as part of the Risk Management Framework and the ORSA process are designed to ensure that the Board and the Risk Committee receive timely and appropriate reporting on the Group's exposure to existing and emerging risks in each of the core risk

Risk management continued

categories – underwriting, market, credit, liquidity, operational and conduct. Strategic risks and the reputational consequences of these risk exposures are considered within this risk reporting. These are set out within the Principal risks section on pages 21 to 23.

A key strength of the Group’s risk management strategy is the integration of risk assessment and evaluation into the Group’s business operations, planning and capital management. This is shown in the diagram on the right.

The Board has set a robust risk management strategy as an integral element in its pursuit of business objectives and in the fulfilment of its obligations to shareholders, regulators, customers and staff. The risk appetite statements are aligned to the current strategy and business model, and they form a key element of the business monitoring and decision-making.

The strategic risk statements which provide the basis of how the Group considers its risk appetite can be found below right.

These are considered within the Group’s strategic decisions and business planning but also form a critical element in the way we think about risk within the business. This includes how performance is assessed and how staff are incentivised. This ensures that staff and management behaviours are aligned to the risk appetite and strategic risk objectives and that this is reflected in day-to-day decision-making.

The statements are split by financial risks (those directly impacting Earnings, Capital and Liquidity) and non-financial risks (Conduct Risk and Customer, Operations and Information Systems, and People).

The Group’s risk appetite incorporates a range of quantitative and qualitative measures of risk supporting these strategic risk objectives, against which the actual or planned exposures and uncertainties can be monitored. This monitoring is reflected in regular reporting to the Group Executive Committee, the Risk Committee and the Board.

The risk appetite forms a fundamental part of the way in which the Group thinks about and assesses risk, setting out the types and level of risk that it is willing to accept or avoid in the pursuit of its strategy.

The Group’s Risk Management Framework is dynamic and continues to be enhanced and developed to ensure it meets the needs of the business.



| STRATEGIC RISK STATEMENTS | | |
|---------------------------|---------------|---|
| esure GROUP | FINANCIAL | <div>EARNINGS</div> <div>The Group strategy is to manage profitable growth and volatility within a cyclical market through targeted growth opportunities, continuous adaptation in its underwriting and pricing and a focus on expense management.</div> |
| | | <div>CAPITAL & LIQUIDITY</div> <div>The Group’s aim is to ensure there are appropriate financial resources in place to deliver on its corporate and policyholder obligations.</div> |
| | NON-FINANCIAL | <div>CONDUCT RISK AND CUSTOMER</div> <div>Through the Group’s strategy, culture, product design and service delivery, it aims to deliver fair outcomes to its customers and ensure that they are at the core of everything it does.</div> |
| | | <div>OPERATIONS AND INFORMATION SYSTEMS</div> <div>The Group’s target is to have no significant disruption to its service, operations or information systems through a proportionate system of control, monitoring and effective incident response.</div> |
| | | <div>PEOPLE</div> <div>Colleagues are key to the Group’s success and it continues to invest in its employees to ensure that it has the right level of skills and experience with highly engaged employees.</div> |

Principal risks

| RISK | KEY ELEMENTS | MITIGATION |
|--|--|--|
| <p>UNDERWRITING RISK Definition Underwriting risk is the most material risk for the Group. It represents the uncertainty in the profitability of the business written due to variability in the value and timing of claims and premium rates – this can impact historic (reserve risk) as well as future exposures (pricing and catastrophe).</p> <p>Current risk profile There is some future uncertainty within the market in terms of the future rating environment and potential legal changes through the government consultation on Ogden discount rate and whiplash reforms.</p> | <ul style="list-style-type: none"> • Pricing Risk • Reserving Risk • Catastrophe Risk | <ul style="list-style-type: none"> • There is strong and regular monitoring in place of the external environment to understand and react to the changing market, ensuring that the Group is well placed to benefit from any developments. • There is a strong claims management process that ensures that there is strong customer service, management of claims costs and management information to understand claims trends. • There is a robust monitoring process in place that tests the key variables affecting loss performance, including loss ratios, risk mix, pricing, quote conversion, renewal retention ratios, claims costs, claims frequency and the adequacy of reserves. • There is use of external data to support the Group's analysis of risk exposure for underwriting and catastrophe risk. • There is a prudent approach to reserving risk with a risk appetite to hold a margin above the actuarial best estimate. The Group's Actuarial function analyses and projects historical claims development data and uses a number of actuarial techniques to both test and forecast claims provisions. In addition, independent external actuaries assess the adequacy of the Group's reserves. • There is reinsurance in place to protect the business from large losses and catastrophe events. |
| <p>MARKET RISK Definition Market risk represents the uncertainty in the financial position due to fluctuations in the level and in the volatility of market prices of assets and liabilities.</p> <p>The Group policy concerning market risk ensures compliance with Solvency II 'Prudent Person Principle' requirements.</p> <p>Current risk profile There continues to be uncertainty in the Ogden discount rate which impacts the cash flows relating to large claims and frequency of Periodical Payment Orders ('PPOs'), and this affects the ability to match assets to these liabilities. In addition, there is volatility in UK-based assets due to Brexit.</p> | <ul style="list-style-type: none"> • Interest rate Risk • Equity Risk • Spread Risk • Concentration Risk | <ul style="list-style-type: none"> • The investment strategy is set with consideration to the overall market risk of the portfolio. Oversight of the Group's investment strategy is undertaken by the Investment Committee and overall financial risks by the Financial Risk Committee, both chaired by the Chief Finance Officer. • Market risk is managed through regular monitoring, including the drivers of investment return and value at risk measures, counterparty exposures and interest rate sensitivities of our assets and liabilities. • Asset liability management is a key area of focus within the investment strategy, with continuous monitoring and actions taken against the risk appetites set. • The Group manages the level of investment counterparty credit risk it accepts by placing limits on its exposure to a single counterparty or group of counterparties, and on geographical counterparties, geographical segments and sectors. Investment manager mandates limit concentration risk, ensuring diversification in such a way as to avoid excessive accumulation of risk in the portfolio. Such risks are subject to regular review within the Investment Committee. • Our investment strategy does not expose the Group to material currency risk or the risks arising from active trading of derivatives. Derivative instruments are only used as a risk mitigation technique. |

Principal risks continued

| RISK | KEY ELEMENTS | MITIGATION |
|---|---|--|
| <p>CREDIT RISK Definition Credit risk is the loss or adverse change in the financial situation, resulting from fluctuations in the credit standing of counterparties and any debtors to which the Group is exposed.</p> <p>Current risk profile There are no specific concerns currently.</p> | <ul style="list-style-type: none"> Reinsurance counterparty Risk Supplier debtor Risk | <ul style="list-style-type: none"> There are risk appetite metrics set against the creditworthiness of reinsurers and concentration risk. These are monitored prior to finalisation of any contract and on an ongoing basis to ensure that it remains in line with our risk appetite. As part of the Group's supplier management process, credit exposures to third parties are regularly monitored and controlled. |
| <p>LIQUIDITY RISK Definition Liquidity risk is the risk that the Group is unable to realise investments and other assets in order to settle financial obligations when they fall due.</p> <p>Current risk profile The Group's risk appetite is aligned to a 1-in-200-year liquidity stress, which is assessed by the capital model, and as such no additional capital is held from the Group's own assessment of risk and solvency requirements for liquidity risk.</p> | <ul style="list-style-type: none"> Liquidity Risk | <ul style="list-style-type: none"> The Group continues to monitor its liquidity risk by considering the Group's operating cash flows, stressed for catastrophe scenarios, dividend payouts, liquidity strains and investment strategy to mitigate this risk. Oversight of liquidity risk is undertaken by the Financial Risk Committee. |
| <p>OPERATIONAL RISK Definition Operational risk is the loss or adverse impact due to failures with processes, people or systems – either within the Group or within material partners.</p> <p>Current risk profile Whilst there are strong controls in place, there are currently material external cyber threats that could impact the business.</p> | <ul style="list-style-type: none"> Business process Risk IT systems and disaster recovery Risk Data Security and Cyber Risk Infrastructure Risk and Business Continuity Risk Financial crime and fraud Risk Outsourcing Risk Distribution Risk | <ul style="list-style-type: none"> The Group has a robust governance and risk framework in place which provides an effective structure within which operational risks are identified, measured and managed. It ensures that there is clear ownership for risks with effective reporting and escalation mechanisms, supporting management oversight and decision-making. There are specialist teams that reside within the business functions that provide expertise and support, including for business continuity, IT disaster recovery, fraud and financial crime and cyber risk. Oversight, support and challenge are provided by the second-line Risk function which works closely with the first-line business and specialist functions. |

RISK

CONDUCT RISK

Definition

Conduct risk is a risk of reputational or financial damage driven by regulatory or legal intervention.

Current risk profile

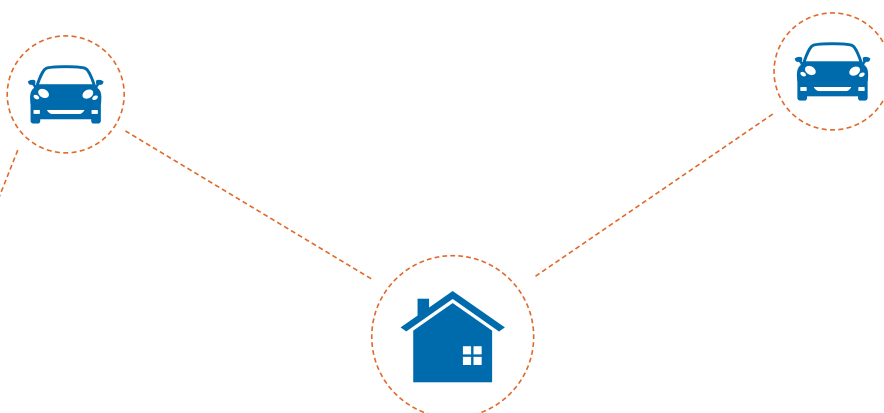
Whilst we are on track to deliver on these projects, there is a significant level of change from regulation, including General Data Protection Regulation, the Insurance Distribution Directive and the extension of the Senior Managers Regime.

KEY ELEMENTS

- Legal and Political Risk
- Conduct and Compliance Risk
- Regulatory Risk

MITIGATION

- There is a low appetite for this risk and this is reflected in management decision-making. The Group's culture and tone from the top ensures the interests of its customers and their fair treatment is paramount.
- The Group has a strong governance framework and its Conduct Risk and Customer Committee reviews all aspects of its customer service.
- Board oversight is ensured by upward reporting of a suite of customer and conduct risk appetite statements and measures.
- The Group continues to monitor legal and regulatory developments in the UK and Europe, through its close relationship with our regulators the Financial Conduct Authority ('FCA') and Prudential Regulation Authority ('PRA') and other official bodies and the use of proactive risk management tools and processes to mitigate its exposure to regulatory risk.



People



‘This has been another great year for the Group as we continue to invest and deliver a number of significant initiatives from our People Agenda. Colleague engagement has improved, demonstrating the success our investment is having.’

Helen Taylor
HR Director

We aim to provide a great place to work for all colleagues and we continue to invest in our people as this is fundamental to our success.

2017 IN SUMMARY

Our people are the lifeblood of our business and make it successful. They deliver an excellent customer experience and are the foundation of our growth. This has been a great year for the Group as we have invested and delivered a number of significant initiatives from our People Agenda, including:

- Investment in colleague engagement which led to a 7% increase in our engagement score.
- Delivery of core skills development to c.120 team leaders.
- Investment in developing our talent with the launch of two programmes in 2017 – Rising Stars and Future Leaders.
- Investment in apprenticeship schemes.
- Launch of a new internal intranet to improve corporate communications across our three locations.
- Investment in improving communication skills.

PEOPLE AND CULTURE

The Group has grown in the past year and now employs 1,851 people across three offices in Reigate, Manchester and Glasgow (up 19% from 2016). We believe the key to our success is not just what we do but the way we do it. The quality and commitment of everyone who works at esure Group is the key to making us successful. To achieve this, esure’s people strategy is built upon a competitive reward and benefits package, a high level of colleague engagement, opportunities to grow and develop and excellent internal communications.

COLLEAGUES

Our colleagues are rewarded both fairly and competitively and our pay structure and progression opportunities are transparent and easy to understand. Financially, the Group is committed to rewarding our colleagues for the value that they bring to the Group and our reward strategy is reviewed on an ongoing basis. Annual pay increases are based upon an individual’s contribution to the business and include structured pay progression for many new colleagues. Earlier this year, we furthered our commitment to colleagues by supporting the Living Wage Foundation and paying the Voluntary Living Wage across all areas of our business.

We offer a total reward package which demonstrates our investment in colleagues. This includes a competitive holiday allowance, pension provision, profit share and salary sacrifice schemes (including childcare and cycle to work).

We also operate an annual esure Group sharesave plan, enabling colleagues to invest in the business. The first scheme was launched back in 2013 and since then a total of c.2,200 colleagues have participated in a scheme. In 2017, 349 colleagues invested in this scheme, which demonstrates colleagues’ continued commitment to working at esure.

We offer a full range of benefits including an optional benefits platform, discounted travel, season ticket loans, a wellbeing offering and discounts on Group insurance products.

The Group looks to recognise colleagues who have shown a commitment to being part of our business and 47 colleagues celebrated their 15-year anniversary with us this year, which was acknowledged with a gift. In addition, we had 50 colleagues celebrating their ten-year anniversary with the Group. To mark this special occasion the Executive Team hosted a number of ten-year anniversary dinners across our locations.

ENGAGEMENT

We ran our third colleague engagement survey this year, partnering again with Willis Towers Watson. Whilst we always receive excellent response rates, this year was our best ever at 93%, meaning the results contained in the survey really do reflect the views of the majority of colleagues. We are proud to say our overall engagement score was 72% which was 7% higher than our last survey, showing that we are continuing to move the business forward. We also saw some significant improvements in this year's results, demonstrating that we are listening to colleagues and implementing initiatives that do make a difference. We continue to focus on maintaining a high level of engagement across our business and build action plans to support this.

The annual engagement survey is just one mechanism whereby colleagues can provide the senior management team with feedback. Twice-yearly face-to-face colleague briefings to share Company news are hosted by the Executive Team and take place across all our locations. This is further supported by roundtable events with the Executive Team and senior leaders and a monthly business update communication to all colleagues. The Employee Consultation Group ('ECG') provides a mechanism for feedback to the Executive Team whilst demonstrating the Company's commitment to understanding the interests of its employees. The Group meets regularly, giving colleagues the opportunity to raise ideas or ask questions via elected colleague representatives from the business. In addition, we recently invested in a new intranet to improve the quality of corporate communications across our business.

We understand the importance of regular recognition and we look to reward colleagues for going the extra mile in a variety of ways. This includes everything from a gift for great customer feedback to award ceremonies for high-performing colleagues.

We encourage all colleagues to enjoy work and get involved in team-based activities. This year there have been a number of celebrations for colleagues to be involved in, linked to seasonal events, including regular dress-down, sports-based events, our infamous Christmas quiz and Christmas lunch for all our colleagues.

TRAINING AND DEVELOPMENT

This year a key area of focus has been developing the core competencies of our colleagues. We are unique in that we are small enough as a business that every person can make a difference, but also big enough that we can invest in our people and support their growth and progress. This investment is crucial and throughout the year a number of key initiatives have been implemented to support colleagues' development, including:

- a Management Excellence programme for our team leader population (c.120) to provide development on core management basics;
- a series of communication development sessions to leaders to improve communication effectiveness across our business; and
- the introduction of a small number of pilot apprenticeship schemes.

The above is in addition to the training we undertake to ensure our colleagues develop and maintain their technical competence.

In order to continue to develop our talent we currently run two programmes, Rising Stars and Future Leaders, which give the opportunity for colleagues to develop new skills, identify career opportunities and help the esure Group strengthen its talent pool and succession plans.

ENGAGEMENT SURVEY: KEY AREAS OF IMPROVEMENT



90%

of colleagues believe they can positively impact our customers' experience



96%

of the questions asked saw an increase in positive responses



+16% +14%

Communications and Leadership, both key focus areas in the last 12 months, were up 16% and 14%



95%

of colleagues understand how their job contributes to our business goals

People continued

From an external talent perspective, we have sponsored a female leader on the Association of British Insurers ('ABI') Future Leaders Programme. The 12-month programme (which commenced in January 2017) was created in consultation with insurers to complement and add to the development pathways of promising senior leaders. We are delighted to support such initiatives and will continue to do so in order to help development across the industry.

It is also important for us that we support the development of talent across the wider industry and we are proud Gold Partners with the charity AutoRaise. AutoRaise was set up to redress the chronic shortage of apprentices in the car body repair industry. Their aim is to provide a platform for young people to have a fully signed-off multi-skilled apprenticeship which will help ensure we have a workforce in the future to repair damaged vehicles.

esure has supported several AutoRaise 'Showcase' events which have given the opportunity to over 1,000 parents and their children to find the career path they can have in the motor industry and to see the level of support their children will have from the vast range of bodyshop suppliers who are committed to these events.

'We have established a Community Committee in each of our three locations which enables colleagues to support the communities and local charities that are important to them.'

COMMUNITY AND CHARITY INVOLVEMENT

At esure we like to support both national and local charities alongside our involvement in the community. We have established a Community Committee in each of our three locations which enables colleagues to support the communities and local charities that are important to them. In addition to national charities such as Comic Relief, Children in Need and the British Lung Foundation, each location has undertaken a wide range of fundraising activities throughout the year, covering everything from cake sales, fun days, animal events, Spinathons, charity football matches and sponsored runs.

During 2017, colleagues across our locations raised a fantastic total amount of £52,000 in charitable donations. In addition to monetary donations, the Group has also supported a number of charities in more tangible ways, including:

- Our Reigate office has a long-standing relationship with Surrey Fire Brigade as we sponsor its Safe Drive, Stay Alive campaign aimed at preventing young drivers from being involved in traffic accidents. We have supported this programme for 13 years now and we are proud to be a part of an initiative that sees thousands of 16-18 year olds across Surrey educated about safe driving.
- Earlier in the year we sponsored a group of road traffic police from Thames Valley Police who embarked on a 2,500-mile trans-European challenge in a 16-year-old car worth less than £500 – all in the name of charity. We supported the police officers' bid by providing them with free motor insurance and breakdown cover for the 2017 Rust Bucket Challenge.

- At our Glasgow office, for the 13th year in a row, colleagues put together Christmas lunch boxes for the local Loaves and Fishes charity who provide essential food items to families in the Glasgow and surrounding area. The charity has said that our donations make a huge difference to those less fortunate than ourselves.
- At our Manchester office, colleagues supported the Royal Manchester Children's Hospital Ward 84 Summer Party. This was achieved by sending volunteers to assist on the day, which enabled the parents to spend more time with their children. We also collected boxes full of toys for the children which we put into a raffle to raise funds to support forthcoming events.

We recognise that investing in a community is not just about providing employment opportunities and we have worked hard to support the communities where we are based. A further example of this is in Glasgow, where we have been working in partnership with Developing Young Workforce Glasgow to give the opportunity to students from schools and higher education who have an interest in the financial sector to visit the Group and learn more about our business through their Finance and Business Services Insight programme. The visits consist of groups of up to 15 people from across the education spectrum, e.g. school, college and university, and cover a range of information including a tour of the business environment, an overview of the Group, potential career information and opportunities.

13 years

Supporting Surrey Fire Brigade's Safe Drive, Stay Alive campaign and Glasgow's Loaves and Fishes charity

50+

Charities supported across the UK

Over £50,000

Raised by colleagues in charitable donations during 2017

Customers

esure vs. 11 General Insurance ('GI') brands

esure NPS vs. benchmark*



Service



esure effort vs. benchmark*

(% scoring 5)

Sales



Service



Sheilas' Wheels vs. 11 GI brands

Sheilas' Wheels NPS vs. benchmark*



Service



Sheilas' Wheels effort vs. benchmark*

(% scoring 5)

Sales



Service



David Pitt
Chief Operating Officer

CUSTOMER FOCUS

The customer is at the heart of what the Group does: engaging with our colleagues to deliver excellent customer service and developing our colleagues so that at each customer touchpoint we strive to deliver excellent customer service.

Feedback is critical to understanding the success of customer service and over 200,000 pieces of customer feedback were received this year. With over five million calls handled in 2017, it is great to see an 86% rating for friendliness across Claims and Sales and Service. Using customer feedback to develop customer service further has led to Net Promoter Scores ('NPS') of 45 in Sales and Service and 43 in Claims. Responding to customers' changing needs is also critical; for example, in 2017 there has been a 146% increase in social media responses to customers.

Colleagues learn and develop through customer feedback, along with celebrating success with colleagues about their engagement with customers. The 'CEO Compliments of the Month', along with sharing customer successes on our intranet with all colleagues, are examples, and help support the culture and focus on customers. Reward is based on customer satisfaction metrics to support the right behaviours across the business.

'I'd like to state how impressed I was with Graham from Glasgow who dealt with me today, offering me an outstanding quote and also giving me a call back to see if I wished to take out the policy with you. He was clear, precise and extremely friendly. He is an asset to your team and if all call centre staff were like Graham then the world would be a happier place. Have a great weekend and thanks for your time.'

CUSTOMER SATISFACTION AND NPS

NPS helps colleagues to understand how they impact the customer experience, positively and negatively, enabling us to connect customer behaviour and financial impact, making it tangible whilst creating ownership and accountability across teams. Listening to customers and acting on their feedback is a critical enabler for customer-led business success, and the insight collected from various NPS collection points (along with other satisfaction metrics) helps to deliver customer-led changes, focused on making things better for customers.

* Comparisons based on up to 11 GI brands asking NPS (which use outbound IVR† survey) and Efforts question in Q4 2017. esure and Sheilas' Wheels sales data includes all sales codes including sales declined.

† Post-call IVR survey – audio based survey that is normally used after the customer has interacted with Operations or Claims.

§ Effort – % of customers who scored us 5 out of 5 for how easy it was to do business with us, where 5 means very easy.

Customers continued

'Well done for providing an outstanding service. I hope you are commended for your hard work.'

That focus and understanding is used to create change to continually improve and evolve in line with customers' needs and create a competitive advantage. Some NPS programmes fail because they are only used to track a number, whereas at esure we believe that acting on customer feedback can help to deliver a strategy that is all about the customer and the experience they receive. This ensures customers buy more, stay with us for longer and recommend our products to others.

The Group's aim is to treat customers how we'd like to be treated. We see the world through their eyes, always listening, engaging, and understanding their needs. This ensures that we continually improve the experience, deliver tailored interactions and make it simple for customers to do business with us.

In 2017 the focus has been on the things that really matter to our customers and, as a result, delivering on their core needs enabled the Group to attract and retain more customers to grow the business.

- Insight and expertise is used to find the cover that best suits our customers' needs, providing products and services that meet and add lifetime value.
- The Group's business aim is to develop long-term relationships with customers by placing their interests at the heart of the strategy, planning, decision-making and judgements.
- We keep our promises and commitments to earn the trust and respect of customers.
- The Group's products, services and contact channels are designed, monitored and managed to provide value, accessibility, transparency, and to meet the needs of customers.
- We create a culture of continuous improvement, encouraging constant and sustainable improvement for the benefit of customers, identifying the right actions to improve NPS and business performance.

CUSTOMER SATISFACTION – NPS PROMOTERS AND DETRACTORS

Success in our industry relies upon us building customer advocacy and retention; NPS enables us to track our performance and is a good predictor of profitable growth. NPS is a key metric employed as an end-to-end measure of satisfaction at key customer touchpoints throughout the life of the policy. Feedback is gathered after quotation, mid-term service, renewal or cancellation and claim stage to monitor service delivery, quickly identifying failure and focusing improvement on key drivers of dissatisfaction.

- NPS throughout 2017 has continued to perform consistently in the high 40's.
- By year end, 68% more customers have taken the time to provide feedback than the comparable period last year.
- Customers on our sales journey are now scoring us a high of +65 NPS.
- Customer Specialist friendliness scores on both Sheilas' Wheels and esure brands score above +85.

- Both esure and Sheilas' Wheels brands record the highest sales NPS and low effort score when compared to other General Insurance brands.
- Both esure and Sheilas' Wheels brands record the highest 'Knowledge' and 'Friendly' score when compared to other General Insurance brands.

'Credit to esure on this Facebook page. Sorted the document I needed within less than 10 minutes. Thanks again.'

SOCIAL MEDIA

The Group's social media strategy has continued to evolve in 2017 and social media is now more than a service platform for our customers. We aim to create a sense of community, using consistent messaging, brand promotion and customer engagement to increase reach and widen our social footprint. Customers receive a response in under 15 minutes and positive customer sentiment has improved by 30% in 2017.

- 'Be social', be more than a service platform.
- Create a sense of community.
- Increase social reach, achieve wider social footprint.
- Consistent messaging, brand promotion and customer engagement.

CUSTOMER COMPLAINTS

We always want to get it right first time for customers and it is disappointing when this is not achieved. This is why we make it quick and easy for customers who have a grievance. We are all responsible for recognising when a customer is unhappy and taking action to help. This means we can quickly put right a wrong, explain something that perhaps could have been made clearer in the first place, and to learn from what has happened so we can improve the customer journey for the future.

The good news is that most problems are resolved very quickly, which is what everyone wants, and the Group's model supports ownership within Claims and Sales and Service in the first instance. 41% of complaints are resolved to customers' satisfaction within four working days.

The centralised Customer Relations function is there to look at complaints that cannot be resolved quickly. These cases are examined independently, weighing up the strengths and weaknesses of each case, giving consideration to what is fair and reasonable in individual circumstances before issuing a final decision. In the rare cases where a suitable resolution cannot be found then customers are signposted to the Financial Ombudsman Service ('FOS'). They will independently arbitrate on cases and their decision is binding on firms. Data is published twice a year by the FOS, on a firm's performance. For H1 2017, 83% of esure cases were upheld by the FOS in the Group's favour. This is a strong result compared to key competitors and against a General Insurance average of 69%.

CUSTOMER CLAIMS

Within Claims, customers are at the very heart of what we do. The Group focuses on delivering outstanding service through listening to customers, responding to them in their moment of need and striving to keep promises and get it right first time. The NPS has increased to 43 within Claims based on customers recommending the Claims service due to their positive experience.

In Motor, 92% of customers are confident in using our approved repairers where repair work is guaranteed for five years. By working closely with our repairers we can be sure customers are in good hands and this is supported by an extremely low complaint ratio of just 2%. In those cases where a vehicle is beyond economical repair, customers can upload images of their vehicle to a portal, enabling the claim to be triaged and settled within four days of it being reported.

The Home team have also explored digital opportunities with suppliers to enable a more efficient claims settlement. An app sent to the customer on low value buildings claims will assist them to upload images and then scope the cost of the damage. On larger escapes of water or fire claims suppliers work with customers to stabilise their property as soon and as safely as possible to mitigate any long-term damage.

'esure has been the best thing to ease the stress of a theft. I can only commend you and we will have many years insurance with you as personally you have been amazing! Your customer services is superb and the claim process very easy and stress free. Thank you is all I can say.'

To continue to improve the customer journey, over 100 new colleagues have been recruited in Claims this year with investment in their training and development; a particular highlight being 'You're in safe hands' training that focused on empathy skills.

In order to develop and deliver a customer proposition that leads to 50 NPS, we are looking at other digital opportunities that are available and how we can give Claims colleagues the right tools to continue to service claims in a proactive and customer-focused approach.

'The gentleman that I spoke to, Bernard, was so patient and thorough and professional and understanding; and he made it very easy for me to deal with all the different things I needed to deal with today; it was a lovely experience.'

'She was polite and very efficient and something that I thought was going to be a headache was dealt with in a way that made it no bother. Please do pass on my thanks. She's a great ambassador for Sheilas' Wheels.'



esure®

esure

Reviews (4,305) • Great



Sheilas' Wheels

Sheilas' Wheels

Reviews (1,204) • Great



Chairman's letter



'I was delighted to welcome Alan Rubenstein and Peter Shaw, who joined the Board as Non-Executive Directors on 8 March 2017.'

Sir Peter Wood
Chairman

Current balance of Executive and Non-Executive Directors

1

Chairman

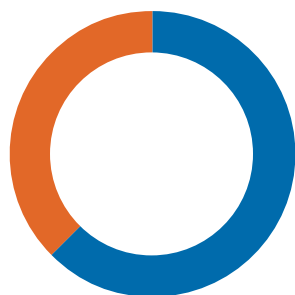
1

Executive Director

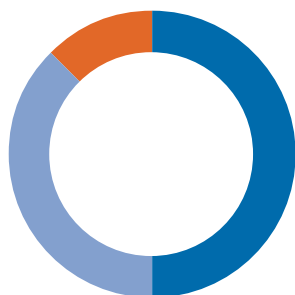
6

Non-Executive Directors

Gender diversity



Length by tenure



DEAR SHAREHOLDER

The Board's role is to provide leadership to the Group to assist in achieving its strategic aims, and to promote the long-term success of the Group. We keep our corporate governance framework under continual review and our Board Committees play a vital role in ensuring its effectiveness. Each Committee Chairman has provided a report on the Committee's role and these can be found on pages 39 to 47.

I was delighted to welcome Alan Rubenstein and Peter Shaw, who joined the Board as Non-Executive Directors on 8 March 2017. Peter Shaw became a member of the Remuneration and Risk Committees on appointment and Chairman of the Risk Committee on 17 May 2017. Alan Rubenstein became a member of the Audit and Nomination Committees on appointment.

As previously announced, the Board and Stuart Vann agreed that he would step down as Chief Executive Officer with effect from 18 January 2018. I would like to thank Stuart for his immense contribution to esure. Under his direction, the Company has introduced a successful footprint expansion programme and the business remains on track to deliver three million in-force policies by 2020. We wish him all the best for the future.

During the process of selecting a new Chief Executive Officer, Darren Ogden, Chief Finance Officer, has been appointed Interim Chief Executive Officer, subject to regulatory approval. I am supporting Darren during this period by taking a more active role in the business.

Also, as previously announced, due to work commitments, María Dolores Dancausa has decided to step down as a Non-Executive Director of the Company at the conclusion of the Annual General Meeting on 17 May 2018. I would like to take this opportunity to thank María Dolores for her valued support and her excellent contribution over the years.

As part of our succession planning and as previously announced, Peter Ward stepped down as a Non-Executive Director of the Company at the conclusion of the Annual General Meeting held on 17 May 2017. I would like to take this opportunity to thank Peter for his support over the years as an exceptionally valuable member of the Board.

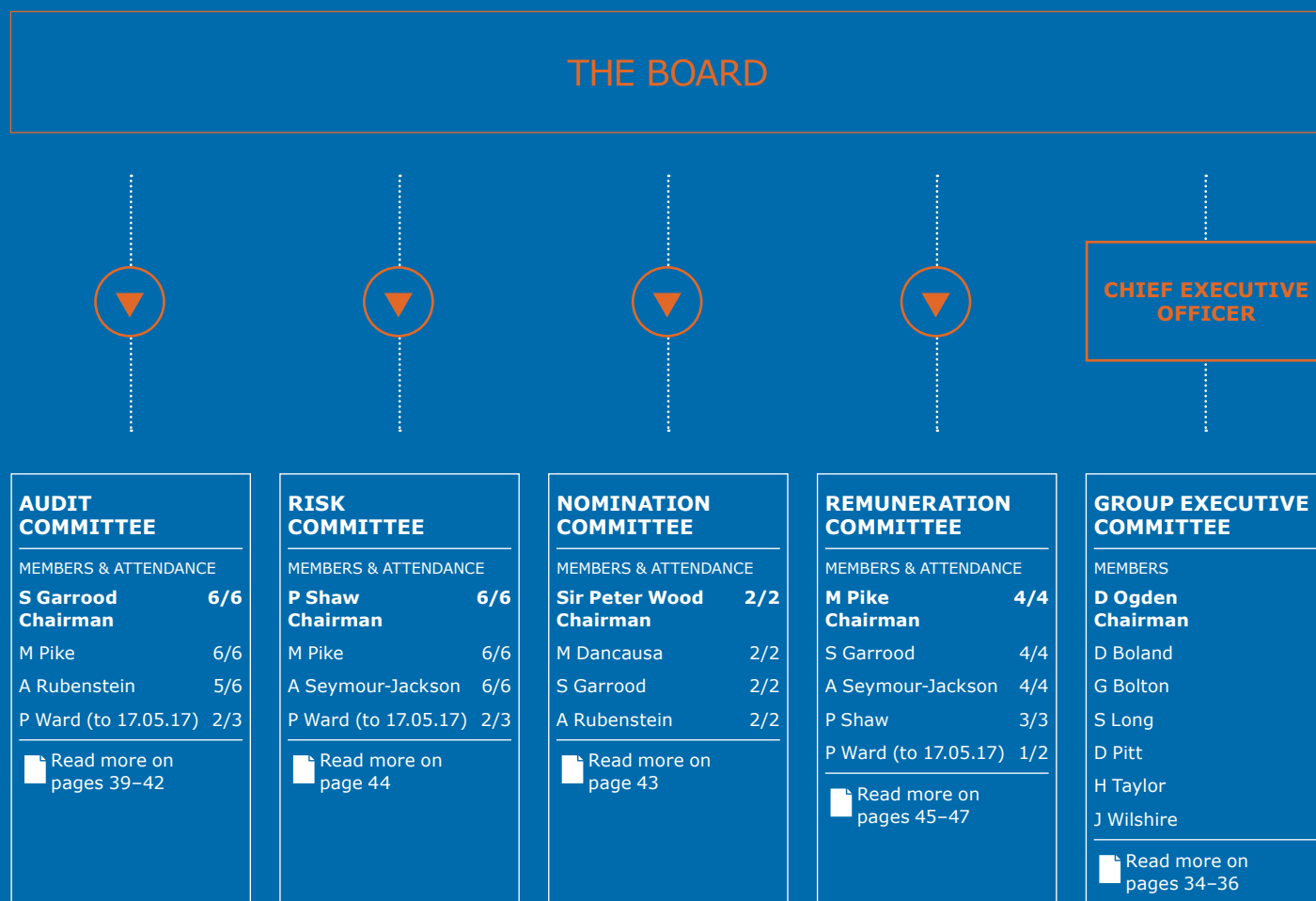
I, together with the Nomination Committee, continue to keep the membership of our Board under review, ensuring we have the right mix of skills, experience and background. Currently, 37% of our Board members are women.

We remain committed to diversity and equality within our organisation, whilst continuing to make appointments based on objective criteria.

I believe this report demonstrates how, through their actions, the Board and its Committees continue to fulfil their governance responsibilities and how the Board works proactively to embed good governance practices across the Group on an ongoing basis.

Sir Peter Wood
Chairman

Our current governance structure



The UK Corporate Governance Code – Statement of Compliance

We are firmly committed to high standards of corporate governance and maintaining a sound framework for the control and management of the business. Throughout the period from 1 January 2017 to 31 December 2017, the Group has been in compliance with the principles and provisions of the UK Corporate Governance Code; a revised code was published in April 2016 which applied to accounting periods beginning on or after 17 June 2016 ('the 2016 Code'). The Corporate Governance Report, in addition to the Audit, Nomination and Remuneration Committee Reports, details how the Company has applied the main principles of the 2016 Code during the year. The Company has fully complied with the requirements of the 2016 Code and details of how the Company has adhered to the amended elements contained in the 2016 Code are disclosed in the Audit Committee Report on pages 39–42. The 2016 Code is published by the Financial Reporting Council (the 'FRC') and their full texts are available on its website at frc.org.uk.

As a major UK general insurer, the Group has, since 2000, been regulated, most recently by the FCA and the PRA. We are, therefore, familiar and comfortable with the corporate governance practices expected of a listed company.

The Group also complies fully with the corporate governance requirements of the Companies Act 2006 and Financial Services and Markets Act 2000 (and regulations made thereunder) applicable to it as a result of its insurance and insurance mediation businesses.

Further information on the UK Corporate Governance Code can be found at frc.org.uk.

Board of Directors



Sir Peter Wood

Sir Peter Wood
Chairman

2*5

Sir Peter Wood founded the Group in February 2000.

Background and experience
Sir Peter has served as the Group's Chairman since February 2000 and was the Group's Chief Executive Officer from 2006 until 2012. Sir Peter has extensive executive financial services and entrepreneurial experience.

Prior appointments
Previously, Sir Peter founded Direct Line insurance in 1985, retiring as chairman in 1997. Sir Peter also founded Privilege Insurance with Royal Bank of Scotland, together with two other insurance companies in the US and one in Spain.

In 1996, Sir Peter received the honour of Commander of the British Empire in recognition of his services to the UK financial services industry. In 2016 he was awarded a knighthood in the Queen's birthday honours list.

Other current appointments
Sir Peter is Chairman of Gocompare.com Group plc.

Committee membership
Sir Peter chairs the Nomination Committee and is a member of the Disclosure Committee.



Darren Ogden

Darren Ogden
Interim Chief Executive Officer

56

Darren joined esure Group in 2003. He was promoted to the position of Head of Finance in 2007 and was appointed to the Board as Chief Finance Officer in November 2012. On 19 January 2018 he was appointed as Interim Chief Executive Officer.

Background and experience
Darren is a qualified accountant with over 25 years of experience in the insurance industry.

Prior appointments
He previously spent 13 years at Legal & General, primarily in the general insurance division.

Other current appointments
None.

Committee membership
Darren is a member of the Group Executive and Disclosure Committee.



María Dolores Dancausa

María Dolores Dancausa
Non-Executive Director

2

María Dolores was appointed to the Board as a Non-Executive Director in December 2013.

Background and experience
María Dolores has financial services insurance experience, with her career in the financial and insurance sector having been spent mostly in the Bankinter Group.

Prior appointments
She was appointed general secretary and to the board of Línea Directa in 1994, the year it was founded. María Dolores was appointed CEO of the Línea board in 2008 and it went on to become the fifth largest car insurer in Spain. At the end of 2010, she was appointed CEO of Bankinter. During these years, Bankinter was confirmed as one of the healthiest and most creditworthy institutions in Europe.

Other current appointments
María Dolores is currently CEO of Bankinter, Spain having been appointed in 2010.

Committee membership
María Dolores is a member of the Nomination Committee.



Shirley Garrood

Shirley Garrood
Deputy Chairman and Senior Independent Director

1*24

Shirley was appointed to the Board as a Non-Executive Director in July 2013.

Background and experience
Shirley has extensive non-executive and executive financial services experience and has chaired a number of committees of listed companies and a G15 housing association. She is a chartered accountant and corporate treasurer, having trained with KPMG LLP.

Prior appointments
She was appointed chief operating officer of Henderson Group plc in 2001 and then chief financial officer from 2009 until 2013. Shirley was an executive director at Morley Fund Management (Aviva) from 1998 to 2001 and also chief operating officer from 2000 to 2001.

Other current appointments
Shirley is a non-executive director and senior independent director of Hargreaves Lansdown plc.

Committee membership
Shirley chairs the Audit Committee and is a member of the Remuneration and Nomination Committees.

| Committee Membership | |
|----------------------|-----------------|
| 1 | Audit |
| 2 | Nomination |
| 3 | Risk |
| 4 | Remuneration |
| 5 | Disclosure |
| 6 | Group Executive |
| * | Committee Chair |



Martin Pike

Martin Pike Non-Executive Director

① ③ ④*

Martin was appointed to the Board as a Non-Executive Director in August 2015.

Background and experience

Martin has a wealth of experience in the financial services insurance sector as a strategy and risk consultant, and actuary. He spent just under 30 years with Willis Towers Watson, where he held a number of senior positions, culminating in the post of managing director, Risk Consulting & Software EMEA.

Prior appointments

He was the managing director, Risk Consulting & Software for the EMEA region at Willis Towers Watson to 2013.

Other current appointments

Martin is a non-executive director of Standard Life Aberdeen plc, where he chairs the Risk & Capital Committee and is a member of the Audit Committee. He is also on the board of Faraday Underwriting Limited and is Chairman of Greencore Construction Limited, a company of which he is joint founder. He is a non-executive adviser to Travers Smith LLP.

Committee membership

Martin chairs the Remuneration Committee and is a member of the Audit and Risk Committees.



Alan Rubenstein

Alan Rubenstein Non-Executive Director

① ②

Alan was appointed to the Board as a Non-Executive Director in March 2017.

Background and experience

Alan has had a long and distinguished career in investment banking and asset management.

Prior appointments

He was the chief executive of the Pension Protection Fund (PPF) from 2009 until January 2018.

Prior to this he was a managing director at Lehman Brothers from 2006–2008 and before that at Morgan Stanley from 1997–2006.

He began his career with Scottish Widows, where he qualified as a Fellow of the Faculty of Actuaries before moving into senior executive positions with BZW Asset Management and Lucas Varsity Fund Management.

Alan is a former vice-chairman of the National Association of Pension Funds, and former chairman of its Investment Council. He is a former member of the Council and Management Board of the Institute and Faculty of Actuaries, a former member of the Takeover Panel and a former member of the supervisory board of Robeco Groep NV.

Other current appointments

Alan is a director of the British Coal Staff Superannuation Scheme Trustees Ltd and chairman of their investment sub-committee.

Committee membership

Alan is a member of the Audit and Nomination Committees.



Angela Seymour-Jackson

Angela Seymour-Jackson Non-Executive Director

③ ④

Angela was appointed to the Board as a Non-Executive Director in October 2015.

Background and experience

Angela has considerable insurance, financial services, marketing and operational experience and holds a number of non-executive directorships in the FTSE 100 financial services and business services sectors.

Prior appointments

She was the managing director of the Workplace division of Aegon UK plc and has held various senior marketing and distribution roles from 1989 to 2011 at Norwich Union Insurance, General Accident Insurance, CGU plc and Aviva. She was chief executive officer of RAC Motoring Services Limited from 2010 until 2012 and she conducted the sale of RAC to Carlyle. From 2016 until 2017 she was adviser to Lloyds Banking Group (insurance).

Other current appointments

Angela is deputy chairman and senior independent director of Gocompare.com Group plc, and a non-executive director of Henderson Group plc, Rentokil Initial plc and PageGroup plc.

Committee membership

Angela is a member of the Risk and Remuneration Committees.



Peter Shaw

Peter Shaw Non-Executive Director

③* ④

Peter was appointed to the Board as a Non-Executive Director in March 2017.

Background and experience

Peter has a wide range of experience in both risk and business roles throughout a career in financial services of over 30 years.

Prior appointments

He spent the majority of his career at Royal Bank of Scotland and NatWest having joined as a graduate, progressing through a number of business roles before spending his last eight years in the risk function, latterly as chief risk officer for the Retail, Wealth and Ulster Bank businesses. He formerly also held the role of interim chief risk officer at the Co-operative Banking Group and non-executive director at Bank of Ireland (UK) plc.

Other current appointments

Peter is a non-executive director of Willis Limited and Aldermore Bank plc.

Committee membership

Peter chairs the Risk Committee and is a member of the Remuneration Committee.

Group Executive Team



Darren Ogden
Interim Chief Executive Officer

Appointed to the Board

Darren was appointed to the Board as Chief Finance Officer in November 2012. He was appointed as Interim Chief Executive Officer on 19 January 2018.

See biography in full on page 32.



Darren Boland
Chief Risk Officer

Darren joined esure in March 2013 as Head of Risk and was promoted to Chief Risk Officer in October 2013. During this time he has developed the Risk function, working with the business to identify opportunities around risk and reward.

Background and experience

Prior to joining esure, Darren spent three years at Aspen Insurance as head of insurance risk. Darren also spent 12 years at PricewaterhouseCoopers, initially within the audit practice, then spending the last eight years within the actuarial team supporting the general insurance clients, focusing on risk management, underwriting, pricing and claims. He is a Fellow of the Institute of Chartered Accountants.



Graham Bolton
Chief Technology Officer

Graham joined esure in November 2015. He was promoted to the position of Chief Information Officer in July 2016, then to Chief Technology Officer in January 2018.

Background and experience

Prior to joining esure, Graham spent 25 years at Aviva in various IT positions, including IT & change director and global technology service director, within Life, GI and Asset Management. In addition, Graham worked in IT consultancy as delivery director at the Co-Op GI, Old Mutual in Cape Town.

Graham's digital, data and technology strategy aligns to support the growth of the Group.



Steve Long
Interim Chief Finance Officer

Steve joined esure in January 2012. He was promoted to Deputy Chief Finance Officer in September 2016 and became Interim Chief Finance Officer on 19 January 2018. During his tenure with the Group, Steve has taken a leading role in the development of the Finance function.

Background and experience

Steve is a qualified Chartered Accountant with over ten years' experience in the insurance industry. He previously spent a number of years at KPMG where he worked with a variety of clients within their financial services audit and advisory function.



David Pitt
Chief Operating Officer

David Pitt joined esure in October 2014 as Chief Operating Officer, focusing on operational delivery.

Background and experience

David has almost 30 years of insurance management experience, primarily across personal lines, operational and claims functions. Prior to joining esure he had spent his career at RSA in a variety of roles, including most recently claims director, UK and Western Europe as well as UK operations director. He also spent time overseas as chief executive officer of RSA's Greater China business.



Helen Taylor
HR Director

Helen joined esure in September 2014 as HR Director and has responsibility for HR policies, operations, reward, recruitment, engagement, talent and succession planning. In 2016 Helen took over responsibility for Facilities and Internal Communications.

Background and experience

Helen has worked in HR for most of her career and has latterly worked at executive level and with the board in a regulated environment. Most of Helen's career has been spent in financial services and in the past she has held senior HR positions at RSA, Next and Co-operative Financial Services.

Other current appointments

Member of the Council at the University of Salford, Manchester.



Jon Wilshire
Chief Underwriting Officer

Jon joined esure in 2000 within the Corporate Analysis team, leading the Company's pricing analysis for its car and home insurance products. He was promoted to Head of Corporate Analysis in 2003 and then his role was broadened to cover underwriting and pricing in 2010. Jon was promoted to Chief Underwriting Officer in 2013. As well as being a member of the Group Executive Committee, he chairs the Pricing Committee.

Background and experience

Prior to joining esure, Jon spent six years in a variety of analytical positions in the insurance and retail sectors, including Eagle Star, Experian and Sainsbury's. He is a first class Mathematics graduate with a Master's degree in Operational Research.

Leadership

The Board is responsible for leading and controlling the esure Group and has overall authority for the management and conduct of the Group's business, strategy and development. The Board is also responsible for ensuring the maintenance of a sound system of internal control and risk management (including financial, operational and compliance controls, and for reviewing the overall effectiveness of systems in place), and for the approval of any changes to the capital, corporate and management structure of the Group.

To assist the Board in carrying out its functions and to ensure there is independent oversight of internal control and risk management, the Board has delegated certain responsibilities to Board Committees, which, except for the Nomination Committee, are comprised of independent Non-Executive Directors. The Nomination Committee is comprised of a majority of independent Non-Executive Directors. The Chairman of each Board Committee reports to the Board on its proceedings after each Committee meeting. Each Board Committee has agreed Terms of Reference approved by the Board.

The full schedule of matters reserved for the Board's decision along with the Terms of Reference of the Board's key Committees are available to view online at www.esuregroup.com/corporate-information/corporate-governance.

BOARD MEETINGS

The Board holds regular scheduled meetings throughout the year. Six scheduled Board meetings were held in 2017. An annual strategy meeting was also held.

If unable to attend a meeting, Directors are encouraged to provide their views and comments to the Chairman on the matters to be discussed so these can be shared with the other Directors at the meeting. Meeting attendance by the Directors is shown in the next column.

At each meeting, the Chief Executive Officer and Chief Finance Officer reported on operational and financial performance.

The Chairman met privately with the Senior Independent Director and the Non-Executive Directors during the year.

DIVERSITY

A Diversity Policy was approved and adopted by the Board during the year. All aspects of diversity, including age, gender, educational and professional backgrounds, are considered at every level of recruitment.

The Board recognises the benefits of having a diverse Board, and sees diversity at Board level as important in maintaining good corporate governance and Board effectiveness. esure is committed to engaging a broad set of qualities and competencies when recruiting Board members.

All Board appointments are made on merit, in the context of the skills, experience, independence and knowledge which the Board as a whole requires to be effective.

We are committed to carrying out candidate searches across the widest possible pool of talent against a set of objective criteria based on merit, but with due regard to the benefits of diversity, including gender. Currently, 37% of the Board are female. Our Group Executive Committee has one woman on a Committee of seven members (14%).

We have signed up to the Women in Finance Charter. We shall continue to develop the potential of women throughout the Group.

| Diversity as at 31 January 2017 | Male | Female | Total |
|---------------------------------|------|--------|-------|
| Board | 5 | 3 | 8 |
| Group Executive | 6 | 1 | 7 |
| Senior managers | 38 | 17 | 55 |
| Managers | 17 | 14 | 31 |
| All employees | 936 | 932 | 1,868 |

Our Diversity Policy can be found on our corporate website at www.esuregroup.com/corporate-information/corporate-governance/Diversity.

DIRECTORS' EXTERNAL ACTIVITIES AND CONFLICTS OF INTEREST

Directors have a statutory duty to avoid situations in which they have a direct or indirect conflict of interest or possible conflict of interest with the Company. Under the Company's Articles of Association, the Board has the ability to authorise such potential conflicts and there is a procedure in place to deal with any actual or potential conflicts of interest. Prior to taking on additional responsibilities or external appointments, Directors are obliged to obtain authorisation from the Chairman and it is their responsibility to ensure that they will be able to meet the time commitment expected of them in their role at the Group. Any potential conflicts approved by the Board are recorded in an Interests Register, and are noted by the Board at its next meeting.

Executive Directors may take up one FTSE 100 non-executive directorship and are allowed to retain any fees they receive for such appointment. Darren Ogden does not hold any such directorship.

Leadership continued

THE BOARD OF DIRECTORS

During 2017 the Board comprised nine members: the Chairman, two Executive Directors and six Non-Executive Directors.

Directors' Board attendance

| Name of Director | Meetings attended | Possible attendance |
|--|-------------------|---------------------|
| Sir Peter Wood (Chairman) | 6 | 6 |
| Stuart Vann (Chief Executive Officer) ³ | 6 | 6 |
| Darren Ogden (Chief Finance Officer) | 6 | 6 |
| María Dolores Dancausa | 6 | 6 |
| Shirley Garrood | 6 | 6 |
| Martin Pike | 6 | 6 |
| Angela Seymour-Jackson | 6 | 6 |
| Alan Rubenstein ¹ | 6 | 6 |
| Peter Shaw ¹ | 6 | 6 |
| Peter Ward ² | 2 | 2 |

1 Alan Rubenstein and Peter Shaw were appointed on 8 March 2017.

2 Peter Ward stepped down as a Director on 17 May 2017.

3 Stuart Vann stepped down as Chief Executive Officer on 18 January 2018.

GROUP EXECUTIVE COMMITTEE

The Chief Executive Officer and Chief Finance Officer are complemented by a strong and experienced Senior management team. The Group Executive Committee is chaired by the Chief Executive Officer.

The roles of the Chairman and the Chief Executive Officer are separate, with responsibilities clearly divided.

THE CHAIRMAN

The Chairman is responsible for the leadership of the Board and ensuring its effectiveness in all aspects of its role, promoting the highest standards of corporate governance and ensuring effective communications with shareholders. The Chairman sets the agenda for Board discussions to promote effective and constructive debate and to support a sound decision-making process, ensuring that the Board receives accurate, timely and clear information, in particular about the Group's performance. Whilst the process for selecting a new Chief Executive Officer is underway, the Chairman will provide support to the Interim Chief Executive Officer. The Chairman is also Chairman of the Nomination Committee.

THE CHIEF EXECUTIVE OFFICER

The Chief Executive Officer is responsible for the performance and management of the Group's business.

Since 19 January 2018 an Interim Chief Executive Officer has been in place whilst the process of selecting a new Chief Executive Officer is underway.

In addition to membership of the Board, the Interim Chief Executive Officer leads the Group Executive Team in running the business and is charged with recommending and then implementing the Board's strategy. The Interim Chief Executive Officer is also responsible for ensuring effective internal controls and risk management systems are in place.

The Chairman and the Interim Chief Executive Officer meet regularly and keep in close contact as they are a critical link between the Board and Senior Management and liaise on strategic and other issues.

NON-EXECUTIVE DIRECTORS

The Non-Executive Directors bring a very broad level of experience and independent judgement to the Board and make a valuable contribution to achieving the Group's objectives. They provide a strong independent element on the Board and are well placed to challenge constructively and help formulate strategy. Shirley Garrood is the Deputy Chairman and also the Senior Independent Director. She supports the Chairman in his role and is also available as an additional point of contact for shareholders.

COMPANY SECRETARY

The Company Secretary provides administrative and logistical support to the Board. Advice and support are also given on governance, compliance and regulatory matters. The Company Secretary is available to advise all Directors and ensures that Board procedures are complied with. The Directors may also seek independent professional advice at the Company's expense. No such advice was sought during the year.

Effectiveness

THE BOARD OF DIRECTORS

The Board currently comprises eight members: The Chairman, one Executive Director and six Non-Executive Directors.

Alan Rubenstein and Peter Shaw were appointed as Non-Executive Directors on 8 March 2017. Peter Ward stepped down as a Non-Executive Director at the conclusion of the Annual General Meeting on 17 May 2017.

The Chairman, Sir Peter Wood, has served in this role since 2000 and, on appointment, was not independent. All six Non-Executive Directors are considered by the Board to be independent for the purposes of the UK Corporate Governance Code.

The Group therefore considers that it complies with the relevant requirements of the UK Corporate Governance Code in relation to the balance of Executive and independent Non-Executive Directors on the Board and with the requirements for the composition of the Group's Audit, Remuneration and Nomination Committees.

DIRECTORS' ELECTION AND RE-ELECTION

At the Annual General Meeting in 2017, all continuing Directors offered themselves for re-election. Each Director was re-elected and no Director received less than 90% in favour of the total votes cast. At the Annual General Meeting in 2018, all continuing Directors will again retire and all will offer themselves for re-election.

Biographical details of each of the Directors, together with details of their skills and experience, may be found on pages 32 and 33. Following a formal performance evaluation in 2017, the Board has concluded that each Director's performance continues to be effective and that the Directors continue to demonstrate commitment to the role and, accordingly, the Board recommends that shareholders approve the resolutions to be proposed at the 2018 Annual General Meeting relating to the re-election of the Directors.

EXECUTIVE DIRECTORS' SERVICE CONTRACTS AND NON-EXECUTIVE DIRECTORS' TERMS OF APPOINTMENT

The Chairman and the Executive Director have a service contract with the Group. The service contracts of the Chairman and the Executive Director can be terminated by not less than 12 months' notice by the Chairman or the Executive Director (as appropriate) and 12 months' notice by the Group.

As the Chairman is also a controlling shareholder in the Group, a Relationship Agreement between Sir Peter Wood and the Group is in place to ensure that the independence provisions as set out in the Listing Rules are complied with.

The Non-Executive Directors have a letter of appointment that sets out the terms and conditions of their directorship, including the fees payable and the expected time commitment. Each Non-Executive Director is expected to commit sufficient time, as is reasonably necessary, for the proper performance of his or her duties. Additional time commitment is required to fulfil the roles of Deputy Chairman, Senior Independent Director and Committee Chairman or Board Committee member.

SUCCESSION PLANNING AND BOARD APPOINTMENTS

The Nomination Committee has continued to work on ensuring an appropriate mix among both the Executive and Non-Executive Directors. It also kept under review the succession planning for Executive Directors, Non-Executive Directors and other senior executives.

On 18 January 2018, Stuart Vann stepped down as Chief Executive Officer. María Dolores Dancausa will step down as a Non-Executive Director at the conclusion of the Annual General Meeting on 17 May 2018.

In 2017 Peter Ward stepped down as a Non-Executive Director at the conclusion of the Annual General Meeting on 17 May 2017. As part of succession planning the Nomination Committee, having reviewed the skills required, recommended to the Board the appointments of Alan Rubenstein and Peter Shaw as Non-Executive Directors; the Board subsequently approved the appointments and they were appointed to the Board on 8 March 2017. The Committee also recommended to the Board the appointments of Alan Rubenstein as a member of the Audit and Nomination Committee and Peter Shaw as a member of the Risk and Remuneration Committees. Following Peter Ward's retirement on 17 May 2017, Peter Shaw was appointed Chairman of the Risk Committee. A search is currently underway for a new Chief Executive Officer and a Non-Executive Director.

The Board believes that it will continue to possess the relevant skills and competencies for the future under its succession plan.

BOARD INDUCTION AND PROFESSIONAL DEVELOPMENT

On joining the Board, Directors take part in an induction programme to increase their knowledge and understanding of the Group. In line with the normal process, Alan Rubenstein and Peter Shaw were provided with information about the Group, the role of the Board and the matters reserved for its decision. They were also provided with the Terms of Reference and membership of the main Board Committees, as well as corporate governance policies and procedures. As part of the induction programme, meetings were held with each of the Executive Directors, members of the Group Executive and senior managers across the Group.

The induction programme also included:

- Company structure and strategy;
- key people and succession plans;
- Board procedures including the governance framework, Board calendar, minutes from previous meetings, effectiveness reviews and action plans;
- finances, performance, operating plans, operational overview of all business areas; Group risk profile and our approach to risk;
- insight into key internal audits and areas of focus;
- share register and voting history and an overview of our Remuneration Policy; and
- Market Abuse Regulations and the Company's Share Dealing Policy.

Effectiveness continued

EVALUATION OF BOARD PERFORMANCE

The assessment of the Board's performance was conducted in accordance with the guidance set out in the UK Corporate Governance Code. As the 2015 review was conducted by an external facilitator, the 2016 and 2017 reviews were undertaken internally by the Chairman and Company Secretary, using comprehensive questionnaires.

The evaluation was based around a number of key areas:

- Board composition, role, skills, diversity, balance and experience;
- succession planning;
- Board leadership and culture;
- agenda, information and papers;
- strategic oversight;
- governance, regulatory compliance and support; and
- Committee performance.

The Board also assessed its progress against the action plan from the 2016 review, and concluded that good progress had been made against the plan.

The final report on the Board and its Committees was presented and discussed with the whole Board at its meeting in December 2017. The Chairman met individually with each Director to discuss the findings. The Senior Independent Director also met with the Directors to review the Chairman's performance. This review was then shared with the Chairman. Having gone through the effectiveness review, the Directors are satisfied that the Board and each of its Committees are operating effectively. The review has identified some actions that will help maintain and improve its effectiveness. Areas for improvement included: more contact with senior management below Group Executive level and to further develop strategic oversight.

Overall, the evaluation process confirmed that the Board was operating effectively with a culture that supported open and challenging debate and that all Directors individually made valuable contributions and demonstrated commitment to the role. In accordance with the UK Corporate Governance Code, the 2018 evaluation will be conducted by an independent external facilitator.

SHAREHOLDER ENGAGEMENT

The Chief Executive Officer, Chief Finance Officer and the Senior Independent Director and Deputy Chairman, as well as other senior executives, held meetings with a number of the Group's shareholders and prospective shareholders to discuss the Group's strategy and financial performance. All Non-Executive Directors, including the Senior Independent Director, have an invitation to attend investor meetings if they wish. The Directors are provided with regular reports on shareholders' and analysts' views and of changes in the holdings of the principal shareholders.

During the year, the Chairman, Martin Pike as Chairman of the Remuneration Committee, and Shirley Garrood, as the Senior Independent Director, had meetings with several of the Group's largest institutional shareholders to discuss our remuneration report and the governance of the Group.

The Group has established procedures to ensure the timely release of inside information and the publication of financial results and regulatory financial statements. The Disclosure Committee, a Committee of senior executives and chaired by the Company Secretary, also reviews all significant announcements for accuracy and compliance requirements.

SUBSTANTIAL SHAREHOLDINGS

The holdings of our major shareholders can be found in the Directors' Report on page 67.

SHAREHOLDER SERVICES

The share register is managed on the Group's behalf by Equiniti Ltd. Shareholders are able to carry out a number of online administrative transactions, such as checking their holdings and dividend accounts, changing address details and arranging for dividends to be paid directly into a bank account.

WEBSITE

The Group's website www.esuregroup.com provides a source of information for shareholders about the Group and contains financial presentations and investor publications, including the online Annual Report and recent press releases.

Further information about our registrars, shareholder services, investor relations and our principal shareholders can also be found on the website.

ADDITIONAL INFORMATION

The following information, which is required to be disclosed within the Corporate Governance Report, can be found in the Directors' Report and is incorporated by reference:

- Substantial shareholdings – page 67.
- Special rights – page 68.
- Appointment, retirement and removal of Directors – page 65.
- Purchase of own shares – page 67.

ANNUAL GENERAL MEETING

The Annual General Meeting ('AGM') provides all shareholders with the opportunity to develop their understanding of the Group's strategy and operations, and to ask questions of the full Board on the matters to be put to the meeting, including the Annual Report. All Board members attend the AGM and, in particular, the Chairmen of the Audit, Nomination and Remuneration Committees are available to answer questions.

All resolutions proposed at the 2017 AGM, which were considered on a poll, were passed with votes ranging from 83.37% to 100% of the total votes cast.

Audit Committee



Shirley Garrood
Chairman of the Audit Committee

The members of the Audit Committee at 31 December 2017 and attendance at the six Committee meetings held during the year were:

| | Meetings attended | Meetings eligible to attend |
|-----------------------------------|-------------------|-----------------------------|
| Shirley Garrood (Chairman) | 6 | 6 |
| Martin Pike | 6 | 6 |
| Alan Rubenstein ¹ | 5 | 6 |
| Peter Ward ² | 2 | 3 |



2016/17 ACHIEVEMENTS

- Publication of the first Solvency II reporting in May 2017.
- Robust challenge of significant financial judgements.
- Effective scrutiny and follow up of internal and external audit reports.



2017/18 FOCUS

- Outstanding claims reserves.
- New reporting required under Solvency II.
- Challenges and opportunities presented to the Group by IFRS 17.

- 1 Alan Rubenstein was appointed as a member of the Committee on 8 March 2017.
- 2 Peter Ward stepped down as a Director and Committee member on 17 May 2017.

DEAR SHAREHOLDER

The Audit Committee has remained at the heart of the Group's governance process this year, working in tandem with the Risk Committee to ensure that the Group maintains a strong internal control environment.

The Committee has, this year, focused on outstanding claims reserves, Financial Reporting, including the change in segmental reporting, the effectiveness of internal controls and challenged the work of both internal and external audit.

Looking forward, the Committee expects its key focus over the next year to be on outstanding claims reserves, new reporting required under Solvency II and the challenges and opportunities presented to the Group by IFRS 17.

During the year I was delighted to be able to meet, along with the Chairman of the Remuneration Committee, shareholders to answer any questions they had relating to the governance of the Group and our role as Non-Executive Directors.

As Chairman of the Audit Committee I will be at the Annual General Meeting to answer any questions from shareholders about the activities of the Committee.

AUDIT COMMITTEE COMPOSITION AND MEETINGS

The Audit Committee currently has three members, all of whom are independent Non-Executive Directors, in keeping with the requirements of the Code.

During the year, Alan Rubenstein was appointed to replace Peter Ward, who has retired after giving exceptional service to the Committee.

To discharge its functions effectively, the Audit Committee has unrestricted access to the Group's external and internal auditors, with whom it also meets without the Executive Directors or other management present. This allows the Committee to ensure that there are no restrictions on the scope of these audits and allow discussions on any matters that the auditors might not wish to raise in the presence of management. During 2017 four such meetings were held.

The Chairman, the Chief Executive Officer, the Chief Finance Officer, the Chief Risk Officer, the Chief Operating Officer and the Company Secretary, along with the external and internal auditors, are invited to attend meetings of the Committee. Other members of senior management are invited to present reports as necessary.

Cross-membership of the Committee and the Risk Committee has permitted both Committees to ensure that their Terms of Reference remain appropriate to cover both the internal control and risk management framework of the Group.

The Committee has reviewed the Financial Reporting Council ('FRC') guidance on audit committee competencies and can confirm that all three members of the Committee have extensive commercial insurance experience (see pages 32 and 33 for full details) therefore satisfying the requirements. In addition, the Committee has identified the Chairman as the Committee's designated financial expert.

Audit Committee continued

RESPONSIBILITIES

The key responsibilities of the Committee are to assist the Board in discharging its duties in respect of:

- agreeing the scope of the external audit, receiving and reviewing reports from the Group's external auditor, monitoring its effectiveness and independence, and making recommendations to the Board in respect of the auditor's remuneration, appointment and dismissal;
- monitoring and reviewing Internal Audit activities;
- approving the annual Internal Audit plan and updates to that plan;
- reviewing the Annual Report and Accounts of the Group and other announcements relating to its financial performance;
- reviewing the effectiveness of the Group's system of internal controls; and
- the Group's Whistleblowing Policy.

The Committee is authorised to investigate any activity within its Terms of Reference and to seek any information that it requires from any employee. It has the right to consult professional advisors and, if it is not satisfied with the advice received, seek further independent professional advice.

The Committee's Chairman formally reports to the Board on its proceedings after each meeting.

TERMS OF REFERENCE

The Audit Committee's Terms of Reference can be viewed on our website at www.esuregroup.com/corporate-information/audit-committee, and are reviewed annually. These were last updated on 5 March 2018.

OVERVIEW OF THE ACTIONS UNDERTAKEN BY THE AUDIT COMMITTEE

The Audit Committee has concentrated on six key areas in the current year, with the table below detailing the key topics addressed at each meeting:

| | Mar | Apr | May | Aug | Sept | Dec |
|-------------------------------|-----|-----|-----|-----|------|-----|
| Financial reporting | ● | ● | ● | ● | ● | ● |
| Internal Audit | ● | | | ● | ● | ● |
| External Audit | ● | ● | ● | ● | | ● |
| Internal controls | ● | | | ● | | |
| Audit Committee effectiveness | | | | | | ● |
| Outstanding claims reserves | ● | ● | ● | ● | ● | ● |

SIGNIFICANT ISSUES AND KEY JUDGEMENTS



MATTER CONSIDERED

Outstanding claims reserves

This remains the most significant financial judgement for the Group's financial reporting. The Committee challenged both management's processes and controls and the key judgements made.

Segmental reporting

The Committee considered and challenged the view that the Group should adjust its operating segments from those reported in 2016.

Internal controls

The Committee was provided with controls observations by both internal and external audit. The Committee considered these, alongside updates from management, to satisfy itself that appropriate actions or mitigating controls are in place in response to any findings.



OUTCOME

The Committee is satisfied that the outstanding claims reserves included in these financial statements provide an appropriate margin over projected ultimate claims costs.

The Committee agreed that the new segmental reporting reflects the way in which the Group is now managed.

The Committee was satisfied that there were no significant failings or weaknesses identified and that any other matters had been satisfactorily addressed by management.

1. Financial Reporting

The Committee, with support and input from the external auditor, has challenged and reviewed the financial reporting for the Group, including the Annual Report and Accounts, Interim Report and Solvency II reporting.

As part of these reviews, the Committee has assessed whether suitable accounting policies have been adopted, whether management has made appropriate estimates and judgements and whether disclosures in this Annual Report and Accounts are fair, balanced and understandable.

The first Solvency II reports, for the year ended 31 December 2016, were published in May 2017 and the Committee considered and reviewed both the public reporting and the more detailed reporting to the PRA and recommended these to the Boards of the Group and esure Insurance Limited for approval.

The Group's control environment underpins the integrity of the financial statements and the Solvency II reporting. The Committee has considered reports from the Chief Risk Officer, Internal Audit function and external auditor to satisfy itself that the control environment supporting the financial statements is properly designed and operating effectively.

Significant financial judgements and financial reporting for 2017

As part of its review of the Annual Report and Accounts, the Interim Report and financial statements, and the Group's significant annual regulatory returns, the Committee has considered the following key areas:

Outstanding claims reserves

Outstanding claims reserves continue to be the most significant financial judgement relating to the Group's financial statements. As part of its consideration of this, the Committee received reports throughout the year from the external auditor, the internal actuary and the external actuary (Willis Towers Watson). The Committee also meets with the Chief Actuary without management present at least once a year – two such meetings took place in the 2017.

More detail on the key judgements around claims outstanding is provided on page 85 and 105 to 106.

The Committee, after challenging and debating the process, key judgements and assumptions and noting the inherent uncertainties associated with reserving for claims, is satisfied that outstanding claims reserves included in these financial statements provide an appropriate margin over projected ultimate claims costs.

Segmental reporting

The Committee considered and challenged the view that the Group should adjust its operating segments from those reported in 2016 to more closely reflect the management of the business after the demerger of Gocompare.com – with 'Motor' and 'Home' as the two segments. It was agreed that the new segmental reporting reflects the way in which the Group is now managed.

Other matters

The Committee also considered a number of less significant matters, including:

- new accounting standards which may impact the Group in the next few years including IFRS 9, IFRS 15 and IFRS 16, and most significantly, IFRS 17 *Insurance Contracts*;
- the classification of and accounting for new investment classes; and
- the new requirement for the Group to publish its Tax Strategy.

The Group has in place arrangements to ensure that the Annual Report, as a whole, is fair, balanced and understandable and provides shareholders with the information necessary to assess the Group's position and performance, business model and strategy. The Board asked the Committee to review the Group's viability statement and to advise whether the report as a whole is fair, balanced and understandable.

The Committee examined and challenged reports from management and the external auditor relating to the Annual Report and Accounts, including discussions with the Interim Chief Executive Officer, the Interim Chief Finance Officer, the Chief Actuary and the Chief Risk Officer. The Committee focused on the overall tone of the Annual Report and Accounts and consistency with internal reports and other information presented to the Committee throughout 2017.

The Committee challenged the appropriateness of the three-year period used by the Directors in their assessment of the Group's viability, as discussed on page 19, and noted that longer-term strategic developments and emerging risks had been considered over the longer time period.

The Committee reviewed and challenged the disclosure of Alternative Performance Measures ('APM') within the Annual Report and Accounts. The Committee concluded that the APMs disclosed were relevant and useful to stakeholders and that the explanations provided allowed users of the accounts to reconcile the APMs to the IFRS performance metrics.

After challenge and debate with both management and the external auditor, the Committee concluded that it could recommend to the Board that the 2017 Annual Report and Accounts are fair, balanced and understandable.

The Committee reviewed the Whistleblowing Policy and ensured any concerns raised were properly investigated.

2. Internal Audit

The Group has outsourced its Internal Audit function to Mazars LLP since 2010. The Committee supports the Board in fulfilling its responsibilities to review the activities, resources, organisational structure and the operational effectiveness of Internal Audit. After preliminary discussions with the Chairman, Mazars LLP presents its internal audit plans for approval to the Committee before the start of each year and provides an update and further plans mid-year. These plans are agreed in the context of a three-year rolling plan. In addition, Mazars LLP attend each Audit Committee meeting to report to the Committee on a more regular basis. As part of its review of the Internal Audit work plans, the Committee concluded that it was satisfied with the plans and that they were addressing the key risks.

The Committee has performed its annual review of the Internal Auditor and, having also considered management's opinion, the Committee was satisfied that the Internal Audit function remains independent, effective and fit for purpose. The Internal Audit Statement of Intent can be viewed on our website at www.esuregroup.com/corporate-information. This was last updated on 7 December 2017. The work performed by Internal Audit during the year is discussed further below.

3. External Audit

The Committee oversees the Group's relationship with the external auditor and conducts an annual, formal review of the relationship, policies and procedures to ensure independence.

The Group's policy on non-audit work is updated annually and can be viewed on our website at www.esuregroup.com/corporate-information. This was last updated on 7 December 2017. This policy ensures that external auditor independence is preserved, and sets out when it may be appropriate for the

Audit Committee continued

external auditor to provide other services and the governance and safeguards in place around such appointments.

The Committee receives reports twice a year detailing the fees paid to the external auditor for the provision of non-audit services. Non-audit fees paid to the external auditor in 2017 were £0.1m. Total audit fees for the Group were £0.4m. The Committee notes that this is in keeping with best practice and the requirement to be below 70% of the average Group statutory audit fee cap.

A full breakdown of non-audit fees paid during the year is disclosed within the Notes to the financial statements on page 91.

The Committee concluded that no conflicts of interest were found to exist between the work performed for the purpose of an external audit and the non-audit services provided by KPMG.

KPMG has been the Group's auditor since 2000, with Philip Smart, the current external audit engagement partner, being appointed to lead the audit in 2015. Philip Smart will rotate off after the 2019 audit.

The Committee considers the requirements of the UK Corporate Governance Code and the appropriateness of tendering the external audit contract as part of normal business practice. The Committee has reviewed the effectiveness of the external auditor, including consideration of the quality of the external auditor's report to the Committee, the interaction of the audit partner with the Committee and the findings of the AQR review of KPMG for 2016, and is satisfied with the performance and effectiveness of KPMG and has concluded that KPMG continues to display the necessary attributes of independence and objectivity. The Committee therefore has not considered it necessary to require the audit to be put out to tender this year.

As the Group's listing was in 2013, the transitional rules under EU legislation allow the Group to tender no later than 2023. The Committee is minded, subject to the ongoing assessment of effectiveness and independence, to tender following the implementation of IFRS 17 in 2021.

4. Internal controls

As previously stated, the Committee has cross-membership with the Risk Committee to support the Board in its responsibility for the Group's approach to risk management and internal controls. The Committee receives updates from the Chief Risk Officer and Internal Audit throughout the year.

The Committee challenged the Group Executive on the content and reliability of these reports and has been satisfied that appropriate actions or mitigating controls are in place in response to the findings from Internal Audit and the Chief Risk Officer. No significant failings or weaknesses were identified.

The Committee reviewed all internal audits, and of these the most significant internal audits addressing key risk areas during the year were:

- **Own Risk & Solvency Assessment ('ORSA')** – a review of the ORSA Report and the process for its production;
- **Fraud** – a review of processes and controls to detect and prevent internal and external fraud;
- **Change Management** – a review of Change Management processes and controls, focusing on a sample of significant projects;
- **Information Security & Cyber Risk** – a review of infrastructural and other IT/information security controls to protect the Group against, inter alia, data breaches and cyber attacks, including IT risk assessments, incident response plans and escalation processes;

- **General Data Protection Regulation ('GDPR')** – a review of project plans in place to ensure compliance with the new regulation coming into force in May 2018;
- **Procurement** – a review of processes and controls around third party relationships and expenditure;
- **Underwriting** – a review of underwriting processes and controls, including authorisations; and
- **Business Continuity Planning & Disaster Recovery Planning** – a review of processes and controls in place to ensure ongoing business activity in the event of a disaster or potential business interruption.

Internal Audit also followed up and reported to the Audit Committee on all outstanding actions from previous internal audits. Internal Audit assesses corporate culture during each of its audits and any significant cultural indicators or trends are reported directly to the Audit Committee.

5. Audit Committee effectiveness

During the year the Committee undertook an internal evaluation of its effectiveness and the results were discussed at the Board meeting in December 2017, concluding that the Committee remains effective and was functioning well.

CONCLUSION

As a result of its work during the year, the Committee has concluded that it has acted in accordance with its Terms of Reference.

On behalf of the Audit Committee.

Shirley Garrood
Chairman of the Audit Committee

Nomination Committee



Sir Peter Wood
Chairman of the Nomination Committee

COMPOSITION

The Nomination Committee is currently comprised of the Chairman and three independent Non-Executive Directors. Sir Peter Wood, the Chairman of the Board, chairs the Committee, except when the matters under consideration relate to him or succession to his role. The members of the Committee and attendance at scheduled meetings in 2017 are set out in the table above. The Board considers that all members of the Committee have recent and relevant experience (see biographies on pages 32 and 33).

RESPONSIBILITIES

The responsibilities of the Committee include reviewing the size, structure and composition of the Board and ensuring that the Board comprises the right balance of skills, knowledge and experience. The Committee considers the composition of the members on Board Committees. The Committee oversees the search and selection for new Directors and succession planning for Directors and senior management. The Committee's Chairman reports formally to the Board on its proceedings after each meeting.

KEY ACTIVITIES

The activities of the Nomination Committee during 2017 included succession planning for Executive Directors, Non-Executive Directors and the Executive Team and composition of the Board Committees.

By mutual consent, Stuart Vann stepped down as Chief Executive Officer with effect from 18 January 2018. The Committee recommended to the Board that during the process of selecting a new Chief Executive Officer, Darren Ogden, Chief Finance Officer, be appointed as Interim Chief Executive Officer. The Board subsequently approved the appointment with effect from 19 January 2018.

María Dolores Dancausa has decided to step down as a Non-Executive Director at the conclusion of the Annual General Meeting on 17 May 2018.

The Committee has appointed an independent external search and selection agency to carry out the search for the new Chief Executive Officer and Non-Executive Director.

As part of our succession planning, the Committee undertook a search for two new Non-Executive Directors in 2017. Sam Allen Associates were appointed to carry out the search. The list of candidates researched by Sam Allen Associates

DIRECTORS' ATTENDANCE

| Director | Meetings attended | Possible attendance |
|-------------------------------------|-------------------|---------------------|
| Sir Peter Wood (Chairman) | 2 | 2 |
| María Dolores Dancausa ³ | 2 | 2 |
| Shirley Garrood | 2 | 2 |
| Alan Rubenstein ¹ | 2 | 2 |
| Peter Ward ² | – | – |

- 1 Alan Rubenstein was appointed a member of the Committee on 8 March 2017.
- 2 Peter Ward stepped down as a Director and member of the Committee on 17 May 2017.
- 3 María Dolores Dancausa will step down as a Director and member of the Committee on 17 May 2018.

was reviewed. The list profiled the candidates against key competencies and experience required. Candidates were then selected for interview. Shirley Garrood and Martin Pike met with the candidates and identified Alan Rubenstein and Peter Shaw as our preferred candidates. Arrangements were then made for them to meet with the Chairman and the Chief Executive Officer. They then met with other Board members. Following these meetings, the Committee recommended the appointments of Alan Rubenstein and Peter Shaw to the Board. The Board subsequently approved the appointments and they were appointed to the Board on 8 March 2017.

The Committee confirms that Sam Allen Associates has no other connection with the Group.

MEETINGS

The Committee meets at least twice a year, or more frequently if required. Two members, both of whom must be independent Non-Executive Directors, constitute a quorum. Other regular attendees at Committee meetings include the Chief Executive Officer, the role currently being undertaken by the Interim Chief Executive Officer, and the Company Secretary.

COMMITTEE CHANGES

The Committee kept the membership of the Board Committees under review. Following the Committee's recommendations to the Board:

- Peter Shaw was appointed to the Board on 8 March 2017 and was also appointed as a member of the Risk and Remuneration Committees.
- Alan Rubenstein was appointed to the Board on 8 March 2017 and was also appointed as a member of the Audit and Nomination Committees.
- Peter Shaw was appointed as Chairman of the Risk Committee on 17 May 2017.

TERMS OF REFERENCE

The Nomination Committee's Terms of Reference can be viewed on our website at www.esuregroup.com/corporate-information/corporate-governance/nomination-committee.

Risk Committee



Peter Shaw
Chairman of the Risk Committee

DIRECTORS' ATTENDANCE

| Director | Meetings attended | Possible attendance |
|------------------------------------|-------------------|---------------------|
| Peter Shaw ¹ (Chairman) | 6 | 6 |
| Martin Pike | 6 | 6 |
| Angela Seymour-Jackson | 6 | 6 |
| Peter Ward ² | 2 | 3 |

- 1 Peter Shaw was appointed as a member of the Committee with effect from 8 March 2017 and took over as Chairman with effect from 17 May 2017.
 2 Peter Ward stepped down as Chairman of the Committee and a Director on 17 May 2017.

COMPOSITION

The Risk Committee currently has three members, all independent Non-Executive Directors, and has been chaired by Peter Shaw since 17 May 2017, following the resignation of Peter Ward as a Director of the Company. The Committee members and attendance at scheduled meetings in 2017 are set out in the table above. The Chief Executive Officer, Chief Finance Officer, Chief Risk Officer, Deputy Chief Risk Officer, Head of Risk & Capital and Company Secretary attend each meeting. The Committee meets with the Chief Risk Officer without the Executive Directors or other management present, at least once a year.

RESPONSIBILITIES

The responsibilities of the Committee are to advise the Board on the Group's risk strategy, risk policies and current risk exposures, including any prudential risks, overseeing the implementation and maintenance of the overall risk management framework and management systems, and reviewing the Group's risk assessment processes and capability to identify and manage new risks. The Committee's Chairman reports formally to the Board on its proceedings after each meeting.

KEY ACTIVITIES

The activities of the Risk Committee during 2017 included review and oversight of the ORSA processes and Governance and Risk Framework. This included the consideration of the strategic risk objectives and risk appetite, risk policies, risk and compliance plan, reinsurance, reportable events and emerging risks and opportunities, stress and scenario testing, and assessing the adequacy and effectiveness of risk management systems.

The Committee also reviewed the impact of changes to the Ogden discount rate and whiplash reforms (Civil Liberty Bill to be implemented in 2019), Solvency II, the Rating environment and Reserving reviews. The Committee agreed the validation framework for the preparation of technical provisions for year-end reserving.

During the year the Risk Committee reviewed cyber risk due to the cyber crime threat increasing, in particular ransomware attacks, and to view extreme scenarios which have been seen at other companies and how these might affect data in the business. The Committee also confirmed their commitment to drive top-down culture of risk awareness around financial crime to minimise avoidable reputational, regulatory or other risks arising from it.

The Committee was provided with updates on the General Data Protection Regulation ('GDPR') provisions due to come into force in May 2018.

MEETINGS

The Committee meets at least four times a year, or more frequently if required, and any two members constitute a quorum.

TERMS OF REFERENCE

The Risk Committee's Terms of Reference can be viewed on our website at www.esuregroup.com/corporate-information/corporate-governance/risk-committee.

Remuneration Committee



Martin Pike
Chairman of the Remuneration Committee

DIRECTORS' ATTENDANCE

| Director | Meetings attended ¹ | Possible attendance |
|-------------------------|--------------------------------|---------------------|
| Martin Pike (Chairman) | 4 | 4 |
| Shirley Garrood | 4 | 4 |
| Peter Ward ² | 1 | 2 |
| Peter Shaw ³ | 3 | 3 |
| Angela Seymour-Jackson | 4 | 4 |

- 1 These relate to scheduled meetings. There was also one other ad hoc meeting.
- 2 Peter Ward stepped down as a member of the Committee on 17 May 2017.
- 3 Peter Shaw was appointed as a member of the Committee on 8 March 2017.

COMPOSITION

The Remuneration Committee currently has four serving members, all of whom are independent Non-Executive Directors. The members of the Committee and attendance at scheduled meetings in 2017 are set out in the table above.

The Chairman, Chief Executive Officer, Chief Finance Officer, Chief Risk Officer, Company Secretary and the HR Director may, by invitation, attend Committee meetings, except when their own remuneration is discussed. No Director is involved in determining his or her own remuneration. None of the Committee members have had any personal financial interest, except as shareholders, in the matters decided.

RESPONSIBILITIES

The responsibilities of the Committee are to determine and agree with the Board the Remuneration Policy and total individual remuneration packages of the Chairman, Executive Directors and senior management, including, where relevant, benefit and pension arrangements, determine and agree with the Board any performance-related pay schemes for senior management and oversee any major changes in employee benefit structures throughout the Group.

The Committee takes into consideration the pay and conditions of employment for the wider employee population when considering Executive Directors' remuneration.

The Committee is authorised to investigate any activity within its Terms of Reference and to seek any information that it requires from any employee. It has the right to consult professional advisors or, if it is not satisfied with the advice received, seek further independent professional advice at the Company's expense.

The Committee's Chairman reports formally to the Board on its proceedings after each meeting. The Directors' Remuneration Report, which describes the Committee's actions and its remuneration policies in more detail, is set out on pages 46 to 64.

MEETINGS

The Committee meets at least four times a year, or more frequently if required, and any two members constitute a quorum.

TERMS OF REFERENCE

The Remuneration Committee's Terms of Reference can be viewed on our website at www.esuregroup.com/corporate-information/corporate-governance/remuneration-committee.

Directors' Remuneration Report Annual Statement

DEAR SHAREHOLDERS,

On behalf of the Remuneration Committee, I am delighted to present esure's 2017 Directors' Remuneration Report.

This year the Committee's activities were focused on the continued implementation of our Remuneration Policy and monitoring of its ongoing appropriateness in the current environment, and reviewing the Executive Directors' remuneration arrangements as well as those for our Group Executive. The Committee has also progressed with the embedding of Solvency II within our Group-wide Remuneration Policy, covering issues such as the identification of 'Solvency II Staff' and reviewing our approach to risk adjustment.

In 2017, Peter Ward stepped down from the Committee and I would like to thank him for his great service since his appointment in 2001. I would also like to welcome Peter Shaw who joined the Committee in the year.

PERFORMANCE OUTCOMES IN 2017

Five years on from the Group's listing on the London Stock Exchange we are a bigger and better business. The Group has grown in this period to 2.4 million customers and delivered gross written premiums of over £800m in 2017. In addition, over the five-year period we have returned just under £300m to shareholders through dividends and created significant value for our shareholders through the acquisition and subsequent demerger of Gocompare.com.

The 2017 annual bonus was based on Group trading profit (60% of awards), personal and customer performance measures (25%) and strategic measures (15%). The Group achieved financial performance between threshold and target in 2017 together with good non-financial performance, which led to overall awards of 70% of salary for the Chief Executive Officer ('CEO') and 76% of salary for the Chief Financial Officer ('CFO') equating to 56% for the CEO and 60.8% for the CFO of their maximum opportunities.

Details of the 2017 bonus awards, including the level achieved and resulting payment outcomes, can be found on page 56. The financial targets are disclosed one year in arrears so as not to compromise our competitive standing by publishing any financial information that is commercially sensitive. In this context we are aware that our key competitors in our core markets are mostly parts of larger financial services groups which do not need to report granular targets within their own annual reports. To report our targets in advance would provide them with information about our plans which they could use to our disadvantage. The Committee is mindful of the shareholder appetite for increased transparency around remuneration outcomes and will continue to monitor the ongoing appropriateness of our approach going forward.

Awards to Executive Directors under the 2015 Performance Share Plan are due to vest in early 2018, in respect of the performance period ended on 31 December 2017. Relative Total Shareholder Return ('TSR') performance for the 2015 awards was above upper quartile of the peer group and Earnings per Share ('EPS') performance was below threshold; therefore, this resulted in an overall vesting outcome of 33.3% of the maximum award available. Further details are provided on page 58.

BOARD CHANGES

Stuart Vann stepped down from the role of Chief Executive Officer on 18 January 2018. As a good leaver, Stuart will receive his normal payments in respect of his salary and pension contributions and will continue to be entitled to his normal contractual benefits during his 12-month notice period (expiring on his termination date of 18 January 2019). However, if the termination date is brought forward (for example, if he commences full-time paid employment during the notice period), Stuart will not be paid for what would otherwise be the remainder of his notice period.

Stuart will be entitled to receive a bonus for the entire 2017 performance year, subject to the satisfaction of the relevant performance criteria. This led to an overall award of 70% of salary, of which 30% will be deferred into an award of shares. He will also be entitled to receive a bonus for 2018, pro-rated for the period from 1 January to 18 January 2018 and subject to the satisfaction of the relevant performance criteria. Any bonus earned for the 2018 financial year will not be subject to deferral.

The Committee determined that Stuart is entitled to retain his outstanding Deferred Bonus Plan ('DBP'), Performance Share Plan ('PSP') and Strategic Leadership Plan ('SLP') awards, which will vest on their normal vesting dates (subject to the achievement of performance conditions in the case of the PSP and SLP). His 2016 and 2017 SLP awards will be pro-rated for time for the period from the start of the relevant performance period to 18 January 2018. Stuart also retained his Restructuring Award Plan ('RAP') award which vested in November 2017 and is subject to a holding period; this will be released according to its normal schedule.

Further details are provided on page 61.

IMPLEMENTATION OF REMUNERATION POLICY IN 2018

Darren Ogden has stepped up to the role of Interim Chief Executive Officer and was awarded a temporary increase in base salary to reflect his additional responsibilities in this role. His salary will be increased from £355,500 to £472,050 while he is in the Interim Chief Executive Officer role. His pension allowance will be based on his enhanced salary while he is in the role (pro-rated if he is only in the interim role for part of the year).

The annual bonus for 2018 will again be based on 60% Group trading profit performance, 25% on personal and customer performance measures and 15% on strategic measures. The maximum opportunity remains unchanged at 125% of salary for the Interim Chief Executive Officer. This will be based on his enhanced salary for the period he is in the role of Interim Chief Executive Officer (pro-rated if he is only in the interim role for part of the year).

Darren Ogden will receive a grant of 210% of salary under the SLP in 2018. For the purposes of determining the grant size, his enhanced salary will be used. This reflects the Interim CEO's extensive involvement in progressing esure's strategic direction for 2018 and beyond and his critical role in driving the strategy over the coming months. This incentive plan is intended to reward the Executive Directors, Group Executive and other senior individuals for the delivery of superior strategic performance and the targets are very stretching. The SLP awards will continue to be based on absolute total shareholder return ('TSR') for three-quarters of the award and the remaining portion on relative TSR, the targets for which are set out on page 62.

CORPORATE GOVERNANCE DEVELOPMENTS

The Committee remains conscious of the shareholder environment and continues to monitor the latest corporate governance developments, including the proposed changes to the UK Corporate Governance Code and the disclosure of the gender pay gap.

The Committee, along with the rest of the Board and management, continues to monitor the gender pay gap within esure's workforce. Following the introduction of the requirements for UK firms to disclose their gender pay gap, esure has published details of many of the steps we have taken, and continue to take, to help reduce the gap. This includes our decision to sign up to the Women in Finance Charter in March 2017. Our gender pay disclosures can be found at <https://www.esuregroup.com/corporate-information/corporate-social-responsibility.aspx>.

The Committee is conscious of all proposed amendments to the Corporate Governance Code and will review the current Remuneration Policy and arrangements for Executive Directors once the revised Corporate Governance Code has been published.

OTHER KEY ACTIVITIES AND SHAREHOLDER CONSULTATION

The Committee met four times in the year. Activities carried out in the year are listed on page 45.

The Committee is dedicated to ensuring there is open and transparent interaction with our shareholders. The 2016 Annual Report on Remuneration received an 84.26% vote in favour and whilst we consider this to be a good indicator of support, we undertook a summary shareholder consultation exercise with our larger shareholders in late 2017 to gather feedback on our current arrangements and to better understand our shareholders' priorities around remuneration.

A new Remuneration Policy will be presented to shareholders for approval at our 2019 AGM and we will therefore consult further with them as we develop this over the coming year.

I trust this report gives a helpful summary of our Remuneration Policy and its application and that we can look forward to your support for our proposals at the AGM on 17 May 2018.

Yours sincerely,

Martin Pike
Chairman of the Remuneration Committee



Remuneration highlights

EXECUTIVE REMUNERATION IN 2018

The arrangements for the Interim Chief Executive Officer in 2018 will be as follows:

| Base salary | Benefits | Pension | Annual bonus | Strategic Leadership Plan | Shareholding requirement |
|---|--|--|---|---|--------------------------|
| £472,050 | Include family private healthcare, death in service life assurance and participation in all-employee share plans | 16% of salary | 125% of salary | 210% of salary | 200% of salary |
| Temporary increase from 2017 salary of £355,500 while in Interim CEO role | | Based on higher salary while in Interim CEO role, pro-rata for time in this role during 2018 | Based on higher salary while in Interim CEO role, pro-rata for time in this role during 2018; 30% deferral of the bonus | Higher salary used to determine grant, given critical role in driving future strategy | |
| 2017: £355,500 (as CFO) | 2017: No change | 2017: 16% of salary | 2017: 125% of salary | 2017: 210% of salary | 2017: No change |

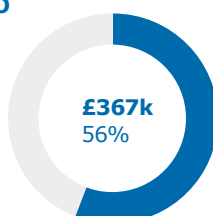
2017 REMUNERATION OUTCOMES

Annual bonus outcomes

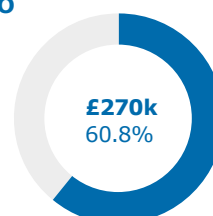
(% of maximum)
Assessed against:

- Profit (60%)
- Strategic (15%)
- Customer/People/Business controls (25%)

CEO



CFO

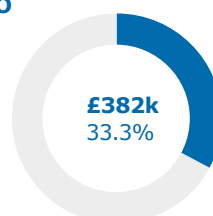


2015 Performance Share Plan outcome

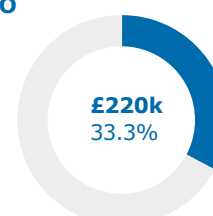
(% of maximum)
Assessed against:

- Relative Total Shareholder Return (33.3%)
- Earnings per Share (66.6%)

CEO

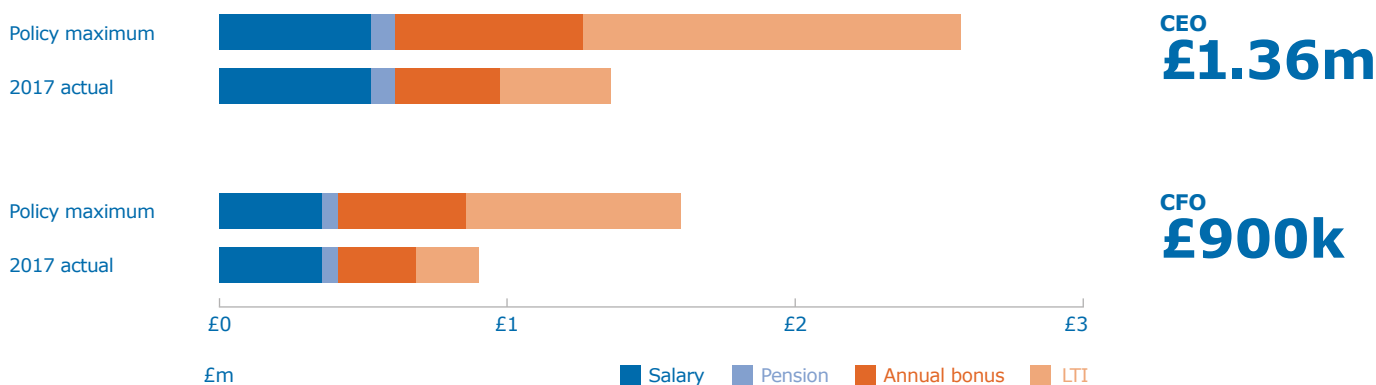


CFO



2017 ACTUAL REMUNERATION PAID VS. POLICY

The chart below details the actual remuneration paid (excluding taxable benefits) to the CEO and CFO in 2017 vs. the maximum total remuneration available under the policy.



Directors' Remuneration Policy

This section presents the Directors' Remuneration Policy (the 'Policy') for 2016 and beyond. The Policy contained herein was put to a binding vote at the 2016 AGM and became effective on 12 May 2016, following approval from shareholders.

No changes to the Policy are proposed for 2018 and, as such, this section of the report is reproduced here for reference only. Details of how the Policy will be implemented in 2018 are provided in the Annual Report on Remuneration which starts on page 54.

REMUNERATION PRINCIPLES

The Group seeks to attract and retain the best talent for the benefit of the business and to align the interests of Executive Directors, senior management and employees with the long-term interests of shareholders and other stakeholders.

To that end, the Group's remuneration policies aim to provide appropriate reward for good performance without creating incentives that will encourage excessive risk taking. In setting the Policy, the Committee has regard to the provisions within the FCA's Remuneration Code (even though the Group is not required to comply with that code) and to the anticipated requirements of Solvency II. In particular, the Committee considers carefully the link between remuneration and risk and if there is cross-membership of the Risk Committee and the Remuneration Committee.

POLICY TABLE

| Purpose and link to strategy | Operation | Opportunity |
|--|---|--|
| Salary To pay Executive Directors at a level commensurate with the size and scope of their role and their contribution to the Group and appropriately set for each individual. Set at a level that maintains an appropriate balance between fixed and variable pay ensuring good risk management and no undue emphasis on variable pay. | Takes account of individual skills, performance, experience, responsibilities and pay, as well as internal relativities within the wider employee population. Set with reference broadly to mid-market levels and to remuneration generally within the Group and other appropriate comparator companies of a similar size and complexity to the Group. Normally reviewed annually with changes effective from 1 January. Paid in cash. | Details of the current salaries for the CEO and CFO are set out on page 54. There is no prescribed maximum annual increase. However, the Committee is guided by the general increase for the broader employee population. Larger increases may be awarded where the Committee determines it appropriate to take into account a change in role and/or responsibilities, a significant change in the size, composition and/or complexity of the Group, the increased experience or performance in role of the Executive Director or where other exceptional circumstances exist. |
| Annual bonus Incentivises and rewards annual delivery of financial and non-financial objectives. | The Committee sets the performance measures, targets and the weighting between them annually to reflect the key priorities for the business for the year ahead and may vary them from year to year. All or a majority of the annual bonus will be weighted to one or more financial measures set on a sliding scale basis. Non-financial metrics, including delivery of strategic and personal objectives (up to a maximum of 40% of the total bonus), may be set by the Committee if it determines it appropriate. At least 30% of the annual bonus will be deferred into an award of shares under the Deferred Bonus Plan ('DBP') each year, with the deferred portion vesting in equal thirds over a three-year period. The portion to be deferred and the timeframe for deferred awards to be released may be amended, in particular if any such changes are required from a regulatory perspective. The remaining portion of the bonus which is not deferred will be paid in cash. Malus and clawback provisions apply (see page 51). Furthermore, the Committee has overriding discretion to scale back annual bonus payments in the event of, inter alia, risk or regulatory compliance issues and in the event that the level of bonus represents an excessive proportion of the Group's overall profit. | The maximum bonus opportunity under the Policy has been set at 125% of salary for the Executive Directors for each financial year. No more than 25% of the maximum opportunity is payable for threshold performance. |

CONSIDERATION OF SHAREHOLDER VIEWS

The Committee carried out a shareholder consultation on the proposed new Policy in early 2016. Shareholders were largely supportive and their feedback was carefully considered when finalising the details of the Policy. The Committee will also consider any shareholder feedback received at the next AGM and any other feedback received at any other time as part of the review of Executive Directors' remuneration and when implementing the Policy.

CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE GROUP

The Committee regularly reviews remuneration trends across the Group, including the differential between the total remuneration at the highest and lowest levels of employees within the Group, and these were taken into account when setting the Policy. However, there has been no formal consultation with employees in determining the Policy.

The table below summarises the key elements of the Policy.

Directors' Remuneration Policy continued

| Purpose and link to strategy | Operation | Opportunity |
|---|--|--|
| <p>Strategic Leadership Plan ('SLP')</p> <p>To encourage and reward delivery of the Group's longer-term strategic objectives.</p> <p>Aligns the interests of Executive Directors with the interests of shareholders through the use of share-based awards.</p> | <p>Awards normally vest subject to satisfaction of applicable performance conditions measured over at least three years. Typically, a holding period (expected to be two years for awards made in 2016) will apply post-vesting, unless the Committee determines otherwise.</p> <p>Performance conditions for 2016 awards are based on absolute (75%) and relative (25%) TSR.</p> <p>The Committee may use alternative measures, for example EPS, and weightings for future awards if it deems this appropriate. However, at least part of the total award will be determined by a share price-based metric.</p> <p>The Committee has an overriding discretion to scale back vesting of the awards in certain events such as where the level of vesting represents an excessive proportion of the Group's overall profit, or where a significant one-off event which affects Group performance occurs during the SLP performance measurement period.</p> <p>Malus and clawback provisions will apply, see page 51.</p> | <p>The maximum award limit, except for recruitment awards (see recruitment section), in respect of any financial year under the Policy is 300% of salary (face value at date of grant) being the maximum under the plan rules. The Committee may not decide to grant at maximum levels each year. 15% of the award vests for threshold performance with 100% vesting for maximum performance.</p> |
| <p>Pension</p> <p>Provided on a market-competitive basis, aids retention and follows the general reward structure. Encourages and assists with responsible provision for retirement.</p> | <p>Pension contributions and/or a cash allowance of up to 16% of salary may be paid in respect of each year.</p> | <p>Maximum is 16% of salary.</p> |
| <p>Benefits</p> <p>To provide market-competitive benefits.</p> <p>To ensure wellbeing of Executive Directors. To aid retention of our best people.</p> | <p>Benefits include, but are not limited to:</p> <ul style="list-style-type: none"> • family private healthcare; • death in service life assurance; and • participation in HMRC all-employee share plans. <p>The Group may award additional benefits where the Committee considers it appropriate (e.g. travel, accommodation and subsistence allowances where an Executive Director is asked to relocate).</p> | <p>There is no prescribed maximum value.</p> <p>The cost of the benefits provision is reviewed by the Committee on a periodic basis.</p> <p>All-employee share plans are subject to maximum limits as set by HMRC.</p> |
| <p>Chairman's remuneration and Non-Executive Director fees</p> <p>To remunerate the Chairman and Non-Executive Directors in an appropriate way, while enabling the recruitment and retention of high-calibre individuals.</p> | <p>Chairman</p> <p>The salary and any contractual benefits for the Chairman are determined by the Committee.</p> <p>Non-Executive Directors</p> <p>Fees for Non-Executive Directors are determined by the Chairman and the Executive Directors. The Chairman and Executive Directors are guided by market data for similar non-executive roles in other companies of a similar size and complexity as well as the experience and time commitment of its Non-Executive Directors.</p> <p>Non-Executive Directors may also receive a transport, hotel and incidental expenses allowance for their duties for the Group in respect of which the Group may discharge any related tax liability.</p> | <p>Fees are reviewed on an annual basis and any increases are typically in line with market levels. Details of the current salary of the Chairman and the fee levels for the Non-Executive Directors are set out in the Annual Report on Remuneration.</p> <p>There is no prescribed maximum annual increase. Total fees will not exceed the amount specified in the Group's Articles of Association of £2m.</p> |

LEGACY ARRANGEMENTS

It is proposed that no further awards will be granted to Executive Directors under the Performance Share Plan ('PSP'), subject to shareholder approval of the Senior Leadership Plan ('SLP') at the 2016 AGM; it is proposed it will be replaced by the SLP. Details of outstanding PSP awards are set out in the section headed 2015 PSP awards.

The Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy where the terms of the payment were agreed (i) before 13 May 2014 (the date the Group's first shareholder-approved Directors' Remuneration Policy came into effect); (ii) before the Policy came into effect, provided that the terms of the payment were consistent with the shareholder-approved Directors' Remuneration Policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a Director and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

NOTES TO THE POLICY TABLE

Performance conditions

TSR has been chosen as the most appropriate metric for SLP awards made in 2016 as it is strongly aligned with the Group's ambitious targets for delivering shareholder value. Stretching targets have been set for absolute TSR performance and these are set out in the Annual Report on Remuneration. The remainder of the TSR element is measured against the FTSE 250 Index (excluding investment trusts and the Company) and therefore provides a good measure of relative stock market performance, with management only being rewarded for the delivery of exceptional relative levels of return. A blend of these measures is considered to be a complementary mix of absolute and relative performance and focuses on superior stock market returns, in line with the Company's future strategy. The Committee, in selecting performance measures and setting targets, ensures that there is a strong link between the strategies adopted for the business and the targets set for each SLP award and annual bonus cycle. Performance targets will be set annually prior to awards being made with regard to the business strategy and economic and market environment at that time.

Share-based awards

Share-based awards under the SLP, DBP and PSP may:

- be made in the form of conditional share awards of nil-cost options or equivalent instruments;
- be settled in cash at the Committee's discretion;
- subject to any prevailing regulatory requirements, incorporate the right to receive the value of any awards that would have been paid on the shares that vest under an award on such basis and over such period (ending no later than the date the individual first becomes entitled to have underlying shares delivered to him) as the Committee may determine;
- have their performance conditions amended or substituted if an event occurs which causes the Committee to consider an amended or substituted condition would be more appropriate and not materially less difficult to satisfy; and
- be adjusted in the event of a variation of the Company's share capital or any demerger, delisting, special dividend or any other event which may in the Committee's opinion affect the current or future value of the Company's shares.

Malus and clawback provisions

Malus (the right to reduce the value of unvested awards) will apply to unvested awards under the DBP, PSP and SLP. Clawback will apply to vested awards under the DBP, SLP and PSP and the part of the annual bonus which is paid in cash. These provisions may be invoked at the Committee's discretion at any time prior to a takeover of the Company and within three years of the vesting of PSP awards and the payment of cash bonuses and six years of the grant of DBP and SLP awards.

The Committee has the discretion to invoke these provisions in the following circumstances:

- where there is a material misstatement of any Group member's financial results, or an error in assessing performance conditions applicable to PSP or SLP awards or calculating the bonus to which a DBP award relates is discovered;
- where the Committee becomes aware of any misconduct on the part of the individual; and
- for DBP and SLP awards only, where a material failure of risk management by a Group member is identified, or in the event of serious reputational damage to a Group member during the period commencing at the start of the performance period for SLP awards and the grant date for DBP awards and ending on the sixth anniversary of the grant date of the award.

Alignment with remuneration elsewhere in the Company

Where appropriate, the Committee aims for as much consistency as possible between the Policy for Executive Directors and the Remuneration Policy for employees across the Group as a whole. For example, all employees (including Executive Directors) participate in similar pension and benefits arrangements, and all participate in an annual bonus plan or profit sharing plan. Senior employees at Group Executive and Operational Executive level participate in the SLP, which is considered appropriate as senior executives are more able to influence the long-term strategic (as opposed to operational) success of the Group, as evidenced by long-term TSR performance. The Company encourages and helps facilitate share ownership by all employees by offering participation in the Company's Save As You Earn Plan.

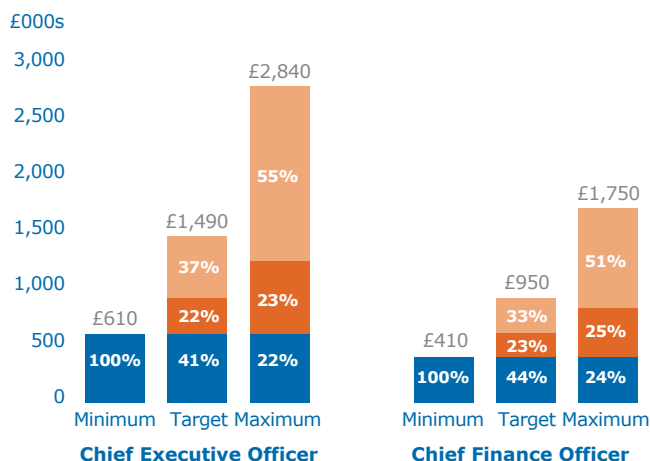
Illustrations of application of the Policy

The following chart provides an indication of the remuneration that each Executive Director might receive in accordance with the Policy for 2016 in respect of minimum (fixed pay), on-target and maximum performance.

The following assumptions have been made in compiling these illustrations of remuneration:

- Fixed pay for all three scenarios is based on salary levels for 2016, the cost of supplying the benefits received for 2015 and the current pension policy applied to 2016 salary.
- For illustrative purposes, on-target performance under the annual bonus at 50% of maximum and SLP is shown at 35% of maximum.
- Consistent with the Policy to be applied in 2016, the maximum bonus opportunity is shown as 125% of salary for the Chief Executive Officer and Chief Finance Officer. The SLP grant level is 300% of salary for the Chief Executive Officer and 250% of salary for the Chief Finance Officer is shown.
- No assumptions are made as to share price growth and dividend accrual, and these have been excluded from the analysis.

Directors' Remuneration Policy continued



The chart above is an illustration of application of policy as previously shown in the 2016 Remuneration Report.

APPROACH TO RECRUITMENT REMUNERATION

The Committee will aim to set a new Executive Director's remuneration package in line with the Policy approved by shareholders. New Executive Directors will participate in the annual bonus and the Strategic Leadership Plan on the same basis as existing Directors.

In arriving at a total package and in considering quantum for each element of the package, the Committee will take into account the size and scope of the role, the skills and experience of a candidate, the market rate for a candidate of that experience, as well as the importance of securing the preferred candidate. For international candidates, this may mean that consideration might be given to typical remuneration practices in the country of their previous employer. In respect of an individual's recruitment, annual bonus potential will not exceed 125% of salary and SLP awards will not exceed 300% of salary.

Special consideration may be given in the event that long-term incentive awards accrued at a previous employer are due to be forfeited on the candidate's leaving that company, in which case the Committee retains the discretion to grant further awards with vesting on a comparable basis to the likely vesting of the previous employer's award.

The SLP rules submitted to shareholders for approval at the 2016 AGM allow for a one-off award to be made to compensate the candidate for the loss of those awards with (in the case of the SLP) performance measures over such period as the Committee may determine. These recruitment awards will not count towards limits referred to in the policy table. For internal candidates, long-term incentive awards granted in respect of the prior role would be allowed to vest according to its original terms, or adjusted if appropriate to take into account the appointment.

For the appointment of a new Chairman or Non-Executive Director, the fee would be set in accordance with the approved Policy in force at that time. The length of service and notice periods shall be set at the discretion of the Committee, taking into account market practice, corporate governance considerations and the particular candidate at that time.

SERVICE CONTRACTS AND POLICY ON PAYMENT FOR LOSS OF OFFICE

The Company's policy is that service contracts do not have a specific duration but may be terminated with 12 months' notice from the Company or the Executive Director.

Under their letters of appointment, Non-Executive Directors' appointment is terminable by either party on three months' written notice except where the Director is not reappointed by shareholders, in which case termination is with immediate effect. The appointment letters for the Non-Executive Directors provide that no compensation is payable on termination, other than for accrued fees and expenses.

The Directors' service contracts and letters of appointment are available for inspection at the Group's registered office.

The obligations of the Group in respect of remuneration and payments for loss of office when a Director leaves the Group are set out on the next page.

Under their service contracts, the Executive Directors are entitled to salary (reviewed annually), pension contributions and benefits. The Chairman is entitled to salary (reviewed annually), private health cover and use of a driver (for business and a portion of personal travel). The Company reserves the right to settle any tax liability on these benefits on the Chairman's behalf. These benefits may be paid during the Director's notice period (although the Director is required to seek alternative employment in this time).

The service agreements of the Chairman and the Executive Directors can be terminated by not less than 12 months' notice by either party. The Company may put the Chairman and the Executive Directors on gardening leave during their notice period, and can elect to terminate employment by making a payment in lieu of notice equivalent to up to 12 months' salary. This payment may be made as either a lump sum on termination or with an amount equivalent to up to six months' salary payable in a lump sum on termination and six months' salary payable in monthly instalments from the seventh month to the twelfth month, subject to offset against any earnings elsewhere during that six-month period in any new role.

In addition, statutory entitlements or sums to settle or compromise claims in connection with a termination would be paid as necessary.

The Committee has a policy framework for payments for loss of office by an Executive Director, both in relation to the service contract and incentive pay, which is summarised below.

The recent performance of the Executive Director will be taken into account as a determining factor in the reason for the cessation and, therefore, the potential payments and scope for exercise of the Committee's discretion are as set out on page 53.

TAKEOVERS

If there is a takeover or winding-up of the Company, DBP, PSP and SLP awards will vest (and be released from their holding periods) early. The extent to which PSP and SLP awards vest in these circumstances will be determined by the Committee, taking into account any relevant performance conditions and, unless the Committee determines otherwise, the proportion of the original performance period that has elapsed at the time of the relevant event. If the Company is affected by a demerger, delisting, special dividend or other event which, in the Committee's opinion, may affect the current or future price of the Company's shares, it may allow awards to vest (and be released) early on the same basis as for a takeover. Alternatively, awards may be exchanged for equivalent awards in the acquiring company. In such circumstances, the Committee may also decide to pay a cash bonus in respect of the financial year in which the relevant event occurs (in all circumstances subject to the maximum set out in the policy table).

| | Category A | Category B | Category C |
|------------------------------------|--|--|--|
| | Voluntary resignation and termination for cause | Agreed terms | Death or cessation by reason of ill-health, disability, injury, or where the individual's employing company or business leaves the Group |
| Base salary, pension and benefits. | Paid only until employment ceases. | Paid for the notice period, subject to mitigation. | Paid only until employment ceases or for notice period (subject to mitigation) as described in the section headed 'service contracts and policy on payment for loss of office' depending on the reason for cessation. |
| Annual bonus (cash portion). | No entitlement. | Treatment will normally fall between A and C, subject to the discretion of the Committee, the terms of any termination agreement and the reasons for the Executive Director's departure. | Cessation during the financial year or after the financial year-end, but before payment date, may result in bonus being payable (pro-rated for the proportion of the financial year worked unless the Committee determines otherwise). Such bonuses may be settled wholly in cash. |
| Annual bonus (deferred portion). | Unvested awards will lapse on cessation of employment. | Treatment will normally fall between A and C, subject to the discretion of the Committee, the terms of any termination agreement and the reasons for the Executive Director's departure. | Awards will normally vest according to the usual schedule, unless the Committee determines that awards should vest at the time the individual ceases employment. Awards will normally vest early on the individual's death. |
| PSP awards. | Unvested awards lapse on cessation of employment. | Treatment will normally fall between A and C, subject to the discretion of the Committee, the terms of any termination agreement and the reasons for the Executive Director's departure. | <p>Awards will normally vest at the usual time subject to performance conditions being met.</p> <p>In the event of death of a participant, awards will typically vest early. In other exceptional circumstances, awards may vest early subject to performance at the date of cessation of employment.</p> <p>Awards are usually scaled back pro-rata to reflect the shorter period of service (but with the Committee having discretion not to scale back or to reduce the scale back).</p> |
| SLP awards. | Unvested awards will lapse on cessation of employment. Vested awards subject to a holding period will also lapse if the Executive Director's employment is terminated for cause. | Treatment will normally fall between A and C, subject to the discretion of the Committee, the terms of any termination agreement and the reasons for the Executive Director's departure. | <p>Awards will normally vest at the usual time (unless the Committee determines that awards should vest at the time the individual ceases employment), taking into account the extent to which the relevant performance conditions have been met. Awards are usually scaled back pro-rata to take account of the proportion of the original performance period that has elapsed when the individual leaves (but with the Committee having discretion not to scale back or to reduce the scale back).</p> <p>Vested awards subject to a holding period will be released from that holding period at the usual time, unless the Committee determines the holding period should end when the individual leaves employment. In the case of the individual's death, awards will normally vest (and be released from any holding periods) at the time of death on the basis set out above.</p> |
| Other payments. | None. | Possible disbursements such as legal costs and outplacement services. | |

Annual Report on Remuneration

This Report sets out the remuneration paid to Executive and Non-Executive Directors in 2017, along with the intended arrangements for 2018. Together with the Annual Statement by the Chairman of the Remuneration Committee, it will be put to an advisory shareholder vote at the 2018 AGM. The information that has been audited is separately identified as audited.

REMUNERATION PAYABLE FOR THE FINANCIAL YEAR 2017 (1 JANUARY 2017 – 31 DECEMBER 2017) (AUDITED)

The table below sets out the remuneration received by the Directors in relation to performance in 2017.

| | Salary and fees | | Taxable benefits ^{1,2} | | Pension ³ | | Annual bonus ⁴ | | Long-term incentives ⁵ | | Other ⁶ | | Total | |
|---|-----------------|-----------|---------------------------------|-----------|----------------------|-----------|---------------------------|-----------|-----------------------------------|-----------|--------------------|-----------|-----------|-----------|
| | 2017 £ | 2016 £ | 2017 £ | 2016 £ | 2017 £ | 2016 £ | 2017 £ | 2016 £ | 2017 £ | 2016 £ | 2017 £ | 2016 £ | 2017 £ | 2016 £ |
| Executive Directors | | | | | | | | | | | | | | |
| Stuart Vann | 524,500 | 522,661 | 2,882 | 3,502 | 83,866 | 78,909 | 367,150 | 539,252 | 381,949 | 249,824 | 0 | 1,500,000 | 1,360,347 | 2,894,148 |
| Darren Ogden | 355,500 | 355,500 | 1,889 | 2,518 | 56,880 | 56,881 | 270,180 | 365,498 | 219,941 | 139,744 | 0 | 1,000,000 | 904,390 | 1,920,141 |
| Total | 880,000 | 878,161 | 4,771 | 6,020 | 140,746 | 135,790 | 637,330 | 904,750 | 601,890 | 389,568 | 0 | 2,500,000 | 2,264,737 | 4,814,289 |
| Chairman and Non-Executive Directors⁷ | | | | | | | | | | | | | | |
| Sir Peter Wood | 730,000 | 730,000 | 66,375 | 57,267 | | | | | | | | | 796,375 | 787,267 |
| Martin Pike | 85,000 | 77,500 | | | | | | | | | | | 85,000 | 77,500 |
| María Dolores Dancausa | 63,000 | 61,500 | | | | | | | | | | | 63,000 | 61,500 |
| Shirley Garrood | 138,000 | 131,500 | | | | | | | | | | | 138,000 | 131,500 |
| Peter Ward ⁸ | 36,730 | 79,000 | | | | | | | | | | | 36,730 | 79,000 |
| Angela Seymour Jackson | 70,000 | 65,000 | | | | | | | | | | | 70,000 | 65,000 |
| Alan Rubenstein ⁹ | 55,387 | | | | | | | | | | | | 55,387 | 0 |
| Peter Shaw ¹⁰ | 67,325 | | | | | | | | | | | | 67,325 | 0 |
| Total | 1,245,442 | 1,144,500 | 66,375 | 57,267 | | | | | | | | | 1,311,817 | 1,201,767 |

1 The Executive Directors' benefits include family private healthcare and death in service life assurance.

2 The Chairman's benefits include private healthcare and the use of a driver. Value of the benefits for the Chairman after deducting qualifying business usage from the total cost of the benefit provided by the Company.

3 This includes 16% of salary in cash allowance in lieu of pension/pension contribution.

4 This relates to the payment of the annual bonus for the years ending 31 December 2016 and 2017. For the 2016 and 2017 annual bonus, a 30% portion was deferred into equal tranches to be released over a three-year period. Stuart Vann remained eligible to receive a bonus for 2017 as he served as a Director for the entirety of the performance period.

5 The 2015 PSP awards had a performance period ending on 31 December 2017 and vest on 25 March 2018. Further details can be found on page 58.

6 This relates to the Restructuring Award Plan ('RAP') which was approved by over 80% of shareholders at the General Meeting of the Company on 1 November 2016.

7 Non-Executive Directors' fees were reviewed in July 2017, see page 63 for further details.

8 Peter Ward stepped down from the Board and as a member of the Remuneration Committee on 17 May 2017.

9 Alan Rubenstein joined the Board and became a member of the Audit and Nomination Committees on 8 March 2017.

10 Peter Shaw joined the Board and became a member of the Remuneration Committee and the Risk Committee on 8 March 2017. He became Chair of the Risk Committee on 17 May 2017.

SALARIES FOR EXECUTIVE DIRECTORS (AUDITED)

The Executive Directors' salaries were reviewed in December 2017 for 2018 and it was decided they will remain unchanged at that time. Subsequent changes in response to changes in the roles are set out in this report on page 61.

The table shows the salaries as at 1 January 2017 and 1 January 2018.

| Executive | Salary as at 01.01.18 | Salary as at 01.01.17 | Increase |
|--------------|--------------------------|--------------------------|----------|
| Stuart Vann | £524,500 | £524,500 | 0% |
| Darren Ogden | £355,500 | £355,500 | 0% |

Stuart Vann stepped down as a Director on 18 January 2018. All payments during his notice period are based on the above salary. These are described on page 61.

PERFORMANCE OUTCOMES FOR INCENTIVE PLANS (AUDITED)

The Committee continues to be committed to aligning disclosure of the annual bonus operation as closely as possible with investors' expectations and market best practice. In previous years, the Committee has adopted the approach that financial targets would normally be disclosed retrospectively in the following year. The 2016 Directors' Remuneration Report provided details of the targets which had applied to the 2015 annual bonus and stated an intention to disclose the 2016 financial targets in the 2017 Directors' Remuneration Report.

The Board considers the 2017 financial targets to be commercially sensitive, given their close link to the Group's long-term strategy. Furthermore, it is the Committee's belief that disclosing targets for 2017 at this stage would put the Group at a competitive disadvantage.

Therefore, the Committee has taken the same approach as previously for the disclosure of financial targets. In line with the commitment in the 2016 Directors' Remuneration Report, the Committee has this year disclosed the targets in full in relation to the 2016 awards as they are no longer deemed to be commercially sensitive.

It is the Committee's intention to disclose financial targets in relation to 2017 awards in the 2018 Directors' Remuneration Report, when they are no longer expected to be commercially sensitive. The Committee remains mindful of evolving market practice around the disclosure of financial targets and will continue to monitor the ongoing appropriateness of this approach going forward and in light of shareholder feedback.

In terms of the disclosure of strategic and non-financial objectives, comprehensive disclosure has been provided as far as possible in respect of the 2017 awards. Details of non-financial targets for 2017 awards have been disclosed on page 56.

ANNUAL BONUS FOR THE YEAR ENDING 31 DECEMBER 2017 (AUDITED)

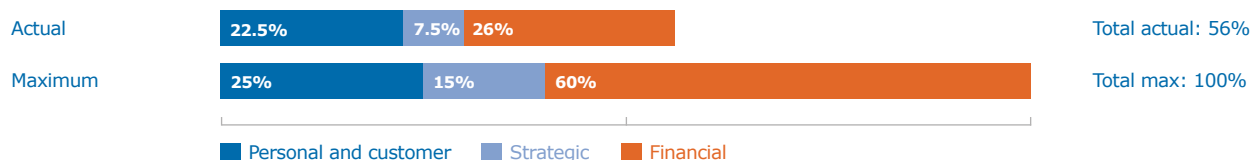
The annual bonus for 2017 was based 60% on a financial measure, 15% on strategic measures and 25% on personal and customer measures.

A risk adjustment process is in place for all measures and is described later in this section.

The illustrations below detail the CEO and CFO's performance outcome against each category of performance measure. The CEO stepped down on 18 January 2018 and therefore was eligible to receive an annual bonus award in respect of the 2017 performance year.

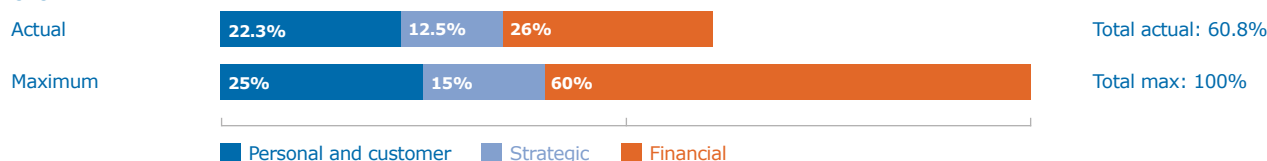
Overall, an outcome of 56% of maximum opportunity was awarded to the CEO, resulting in an annual bonus award of 70% of salary.

CEO



Overall, an outcome of 60.8% of maximum opportunity was awarded to the CFO, resulting in an annual bonus award of 76% of salary.

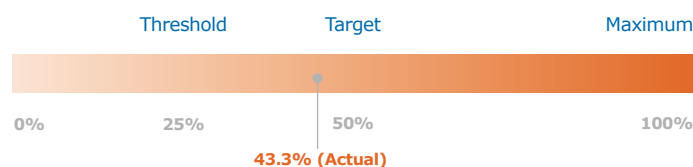
CFO



PERFORMANCE AGAINST 2017 FINANCIAL TARGETS (AUDITED)

The financial measure is assessed on the Group's trading profit with reference to a scale which includes threshold, target and maximum and a sliding scale between these points. Targets are set by the Committee each year with reference to the commercial environment. Actual trading profit from continuing operations was £111.3m and represented a good set of financial results for the year under review. Targets for 2017 will be published in the 2018 Directors' Remuneration Report.

See below for an illustration of how the performance outcome was calculated.



PERFORMANCE AGAINST STRATEGIC, PERSONAL AND CUSTOMER OBJECTIVES (AUDITED)

The specific strategic element was introduced to the annual bonus for the first time in 2016 and enabled a focused assessment of the Executive Directors' delivery of the strategic priorities for esure Group. In 2017 the focus was on growth in policy numbers, footprint expansion and delivering the IT strategy.

The personal measures aim to emphasise the importance of developing organisational capability and enhancing succession plans throughout the organisation and of operating within a prescribed risk and conduct framework. esure's employees are an essential asset for delivering sustainable growth and the personal element of the annual bonus enables an assessment of the Executive Directors' capabilities in supporting and developing the workforce.

The customer measures focus on embedding a culture that places customers at the heart of esure's business and is based on achievement against a wide range of measures which are assessed monthly and cover the broad range of customer outcomes.

Annual Report on Remuneration continued

As in previous years, the scale for the non-financial measures ranges from not achieved to fully achieved. Following an independent review by the Chief Risk Officer of the level of performance achieved, the Committee deemed that the CEO had achieved 30% of his objectives, and that the CFO had achieved 34.8% of his objectives (out of a maximum of 40%).

The table below provides further information on the strategic, personal and customer measures. Performance for all elements will be determined to be fully achieved (100% vesting), partially achieved (50% vesting) or not achieved (0% vesting).

PERFORMANCE AGAINST 2017 TARGETS

| | Description | Outcome |
|--|--|--|
| Strategic | | |
| | CEO <ul style="list-style-type: none"> Development of a number of key strategic priorities over the year including growth in policy numbers, footprint expansion and delivery of IT strategy. Significant investment in pricing and underwriting capability by considering the appropriate risk mix for contribution. | CEO: 7.5% |
| | CFO <ul style="list-style-type: none"> Oversee the control and implementation of an appropriate control framework to support the delivery of strategic initiatives. Successful determination of appropriate investment strategy to support the ORSA plan. | CFO: 12.5% (Max: 15%) |
| Personal and Customer | | |
| Customer | | |
| | CEO and CFO <ul style="list-style-type: none"> Embed a customer-focused culture that puts the customer at the heart of the business; assessed with reference to Net Promoter Score, of which the target for 2017 was to increase our score by 2 points. | CEO: 7.0% CFO: 7.0% (Max: 8.3%) |
| People | | |
| | CEO <ul style="list-style-type: none"> Successful development of organisational capability across the esure Group by measurement of employee engagement (for 2017, the target was to increase the score by 2%), building leadership pipeline, embedding performance management and commitments to gender diversity. | CEO: 8.3% |
| | CFO <ul style="list-style-type: none"> Development of organisational capability across the function with reference to strengthening teams and increasing employee engagement. | CFO: 8.3% (Max: 8.3%) |
| Business controls | | |
| | CEO and CFO <ul style="list-style-type: none"> Ensure alignment with regulatory requirements and that internal controls are met; assessed qualitatively. During the year the Executive Directors led the successful implementation of the Solvency II plan and maintained a strong capital position. | CEO: 7.2% CFO: 7.0% (Max: 8.3%) |
| Total vesting on achievement of strategic performance targets | | CEO: 7.5% CFO: 12.5% (Max: 15%) |
| Total vesting on achievement of personal and customer targets | | CEO: 22.5% CFO: 22.3% (Max: 25%) |
| TOTAL | | CEO: 30.0% CFO: 34.8% (Max: 40%) |

| Executive | Actual % of maximum achieved: | | | | Actual % of salary achieved: | | | | Total award £ |
|--------------|-------------------------------|----------------|-------------------------------|--------------|------------------------------|----------------|-------------------------------|--------------|------------------|
| | Financial % | Strategic % | Personal and customer % | Overall % | Financial % | Strategic % | Personal and customer % | Overall % | |
| Stuart Vann | 26 | 7.5 | 22.5 | 56 | 32.5 | 9.375 | 28.125 | 70.0 | 367,150 |
| Darren Ogden | 26 | 12.5 | 22.3 | 60.8 | 32.5 | 15.625 | 27.875 | 76.0 | 270,180 |

RISK ADJUSTMENT OF VARIABLE REMUNERATION

The Remuneration Committee monitors developments in regulatory guidance throughout the year, in particular in relation to Solvency II, and the assessment of annual bonus outcomes is carried out in the context of guidance regarding risk adjustments.

The Remuneration Committee has discretion to scale back annual bonus payments in the event of, inter alia, risk or regulatory compliance issues and also in the event that the level of bonus represents, in the Committee's view, an excessive proportion of the Group's overall profitability.

There were no events in 2017 as confirmed by the Chief Risk Officer which led the Committee to determine that a scale back of the annual bonus payment was appropriate. In addition, the Committee did not consider that the level of bonus represented an excessive proportion of the Group's overall profitability such that it should be scaled back.

Awards in 2017 were subject to deferral arrangements in line with the Directors' Remuneration Policy. 30% of awards will be deferred into shares, with the deferred portion vesting in equal thirds over three years.

STRATEGIC LEADERSHIP PLAN AWARDS MADE DURING THE YEAR (AUDITED)

On 20 March 2017, awards were made under the Strategic Leadership Plan to Executive Directors and a small number of other senior employees. 75% of the award is based on absolute TSR growth performance and 25% is based on relative TSR performance.

| Executive | Type of award | Basis of award granted | Share price on date of grant ¹ | Number of shares over which award was granted | Face value of award | % of face value which would vest at threshold | Performance period determining vesting |
|--------------|-------------------|------------------------|---|---|---------------------|--|---|
| Stuart Vann | Performance share | 250% of salary | £2.4140 | 543,185 | £1,311,249 | 15% of total award under both Absolute and Relative TSR conditions (i.e. 11.25% under Absolute TSR and 3.75% Relative TSR) | Absolute and Relative TSR condition – three years to 31 December 2019 |
| Darren Ogden | Performance share | 210% of salary | £2.4140 | 309,258 | £746,549 | | |

1 Share price on date of grant was calculated using a five-day averaging period prior to date of grant.

Details of the performance conditions set by the Committee are shown below. A holding period will apply post-vesting of two years.

| Performance conditions growth targets | Threshold (15%) vesting | Mid (35%) vesting | Good (66%) vesting | Maximum/exceptional (100%) vesting |
|--|-------------------------|-------------------|--------------------|------------------------------------|
| Absolute total shareholder return growth | 10.5% p.a. | 13.5% p.a. | 18.5% p.a. | 27.5% p.a. |
| Relative total shareholder return against the FTSE 250 (excluding investment trusts and the Company) | Median | Upper quartile | Upper quintile | Upper decile |

VESTING OF LONG-TERM INCENTIVE AWARDS FOR PERFORMANCE PERIODS ENDING DURING THE YEAR ENDING 31 DECEMBER 2017 (AUDITED)

Executive Directors were granted awards under the 2015 PSP, the vesting of which is due on 25 March 2018. Performance was assessed for the period from 1 January 2015 to 31 December 2017.

Awards were subject to EPS performance (two-thirds) and relative TSR performance (one-third) with performance measured over a three-year period. EPS was measured on a straight-line basis between a threshold growth target of 15% and a stretch target of 39%. The Group's TSR was ranked against the constituents of the FTSE 250, excluding investment trusts and esure. 25% of the TSR element of the award vests for median performance rising on a straight-line basis to 100% vesting for upper quartile ranking or above.

| EPS growth targets | 2015 awards |
|-------------------------|-------------|
| Threshold (25% vesting) | 15% |
| Stretch (100% vesting) | 39% |

EPS performance was below 15% growth which was below threshold for the performance period, resulting in nil vesting under this element of the award. Relative TSR performance was above upper quartile of the peer group, resulting in 100% vesting of the TSR portion. Therefore the 2015 awards achieved an overall vesting outcome of one-third of the maximum award available.

Annual Report on Remuneration continued

| Executive | Basis of award at grant | Face value of grant | Number of shares awarded at £2.2402 per share | % vesting | Number of shares vesting ¹ | Value of shares vesting at £2.62 per share ³ |
|--------------|-------------------------|---------------------|---|--------------------|---------------------------------------|---|
| Stuart Vann | 175% of salary | £847,873 | 378,481 | 33.3% ² | 145,782 | £381,949 |
| Darren Ogden | 150% of salary | £488,249 | 217,949 | 33.3% ² | 83,947 | £219,941 |

1 Includes dividends accrued over performance period.

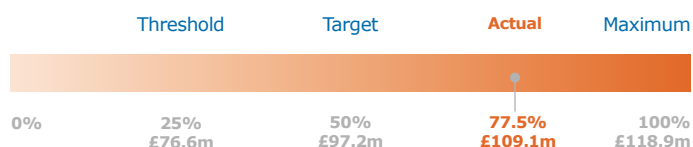
2 In the context of the demerger of Gocompare.com, the Committee determined that an adjustment to the measurement of EPS performance was necessary to enable continued measurement of performance on a 'like-for-like' basis. Therefore, the Committee used its discretion to determine that the 2015 EPS condition will be measured by excluding the impact of Gocompare.com from the base year EPS (i.e. comparing base year EPS for esure Group only with the final year EPS for esure Group at the end of the performance period). The growth targets themselves remain unchanged. This approach to determining EPS performance following the demerger was set out in the 2016 Directors' Remuneration Report.

3 Value of shares is based upon a three-month share price average in the last three months of the performance period. This value is estimated as shares are yet to vest.

ANNUAL BONUS FOR THE YEAR ENDING 31 DECEMBER 2016 (AUDITED)

As stated in the 2016 Directors' Remuneration Report, financial targets for the annual bonus awards received in relation to that year were not disclosed owing to their commercial sensitivity. The Committee now considers these targets no longer to be sensitive and, as such, they have been set out below.

The annual bonus for 2016 was based 60% on a financial measure, 15% on strategic measures and 25% on personal and customer measures. There were no events in 2016 which led the Committee to determine that a scale back of the annual bonus payment was appropriate. In addition, the Committee did not consider that the level of bonus represented an excessive proportion of the Group's overall profitability such that it should be scaled back. The outcome against the financial objectives during 2016 are set out below:



The table below details the overall payouts to Executive Directors in respect of the 2016 annual bonus. This was provided in the 2016 Directors' Remuneration Report and is reproduced here to show the outcomes of performance against the financial target in relation to the overall bonus awards for the year:

Therefore, the overall outcome for 2016 awards is set out below:

| Executive | Actual % of maximum achieved: | | | | Actual % of salary achieved: | | | | Total award £ |
|--------------|-------------------------------|-------------|-------------------------|-----------|------------------------------|-------------|-------------------------|-----------|----------------|
| | Financial % | Strategic % | Personal and customer % | Overall % | Financial % | Strategic % | Personal and customer % | Overall % | |
| Stuart Vann | 46.5 | 15 | 20.75 | 82.25 | 58.13 | 18.75 | 25.94 | 102.82 | 539,232 |
| Darren Ogden | 46.5 | 15 | 20.75 | 82.25 | 58.13 | 18.75 | 25.94 | 102.82 | 365,498 |

Sourcing of shares (dilution limits)

In compliance with the Investment Association guidelines, the rules of the PSP, SLP, RAP and DBP and the Group Sharesave Plan (the 'Sharesave Plan') and Share Incentive Plan ('SIP') provide that, in any period of ten calendar years, not more than 10% of the Company's issued Ordinary Share capital may be issued under these plans and any other employee share plan adopted by the Company. In addition, the PSP, SLP, DBP and RAP provide that in any period of ten calendar years, not more than 5% of the Company's issued Ordinary Share capital may be issued under these and any other executive share plans adopted by the Company.

The Company operates within these limits and there is currently 7.28% of outstanding capital available in all-employee share scheme plans and 2.97% in executive plans.

ALL-EMPLOYEE SHARE PLANS AND OTHER ARRANGEMENTS

The Board adopted two all-employee share plans in 2013: the SIP and the Sharesave Plan. Participation is currently being offered under the Sharesave Plan to employees including the Executive Directors. Employees can save up to £500 a month (increased from £250 in 2013) to purchase shares on the exercise of their Sharesave options at a purchase price of 80% of market value at the date of grant. Two Sharesave Plans have matured in November 2016 and 2017 with c.75% of participants electing to become shareholders for the 2016 award and c.30% of participants electing to become shareholders for the 2017 award.

Our colleagues are rewarded both fairly and competitively and our pay structure and progression opportunities are transparent and easy to understand. Financially, the Group is committed to rewarding our colleagues for the value that they bring to the Group

and our reward strategy is reviewed on an ongoing basis. We aim to offer fair and equitable pay increases for everyone based upon an individual's contribution to the business which promotes progression through the pay ranges. Colleagues in our customer-facing areas and a small number of head office functions also benefit from a formal pay progression scheme which allows them the opportunity to accelerate through the pay ranges. Also, early in 2017 we furthered our commitment to colleagues by supporting the Living Wage Foundation and paying the Voluntary Living Wage across all areas of our business and we will continue to do so in 2018.

We offer a total reward package which demonstrates our investment in colleagues. This includes a competitive holiday allowance, pension provision, profit share and salary sacrifice schemes (including childcare and cycle to work). In particular this year, we have reviewed our all-employee pension scheme in order to provide the best value for our colleagues and as a result of this changed provider to Scottish Widows. In addition to this, the majority of our eligible colleagues participate in a profit share scheme which this year has paid out at 9.5%.

OUTSTANDING SHARE AWARDS (AUDITED)

The table below sets out details of Executive Directors' outstanding share awards as at 31 December 2017.

| Executive | Scheme | Grant date | Exercise price | Number of shares at 1 January 2017 | Granted during year | Vested during year | Lapsed during year | Number of shares at 31 December 2017 | End of performance period | Vesting date | Exercise period |
|--------------|------------------------|------------|----------------|------------------------------------|---------------------|--------------------|--------------------|--------------------------------------|---------------------------|--|---------------------------|
| Stuart Vann | PSP | 25/03/2015 | n/a | 378,481 | – | – | – | 378,481 | 31/12/2017 | 25/03/2018 | n/a |
| | SLP | 14/06/2016 | n/a | 571,807 | – | – | – | 571,807 | 31/12/2018 | 14/06/2019 | n/a |
| | SLP | 20/03/2017 | n/a | – | 543,185 | – | – | 543,185 | 31/12/2019 | 20/03/2020 | n/a |
| | RAP ¹ | 10/11/2016 | n/a | 777,524 | – | 777,524 | – | 777,524 | n/a | 10/11/2017 | n/a |
| | DBP ² | 20/03/2017 | n/a | – | 67,015 | – | – | 67,015 | n/a | 20/03/2018 20/03/2019 20/03/2020 | n/a |
| | Sharesave ³ | 29/12/2016 | 159.72 | 11,269 | – | – | – | 11,269 | n/a | 01/02/2020 | 01/02/2020– 31/07/2020 |
| Darren Ogden | PSP | 25/03/2015 | n/a | 217,949 | – | – | – | 217,949 | 31/12/2017 | 25/03/2018 | n/a |
| | SLP | 14/06/2016 | n/a | 322,970 | – | – | – | 322,970 | 31/12/2018 | 14/06/2019 | n/a |
| | SLP | 20/03/2017 | n/a | – | 309,258 | – | – | 309,258 | 31/12/2019 | 20/03/2020 | n/a |
| | RAP ¹ | 10/11/2016 | n/a | 518,349 | – | 518,349 | – | 518,349 | n/a | 10/11/2017 | n/a |
| | DBP ² | 20/03/2017 | n/a | – | 45,422 | – | – | 45,422 | n/a | 20/03/2018 20/03/2019 20/03/2020 | n/a |
| | Sharesave ³ | 29/12/2016 | 159.72 | 11,269 | – | – | – | 11,269 | n/a | 01/02/2020 | 01/02/2020– 31/07/2020 |

1 These RAP awards vested on 10 November 2017 and will be released in equal thirds on the second, third and fourth anniversary of the date of grant.

2 The DBP award vests in equal thirds each year on the first, second and third anniversary of the date of grant.

3 Sharesave is open to all eligible employees, including Executive Directors. As is the case with all savings-related share option schemes, there are no performance criteria.

DIRECTORS' SHAREHOLDINGS AND SHARE INTERESTS (AUDITED)

To align the interests of the Executive Directors with shareholders, Executive Directors are required to build up shareholdings equivalent to 200% of salary, through the retention of shares vesting under the Company's share plans. Executive Directors are required to retain at least 50% of their net-of-tax value of any vested PSP and SLP awards, until such time as the share ownership target has been met. There have been no further changes in these interests between 31 December 2017 and 6 March 2018.

| Director | Beneficially owned at 01.01.17 | Beneficially owned at 31.12.17 | Outstanding PSP and SLP awards with performance conditions | Outstanding Sharesave and RAP awards without performance conditions | Shareholding guideline (% of salary) | Shareholding as % of salary achieved at 31.12.17 ¹ |
|--------------------------|--------------------------------|--------------------------------|--|---|--------------------------------------|---|
| Stuart Vann ² | 2,187,049 | 2,187,049 | 950,288 | 788,793 | 200% | 1036% |
| Darren Ogden | 1,266,603 | 1,266,603 | 540,919 | 529,618 | 200% | 885% |
| Sir Peter Wood | 128,609,655 | 128,609,655 | – | – | – | – |
| Peter Ward ³ | 236,187 | 236,187 | – | – | – | – |
| Shirley Garrood | – | – | – | – | – | – |
| María Dolores Dancausa | 43,725 | 43,725 | – | – | – | – |
| Martin Pike | 40,000 | 40,000 | – | – | – | – |
| Angela Seymour-Jackson | – | – | – | – | – | – |
| Alan Rubenstein | – | – | – | – | – | – |
| Peter Shaw | – | – | – | – | – | – |

1 Shareholdings have been calculated using a share price of 248.50p (as at 31 December 2017).

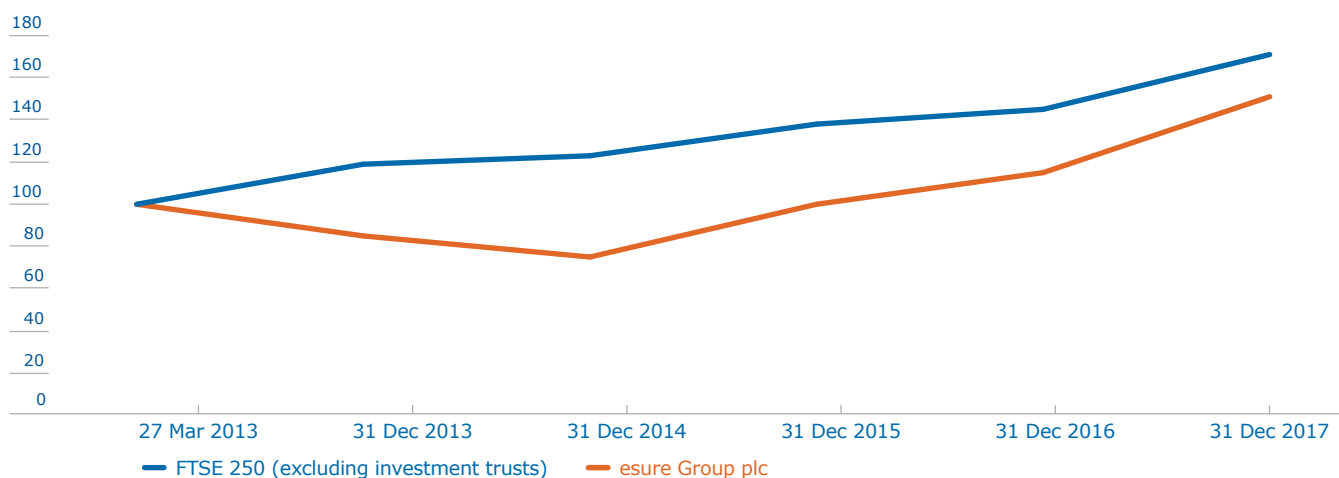
2 Stuart Vann stepped down as an Executive Director on 18 January 2018. This reflects his shareholding on 31 December 2017. There have been no further change in interests between 31 December 2017 and 6 March 2018.

3 Peter Ward stepped down as a Director on 17 May 2017. This reflects his shareholding on the date he stepped down.

Annual Report on Remuneration continued

TSR PERFORMANCE GRAPH*

The graph below shows the Company's TSR performance against the performance of the FTSE 250 Index (excluding investment trusts) from 27 March 2013, being the first day of listing, to 31 December 2017. The FTSE 250 Index (excluding investment trusts) was chosen as being a broad equity market index, which includes companies of a comparable size and complexity.



* TSR data is sourced from Thomson Reuters Datastream which adjusts historical data for changes in capital etc.

CHIEF EXECUTIVE OFFICER'S TOTAL REMUNERATION

The table below shows the total remuneration figure for the Chief Executive Officer in 2013, 2014, 2015, 2016 and 2017.

| | Total remuneration | Annual bonus (% of max) | PSP vesting (% of max) |
|------|--------------------|-------------------------|------------------------|
| 2017 | £1,360,347 | 56.0% | 33.3% |
| 2016 | £2,894,148 | 82.25% | 25.1% |
| 2015 | £824,425 | 62.6% | 0% |
| 2014 | £742,061 | 52.9% | N/A |
| 2013 | £662,576 | 50.2% | N/A |

PERCENTAGE CHANGE IN CHIEF EXECUTIVE OFFICER'S REMUNERATION

The table below shows the percentage year-on-year change in salary, benefits and annual bonus earned between the year ended 31 December 2017 and the year ended 31 December 2016 for the Chief Executive Officer compared to the average esure Group employee during the year.

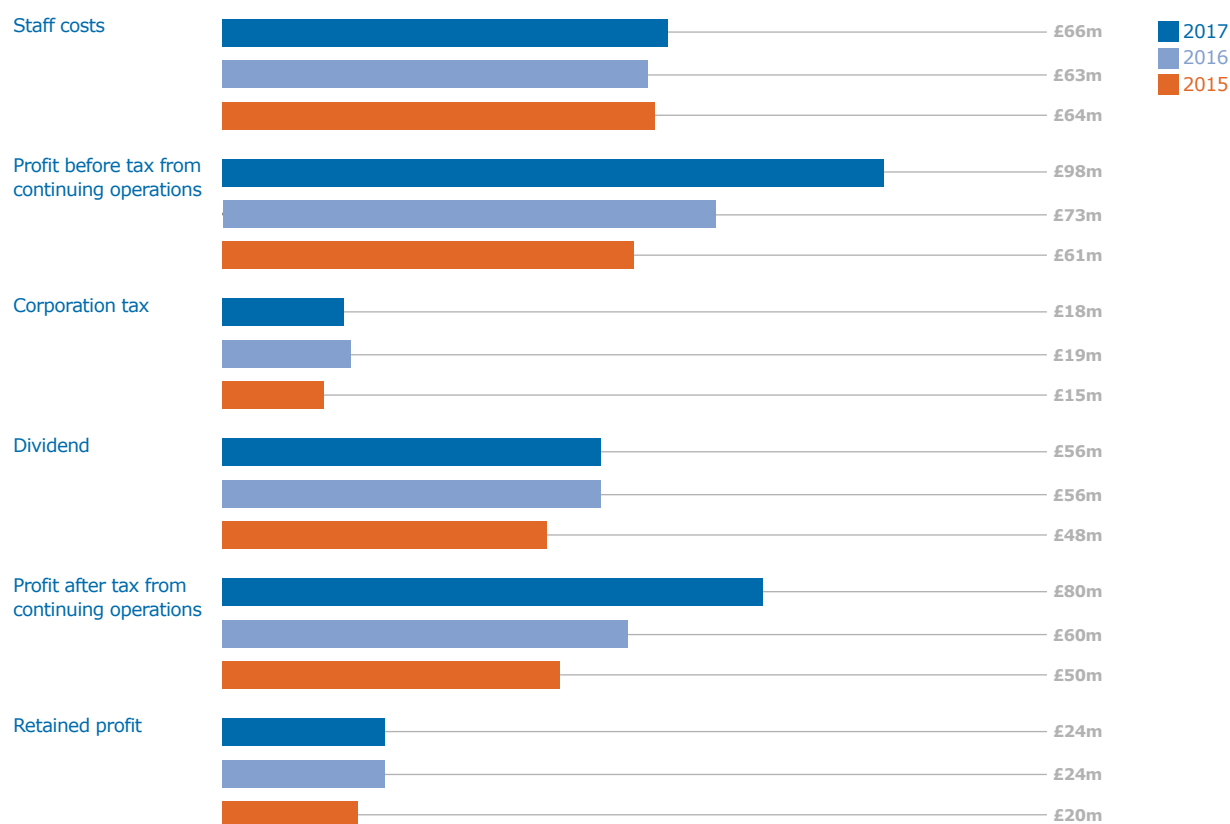
| | Salary ¹ | Benefits ² | Annual bonus ¹ |
|-------------------------|---------------------|-----------------------|---------------------------|
| Chief Executive Officer | 0.0% | -17.7% | -31.9% |
| Employee increase | 3.8% | -13.5% | 2.9% |

¹ Reflects the change year-on-year for employees employed in both the year ended 31 December 2017 and the year ended 31 December 2016.

² Comparison is made year-on-year of the Chief Executive Officer and employees with the same benefits. Percentage change reflects change in premium of private healthcare and life assurance of employees employed at both 31 December 2017 and 31 December 2016.

RELATIVE IMPORTANCE OF THE SPEND ON REMUNERATION

The chart below compares the actual expenditure on total remuneration paid to or receivable by all employees of the Group with distributions to shareholders by way of dividend, profit before tax from continuing operations, corporation tax payable in respect of the financial year, profit after tax from continuing operations and retained profit.*



* In 2017, having completed the demerger of Gocompare.com in the previous year, management's measure of profitability of the Group is profit before tax from continuing operations.

REMUNERATION IN 2018**Board changes**

On 19 January 2018, esure announced that Stuart Vann had stepped down from the role of Group Chief Executive Officer. Darren Ogden has assumed the role of Interim Chief Executive Officer.

Stuart Vann stepped down on 18 January 2018 with his notice period beginning on 19 January 2018 and lasting for 12 months (expiring on his termination date of 18 January 2019). His remuneration arrangements on termination of employment are as follows:

Salary: Payments to be made in respect of salary and pension contributions, plus normal contractual benefits, during the notice period. However, if the termination date is brought forward (for example, if he commences full-time paid employment during the notice period), he will not be paid for what would otherwise be the remainder of his notice period.

2017 bonus: Eligible to receive a bonus in respect of the full performance year. Performance was assessed in line with the description on pages 54 and 55 and his total annual bonus figure for the year was £367,150. The bonus will be subject to the usual deferral provisions and 30% will be deferred into esure shares and released in equal tranches on the first, second and third anniversary of the grant of awards under the Deferred Bonus Plan.

2018 bonus: Eligible to receive a bonus for the 2018 performance year, pro-rated for the period from 1 January to 18 January 2018 and subject to performance conditions. The 2018 award will not be subject to deferral provisions given the short period over which any award can be earned.

Share awards: The Committee determined that Stuart Vann was a 'good' leaver for the purposes of his outstanding share awards, as outlined below:

2015 PSP award: The award was retained and will continue to the original vesting date of 25 March 2018. The award is subject to the performance conditions set out on page 57. Following assessment of the performance conditions, one-third of the total award will vest, resulting in a payment of £381,949 (estimated value, see page 58 for further details).

Annual Report on Remuneration continued

2016 and 2017 SLP awards: The awards were retained and will continue to the original vesting dates of 14 June 2019 and 20 March 2020 respectively. Vesting levels will be determined with reference to the achievement of the relevant performance conditions. Any awards vesting will be pro-rated for time for the period from the start of the relevant performance period to 18 January 2018.

2016 DBP award: The award was retained and will vest in full in equal thirds on the original vesting dates of 20 March 2018, 20 March 2019 and 20 March 2020.

2016 RAP award: The RAP award, which vested on 10 November 2017, was retained and will be released from the holding period in equal tranches on the normal release dates of 10 November 2018, 10 November 2019 and 10 November 2020.

2016 Sharesave: The options held under the 2016 Sharesave will lapse, with the original investment returned.

The changes to Darren Ogden's remuneration in respect of his role of Interim CEO are described in the following section.

HOW THE REMUNERATION POLICY WILL BE APPLIED FOR THE YEAR ENDING 31 DECEMBER 2018

A summary of how the Policy will be applied during the forthcoming year is set out below.

Executive Directors' salaries

In January 2018, it was announced that the Chief Executive Officer was stepping down and that the Chief Finance Officer was stepping into the role of Interim Chief Executive Officer. The Committee awarded him a temporary increase to reflect his additional responsibilities during this time.

The table shows the salaries as at 19 January 2018, 1 January 2018 and 1 January 2017.

| Executive | Enhanced salary from 19.01.18 | Salary as at 01.01.18 | Salary as at 01.01.17 |
|--|-------------------------------|-----------------------|-----------------------|
| Darren Ogden (Interim Chief Executive Officer) | £472,050 | £355,500 | £355,500 |

Pension and other benefits

These will be awarded in line with the Policy.

Darren Ogden's pension will be based on his higher temporary salary on a pro-rata basis while he is in the role of Interim Chief Executive Officer.

Annual bonus

The maximum bonus potential for the year ending 31 December 2018 will be 125% of salary, in line with the Policy. Darren Ogden's annual bonus will be based on his higher temporary salary on a pro-rata basis while he is in the role of Interim Chief Executive Officer.

The performance measures will be Group trading profit for 60% of the maximum bonus available, delivery of strategic measures (such as continued development of the underwriting footprint) for 15% and personal and customer performance measures (based around personal and customer objectives) for the remaining 25%. Targets will be disclosed retrospectively as early as possible after they cease to be commercially sensitive, which we expect to be no later than in the 2019 Directors' Remuneration Report.

In accordance with our Remuneration Policy, 30% of any bonuses awarded at the end of the performance period will be deferred into shares, which will be released in thirds over a three-year period. Participants will be eligible to receive dividends on these shares, subject to compliance with regulatory guidance.

Strategic Leadership Plan ('SLP')

SLP awards to be granted to the Interim Chief Executive Officer in 2018 will be shares worth 210% of salary. The maximum awards under the Policy are 300% for the Chief Executive Officer and 250% for the Chief Finance Officer and the Committee reviews the appropriateness of opportunities granted annually. Darren Ogden's SLP grant will be calculated with reference to his higher temporary salary for the role of Interim Chief Executive Officer. The Committee determined that the higher salary should be used given the Interim Chief Executive Officer's extensive involvement in progressing esure's strategic direction for 2018 and beyond, and his critical role in driving the strategy over the coming months.

The 2018 awards will be subject to two independent performance conditions. Three-quarters of the award will be determined by reference to growth in absolute total shareholder return and one quarter will be determined by reference to relative total shareholder return as set out below. Performance will be measured over a three-year period beginning on 1 January 2018. Awards will vest, subject to performance, on the third anniversary of the date of grant. Following vesting, all awards will then be subject to a post-vesting holding period of two years.

Vesting will be determined with reference to four points, as below. There is straight-line vesting between these points.

| Performance condition | Threshold (15%) vesting | Mid (35%) vesting | Good (66%) vesting | Maximum/exceptional (100%) vesting |
|--|-------------------------|-------------------|--------------------|------------------------------------|
| Absolute total shareholder return growth | 10.5% p.a. | 13.5% p.a. | 18.5% p.a. | 27.5% p.a. |
| Relative total shareholder return against the FTSE 250 (excluding investment trusts and the Company) | Median | Upper quartile | Upper quintile | Upper decile |

Salary for the Chairman

The Chairman's salary has not been increased for 2018. The current salary is as follows:

| | Salary as at 01.01.18 | Salary as at 01.01.17 | Increase |
|----------|--------------------------|--------------------------|----------|
| Chairman | £730,000 | £730,000 | 0% |

Fees for the Non-Executive Directors

The Non-Executive Directors' fees were reviewed in July 2017 and remain unchanged. Fees are typically reviewed on an annual basis. Any changes will be made in accordance with the Remuneration Policy and will be disclosed in full in next year's Directors' Remuneration Report.

A summary of the current fees policy¹ is as follows:

| | Fees as at 01.01.18 | Fees as at 01.01.17 | Increase |
|--|------------------------|------------------------|----------|
| Deputy Chairman and Senior Independent Director ² | £138,000 | £138,000 | 0% |
| Base fee | £60,000 | £60,000 | 0% |
| Committee Chairman | £15,000 | £15,000 | 0% |
| Committee membership (Audit, Remuneration or Risk) | £5,000 | £5,000 | 0% |
| Committee membership (Nomination) | £3,000 | £3,000 | 0% |

1 Non-Executive Directors received no other benefits or remuneration other than the reimbursements of all reasonable and properly documented travel, hotel and other incidental expenses incurred in the performance of their duties and any taxes and social costs arising thereon and the benefit of officers' liability insurance. The value of these for 2017 was £12,759.

2 The role of Deputy Chairman and Senior Independent Director is held by one person; the fees include £55,000 for her role as SID.

UNEXPIRED TERMS OF SERVICE CONTRACTS

The unexpired terms of the Executive Directors' service contracts are their notice periods which are set out on page 52, and for Non-Executive Directors are set out on page 52.

REMUNERATION COMMITTEE GOVERNANCE

The Committee is governed by formal Terms of Reference agreed by the Board. The Terms of Reference for the Committee can be viewed on the Company's website at <http://www.esuregroup.com/corporate-information/corporate-governance/remuneration-committee/remuneration-committee-terms-of-reference>.

The responsibilities of the Committee include: determining and agreeing with the Board the Remuneration Policy and total individual remuneration packages of the Chairman, Executive Directors and senior management, including, where relevant, benefits and pension arrangements; determining and agreeing with the Board any performance-related pay schemes for senior management; and overseeing any major changes in employee benefit structures throughout the Group. The Committee is also responsible for determining and agreeing the remuneration framework for those members of staff identified as Material Risk Takers. No Director or executive shall be involved in any decisions as to his or her own remuneration.

The members of the Committee during the financial year and their attendance at the meetings of the Committee were:

| Director | Meetings attended ¹ | Possible attendance |
|----------------------------------|--------------------------------|---------------------|
| Martin Pike (Committee Chairman) | 4 | 4 |
| Shirley Garrood | 4 | 4 |
| Peter Ward ² | 1 | 2 |
| Peter Shaw ³ | 3 | 3 |
| Angela Seymour-Jackson | 4 | 4 |

1 These relate to scheduled meetings; there was also one other ad hoc meeting.

2 Peter Ward stepped down as a member of the Remuneration Committee on 17 May 2017.

3 Peter Shaw was appointed as a member of the Committee on 8 March 2017.

All of the members of the Remuneration Committee are independent Non-Executive Directors, as defined under the UK Corporate Governance Code.

The Chairman, Chief Executive Officer, Chief Finance Officer, Chief Risk Officer, Company Secretary and HR Director may, by invitation, attend meetings, except when their own remuneration is discussed. No Director is involved in determining his or her own remuneration. None of the Committee members have had any personal financial interest, except as shareholders, in the matters decided. The Company Secretary acts as Secretary to the Committee.

Annual Report on Remuneration continued

EXTERNAL ADVISORS

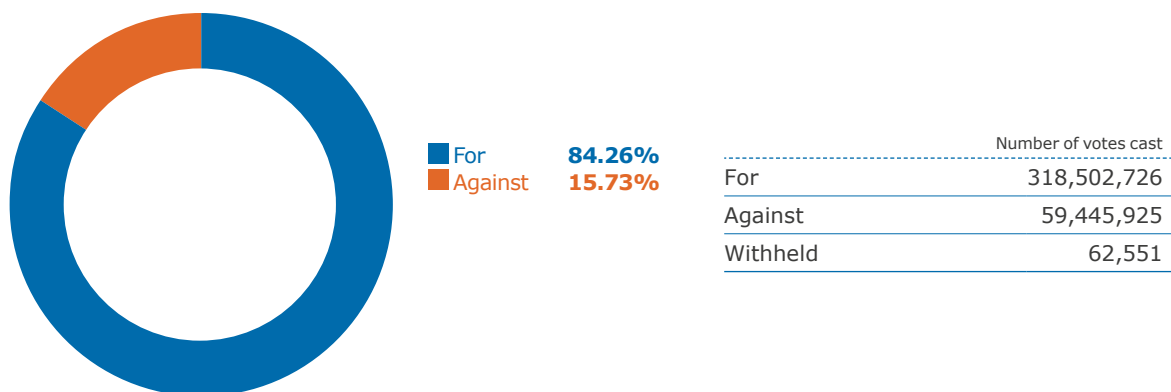
The Committee is advised by Deloitte LLP ('Deloitte'). Deloitte was appointed by the Remuneration Committee as part of a competitive tender process in 2015. Deloitte is a founder member of the Remuneration Consultants Group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The Committee is satisfied that the advice provided by Deloitte is independent and objective.

The total fees paid to Deloitte in respect of its services to the Committee for the year ending 31 December 2017 were £107,525. Fees were predominantly charged on a 'time spent' basis. During the year, Deloitte also provided the Company with advice in relation to other reward matters as well as other tax advice in relation to compliance and research and development.

STATEMENT OF VOTING AT THE AGM

At the AGM on 17 May 2017 the annual advisory votes were as follows:

Directors' Remuneration Report



Signed on behalf of the Board of Directors by



Martin Pike

Chairman of the Remuneration Committee

Directors' Report

The Directors present their Report together with the audited accounts for the year ended 31 December 2017.

Other information that is relevant to the Directors' Report, and which is incorporated by reference into this Report, can be located as follows:

- Strategic Report – pages 01–29.
- Chairman's statement – pages 02–03.
- Business and Strategy – pages 04–07.
- Interim Chief Executive Officer's statement – pages 08–09.
- Operating and financial review – pages 10–15.
- Risk management – pages 18–23.
- Viability statement – page 19.
- Corporate Governance Report – pages 30–45.

STRATEGIC REPORT

The Group is required by the Companies Act 2006 to prepare a Strategic Report that includes a fair review of the Group's business, a balanced and comprehensive analysis of the development and the performance of the Company's business during the year, the position of the Group at 31 December 2017 and a description of the principal risks and uncertainties faced by the Company.

RESULTS AND DIVIDENDS

The results for the year are shown in the consolidated statement of comprehensive income on page 75.

PROFIT AND DIVIDENDS

The Company's distributable reserves as at 7 March 2018 were £92.2m, being the capital redemption reserve of £44.9m and the profit and loss account of £60.3m less the share option reserve included in the profit and loss account of £13.0m which represents unrealised profit as at 7 March 2018.

| Final dividend per share (proposed) to be paid on 25 May 2018 | Interim dividend per share (paid 13 October 2017) | Total dividend paid per share for 2017 |
|---|---|--|
| 9.4p | 4.1p | 13.5p |

POST-BALANCE SHEET EVENTS

There were no significant post-balance sheet events affecting the Group since 31 December 2017.

BOARD OF DIRECTORS

The names and biographical details of our current Directors are set out on pages 32 and 33 and are incorporated into this Report by reference. The details are also available on our website at www.esuregroup.com/about-us/management-structure.

Changes to Directors during the year and up to the date of signing this Report are set out below:

| Name | Role | Effective date of appointment/resignation |
|-----------------|-------------------------|---|
| Alan Rubenstein | Non-Executive Director | Appointed 8 March 2017 |
| Peter Shaw | Non-Executive Director | Appointed 8 March 2017 |
| Peter Ward | Non-Executive Director | Stepped down 17 May 2017 |
| Stuart Vann | Chief Executive Officer | Stepped down 18 January 2018 |

APPOINTMENT, RETIREMENT AND REMOVAL OF DIRECTORS

The appointment and replacement of Directors is governed by the Company's Articles of Association ('the Articles'), the UK Corporate Governance Code ('the Code'), the Companies Act 2006, the Relationship Agreement between the Chairman and the Company and related legislation. The Articles may only be amended by a special resolution of the shareholders.

The Board has the power to appoint additional Directors or to fill a casual vacancy amongst the Directors. Any such Director holds office only until the next AGM and may offer himself or herself for election.

Under the Relationship Agreement between the Chairman and the Company, as long as the Chairman or any of his associates, when taken together, hold at least 15% of the shares or voting rights attaching to the shares, the Chairman will be entitled to appoint, remove and reappoint one person to be a Director, who may be either himself or another person nominated by him.

The Code recommends that all directors of FTSE 350 companies should be subject to annual re-election, and all continuing Directors will stand for re-election at the 2018 AGM. In addition to any power of removal conferred by the Companies Act, the Company may, by special resolution, remove any Director before the expiration of his or her period of office.

Further details of the re-election and election of the Directors can be found on page 37 and in the notes to the AGM Notice on our website at www.esuregroup.com/investors/shareholder-information/aggm.

The governance structure of the Board is illustrated on page 31 and the activities of the Board's governance committees are summarised on pages 39 to 45.

DIRECTORS' AND OFFICERS' INSURANCE AND INDEMNITIES

The Group maintains Directors' and Officers' liability insurance, which gives appropriate cover should legal action be brought against its Directors. In addition, indemnities are in force under which the Group has agreed to indemnify the Directors against all liabilities and related costs that they may incur in the execution of their duties. Copies of these indemnities are kept at our registered office and are open for inspection by any member. These indemnities do not cover the Directors for fraudulent activities.

EMPLOYEES

As at 31 December 2017, the Group employed 1,851 people. The Group is committed to creating an environment in which individual differences and contributions are recognised and valued, and to safeguard a working environment that promotes dignity and respect for all. No form of victimisation, discrimination, bullying or harassment will be tolerated.

We seek to promote equal opportunities for all, through the provision of employment practices and policies that recognise the diversity of our employees and ensure that neither our employees nor prospective employees receive less favourable treatment on the basis of their perceived or actual age, disability, race, religion or belief, sex (including gender, marital status, pregnancy or maternity, or gender reassignment or sexual orientation), working hours (part-time, full-time or fixed-term employees) or physical characteristics.

Directors' Report continued

The Group is committed to employing people with disabilities or who become disabled during their employment by making reasonable adjustments as appropriate. Actively working with the Access to Work government scheme enables the Group to support the continued employment of any employees with a disability and prospective employees. The training, career opportunities, development and promotion of people with disabilities are, as far as possible, identical to those of other employees.

Employees are kept up to date with regular Chief Executive Officer briefings, business updates, team meetings and internal communications. Employees' views are gathered through the Employee Consultation Group, department forums, employee surveys and Ask the Exec question forum.

Further information in respect of actions taken with the aim of encouraging employee involvement and achieving employee awareness in the Company has been disclosed in the 'People' section on pages 24 to 26.

HUMAN RIGHTS

The Group resides and offers its products only within mainland UK. The Group is subject to both the European Convention on Human Rights and the UK Human Rights Act 1998. We respect all human rights and enact these particularly in relation to fair treatment, the avoidance of discrimination and privacy for our customers, suppliers and staff. We aim to ensure that employees comply with all relevant UK legislation and regulations, and this is underpinned by the policies in place and managed by our Human Resources function.

BRIBERY AND CORRUPTION

The Group maintains the highest ethical standards in carrying out its business activities. The Group's Code of Conduct policy helps all employees to understand and meet the high standards of personal and professional integrity required of them. Any activity that might potentially be interpreted as the Group or its employees offering, giving or requesting and accepting a bribe is strictly prohibited.

POLITICAL DONATIONS

Our policy is not to make any donations or contributions to political parties or organisations and no such payments were made during the year.

ENVIRONMENT Global emissions

This report presents a narrative report for the 2017 Greenhouse Gas ('GHG') Mandatory Reporting requirement of esure Group's UK operations.

Methodology: The footprint is calculated in accordance with the GHG Protocol and Carbon Trust ('CT') guidance on calculating organisational footprints. Activity data has been converted into carbon emissions using published emissions factors. The data used has been provided by the Group and sense checked (but not formally verified) by Utilitywise PLC.

Emissions sources: The footprint includes the Scope 1 (fossil fuel and refrigerant leakage) and Scope 2 (electricity) emissions associated with the offices in which the Group is based. For the purposes of the report only, Scope 1 (direct) and Scope 2 (indirect) emissions sources are required.

Organisational boundary: The footprint includes data for the three offices in which the Group employs staff (Reigate, Manchester and Glasgow), as well as two domestic apartments. Note: this does not include outsourced activities, for example repair shops and third-party suppliers.

UK GHG MANDATORY REPORTING

GHG emissions data for the period 1 January 2017 to 31 December 2017.

Tonnes of carbon dioxide equivalent (tCO₂e):

| Emissions from: | 2017 | 2016 |
|--|-----------------------------------|-----------------------------------|
| Scope 1 – Combustion of fuel and operation of facilities | 689 | 666 |
| Scope 2 – Electricity, heat, steam and cooling purchased for own use | 1,809 | 2,266 |
| Company's chosen intensity measurement | tCO ₂ e/ £ Turnover | tCO ₂ e/ £ Turnover |
| tCO ₂ e/£ Turnover | 3.20 | 3.85 |

Data quality: The quality of the data used for the footprint calculations has been rated as 'good', 'average', 'poor' or 'based on benchmarks'. Around 99.8% of emissions in the footprint were based on 'good' quality data; this is a weighted percentage according to contribution by the emissions source.

esure Group plc's 2017 GHG Mandatory Report

This Report is based on the 12 months between 1 January and 31 December 2017, reflecting the financial year of the Group.

The total carbon emissions associated with the Group's UK operations were 2,498 tCO₂e. This is made up of 689 tCO₂e of Scope 1 (direct emissions) and 1,809 tCO₂e of Scope 2 (indirect emissions).

CHANGE OF CONTROL

There are no material agreements to which the Group is party that take effect, alter or terminate upon a change of control of the Group following a takeover bid.

The provisions of the Company's employee share plans may cause options and awards granted under such plans to vest upon a change of control.

SHARE CAPITAL

Our share capital consists of one class of Ordinary Shares of 1/12p each. Each share ranks equally and carries the same rights to vote and receive dividends and other distributions declared. There are no restrictions on the transfer or holding of shares in the Company. As at 31 December 2017, the Company had 418,143,596 Ordinary Shares in issue. The Company does not hold any shares in Treasury.

The rights attached to shares which are the subject of awards under any of our employee share plans are not available until any award or option is exercised and the shares are allotted or transferred to the relevant individual. The Trustee of our employee benefit trust is obliged to act in the best interests of the share plans' beneficiaries. At General Meetings, the Trustee may exercise discretion and vote in respect of Trust shares although it may not always choose to do so. Where shares are beneficially held by an employee within a share plan he or she may direct the Trustee to vote on his or her behalf.

POWER OF DIRECTORS TO ISSUE SHARES

The Directors require express authorisation from shareholders to allot new shares. A resolution will be proposed at the 2018 AGM to renew the authority to allot shares.

PURCHASE OF OWN SHARES

The Directors require express authorisation from shareholders to purchase our own shares. Accordingly, at the 2018 AGM, the Group proposes to renew the authority granted by shareholders at the AGM in 2017 to repurchase up to a maximum of 10% of its issued share capital. At the present time, the Group has no plans to exercise this authority and did not exercise the authority during 2017.

Further details are provided in the 2018 Notice of the AGM.

SUBSTANTIAL SHAREHOLDINGS

As at 31 December 2017, the Group had been notified, in accordance with Disclosure Guidance and Transparency Rule 5.1.2R, of interests in 3% or more of the voting rights attached to the Company's issued Ordinary Share capital, as set out in the following table:

| Shareholder | Number of Ordinary Shares | % of total voting rights |
|-----------------------------------|---------------------------|--------------------------|
| Sir Peter Wood | 128,609,655 | 30.75 |
| Toscafund Asset Management LLP | 71,456,266 | 17.09 |
| FIL Limited | 38,800,731 | 9.28 |
| Standard Life Investments Limited | 20,759,424 | 4.97 |
| Invesco Asset Management | 20,507,884 | 4.90 |
| Norges Bank | 12,555,518 | 3.00 |

These figures represent the number of shares and percentage held as at the date of notification to the Group.

In accordance with Disclosure Guidance and Transparency Rule 5.1.2R, in the period between 1 January 2018 and 1 March 2018, there were no further notifications received.

RELATIONSHIP AGREEMENT WITH CONTROLLING SHAREHOLDER

Sir Peter Wood, the Group's Chairman, is a controlling shareholder of the Group with a total holding of approximately 30.75% of the Company's voting rights.

The Group entered into a Relationship Agreement with Sir Peter Wood on 8 March 2013, which was amended and restated on 29 October 2014. The principal purpose of the Relationship Agreement is to ensure that the Group is capable at all times of carrying on its business independently of Sir Peter Wood and certain persons deemed to be connected with him.

In addition to other undertakings and agreements, the Relationship Agreement contains the following undertakings:

- that transactions and arrangements between the Group and Sir Peter Wood (and/or any of his associates) will be conducted at arm's length and on normal commercial terms;
- that neither Sir Peter Wood nor any of his associates will take any action that would have the effect of preventing the Group from complying with its obligations under the Listing Rules; and
- that neither Sir Peter Wood nor any of his associates will propose or procure the proposal of a shareholder resolution that is intended or appears to be intended to circumvent the proper application of the Listing Rules.

The Board confirms that, since the entry into the amended and restated Relationship Agreement on 29 October 2014 until 1 March 2018, being the latest practicable date prior to the publication of this Annual Report and Accounts:

- the Group has complied with the independence provisions included in the Relationship Agreement;
- so far as the Group is aware, the independence provisions included in the Relationship Agreement have been complied with by Sir Peter Wood and his associates; and
- as far as the Group is aware, the procurement obligation included in the Relationship Agreement has been complied with by Sir Peter Wood.

RESTRICTIONS ON VOTING RIGHTS

All shareholders entitled to attend and vote at a General Meeting may appoint a proxy or proxies to attend, speak and vote in their place. A member may appoint more than one proxy provided that each proxy is appointed to exercise the rights attached to a different share or shares held by the shareholder. A proxy need not be a shareholder. Proxy forms must be received by our registrars at least 48 hours before the time appointed for holding a meeting, as set out in any Notice or in any form of proxy circulated by us. The appointment of a proxy does not preclude a shareholder from attending and voting in person at a General Meeting. Further details may be found in the Notice of Meeting sent to shareholders in advance of the 2018 AGM, a copy of which is also available on our website at www.esuregroup.com/investors/shareholder-information/agm.

AUDITOR

Resolutions to reappoint KPMG LLP as auditor of the Group and to authorise the Directors to determine its remuneration will be proposed at the 2018 AGM. The Audit Committee considers that the relationship with the auditor is working well and remains satisfied with its effectiveness. There are no contractual obligations restricting our choice of auditor.

DISCLOSURE OF INFORMATION TO AUDITOR

Each Director at the date of the approval of this report confirms that:

- So far as he or she is aware, there is no relevant audit information of which the Group's auditor is unaware.
- He or she has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

GOING CONCERN

These consolidated financial statements have been prepared on a going concern basis. The financial performance and position of the Group, its cash flows and its approach to capital management are set out in the financial review on pages 10 to 15. The Group has a strong financial position, with robust reserves, a conservative investment portfolio and capital significantly in excess of the minimum regulatory requirement. In addition, the Board has reviewed the Group's projections for the next 12 months and beyond, including cash flow forecasts and regulatory capital surpluses. The Directors have a reasonable expectation that the Group has adequate resources to continue in operation for at least the next 12 months.

The Group's viability statement is on page 19.

Directors' Report continued

MATERIAL CONTRACTS

Save as disclosed below, there are no material contracts (other than contracts entered into in the ordinary course of business) to which the Group is a party:

- An agreement between the Group and CapGemini for the outsourcing of IT services. The initial term of the agreement was for five years from 1 April 2010 to 31 March 2015.
- On 16 May 2014, a new seven-year agreement between the Group and CapGemini was signed.
- The Relationship Agreement between the Company and Sir Peter Wood remains in force until the Ordinary Shares cease to be admitted to the Official List of the FCA and to trading on the London Stock Exchange; or the Potential Controlling Shareholder ceases to own, when taken together, 15% or more of the Ordinary Shares or the voting rights attaching to the Ordinary Shares unless, at the time the Potential Controlling Shareholders shall cease to own, when taken together, 15% or more of the Ordinary Shares or the voting rights attaching to the Ordinary Shares, Sir Peter Wood remains the Chairman of the Company, in which event the Relationship Agreement shall terminate six months after Sir Peter Wood ceases to be the Chairman of the Company.

RESEARCH AND DEVELOPMENT

In the ordinary course of business, the Group develops new products and services in each of its business divisions.

SPECIAL RIGHTS

There are no persons holding securities that carry special rights with regard to the control of the Group.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is ultimately responsible for the effectiveness of the Group's system of risk management and internal control. To ensure that this is achieved and that the risk management and internal controls are embedded in the running of the business, the Group operates a three lines of defence structure which is regularly reported on to the Audit and Risk Committees. This framework mitigates the risk of failure to achieve business objectives, unforeseen losses and material financial misstatement.

There are a number of controls in place within this framework to ensure that the Group has robust procedures for preparing consolidated accounts and for financial reporting.

The Risk Committee and the Audit Committee, respectively, regularly review the effectiveness of the Group's risk management and internal control systems. Their monitoring focuses on material risks and controls and is based principally on reporting upwards within the framework from business management, risk management and the Internal Audit function so that the Committees may consider whether significant weaknesses exist. During the course of the reviews, the Committees have not identified or been advised of any failings or weaknesses that they have determined to be significant.

To support Group policies and to facilitate the raising of concerns about possible improprieties in matters of financial reporting or any other matters, the Group provides a confidential telephone hotline, so that staff or third parties may report anonymously any perceived inaccurate or unethical working practices.

The Audit and Risk Committees endeavour to ensure that the Group has in place appropriate and effective controls, checks, systems and risk management techniques.

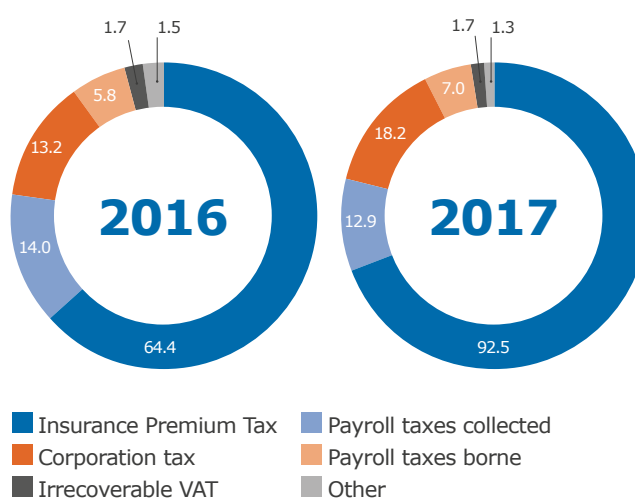
INTERNAL AUDIT

The Group's Internal Audit function is fully outsourced.

The activities and effectiveness of Internal Audit are monitored and reviewed by the Audit Committee. The Audit Committee is responsible for ensuring that adequate access to information and resource is given to the Lead Internal Auditor and for approving the appointment and removal of the Lead Internal Auditor. The Lead Internal Auditor reports directly to the Chairman of the Audit Committee. Internal Audit reports are presented to the Audit Committee on the effectiveness of the Group's systems of internal controls and the adequacy of these systems to manage business risk and to safeguard the Group's assets and resources. Internal Audit uses the Group's risk registers to plan and inform its annual audit programme around the most significant risks to the business to ensure that controls are in place and are designed and operating effectively. The Audit Committee reviews and approves the Annual Internal Audit Plan.

TAX

The Group's tax contribution to UK public finances is significantly more than the corporation tax payable figure included in the income statement. The Group pays direct taxes, including payroll taxes, Value Added Tax, business rates and property taxes, and also collects and remits to HMRC Insurance Premium Tax and employee payroll taxes. Our total tax contribution in the tax year 2017 was £133.6m (2016: £100.6m), of which £28.2m was directly borne by the Group, equating to 29% of the Group's profit before tax, and £105.4m was collected and remitted on behalf of customers and employees. The increase from 2016 to 2017 is due to the Group's profitable growth in the period and the increase in the Insurance Premium Tax rate from 6% to 10%.



This section, together with the reports set out on pages 30 to 68, are approved by order of the Board.

A. Rivers

Alice Rivers
Company Secretary
6 March 2018

Statement of Directors' Responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards, including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company financial statements;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company, or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL FINANCIAL REPORT

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.



Darren Ogden
Interim Chief Executive Officer
6 March 2018

Independent auditor's report to the members of esure Group plc



1. OUR OPINION IS UNMODIFIED

We have audited the financial statements of esure Group plc ("the Company") for the year ended 31 December 2017 which comprise the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows, Parent Company statement of financial position, Parent Company statement of cash flows, Parent Company statement of changes in equity and the related notes, including the accounting policies in note 2.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs as adopted by the EU");
- the Parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were appointed as auditor by the shareholders for the financial year ended 31 December 2000, prior to the Company becoming a listed entity. The period of total uninterrupted engagement is for the five financial years ended 31 December 2017 as a public interest entity and 17 years in total.

We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

| | | |
|---|---|--|
| Materiality: Group financial statements as a whole | | £7.6m (2016: £7.5m) 1% (2016: 1%) of total income |
| Coverage | | 99% (2016: 99%) of Group profit before tax |
| Risks of material misstatement | | vs 2016 |
| Recurring risk Group | Valuation of claims outstanding | = |
| Parent Company | Valuation of Parent Company investments in Group undertakings | = |

2. KEY AUDIT MATTERS: OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise on the following page the key audit matters (unchanged from 2016), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

2. KEY AUDIT MATTERS: OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT CONTINUED

| | The risk | Our response |
|---|--|--|
| Valuation of claims outstanding (£798.9m; 2016: £672.9m) <i>Refer to page 41 (Audit Committee Report), page 84 (accounting policy) and page 105 (financial disclosures).</i> | Subjective valuation: <p>The valuation of claims outstanding is one of the key judgmental areas upon which our audit is concentrated, due to the level of subjectivity inherent in the estimation of the effect of uncertain or unknown future events and the resulting potential exposure to large losses.</p> <p>Significant levels of uncertainty include specific claims reserves for reported claims plus an estimate for claims incurred but not reported ("IBNR") as some claims can take some time to emerge or develop. Actuarial techniques are also required to determine the best estimate of reported claims and the IBNR and losses arising from large bodily injury claims for motor insurance, some of which involve periodic payment orders ("PPOs").</p> <p>Resulting key areas of focus are the key actuarial assumptions, including inflation, ultimate loss ratio (being the ultimate loss as a proportion of premiums received), claims development trends, Ogden rate changes, net cost per policy, PPO propensities, discount rates applied to PPOs and longevity.</p> | Our procedures included: <p>Control operation: We met with the Group's actuarial team to understand the internal reserving and discussed the processes and controls in place. We tested the operational effectiveness of the governance arrangements and key controls around the internal reserving process, including controls over setting of reserves for reported claims, by inspection;</p> <p>Assessing valuer's credentials: We evaluated the competence, capabilities and objectivity of the Group's actuaries based on discussions with them, our knowledge of the actuaries' qualifications and the professional standards that their work is subject to, and by providing challenge to their analysis through the procedures described below;</p> <p>Our sector experience: We benchmarked the Group's methodology, key actuarial assumptions and projected results, such as the ultimate loss ratio, against our expectations given our cumulative knowledge of the sector;</p> <p>Benchmarking assumptions: We have assessed the assumptions applied on the estimation of the value of the claims outstanding for reasonableness, through analytical procedures including claims development trends over time;</p> <p>Historical comparisons: We considered the movement in reserves relating to claims incurred in prior years to assess the reasonableness of Directors' past assumptions and the methodology used to estimate claims outstanding;</p> <p>Expectation vs. outcome: Where there have been changes in the methodology or key assumptions we have assessed whether these are reasonable based on changes in the industry and the Group's historical claims experience, and have considered whether all changes we would expect to see have been made;</p> <p>Use of actuarial specialists: We used our own actuarial specialists to assist us in our challenge of the reserving methodology and the key assumptions used;</p> <p>Methodology choice: We have considered the reasonableness of the methodologies and projections of the internal actuary by understanding the rationale of the approach;</p> <p>Expectation vs. outcome: We tested the amounts provided on large bodily injury claims (including the Ogden Uplift and the PPO Uplift) in the context of significant uncertainty;</p> <p>Test of detail: In addition to this, we have agreed a number of large loss reserves to underlying documentation to gain assurance that case reserves held are in line with the Group's reserving methodology; and</p> <p>Assessing transparency: We have considered the adequacy of the Group's disclosures over the degree of estimation uncertainty and the sensitivity of recognised amounts to changes in assumptions, and assessed whether the disclosures comply with relevant accounting standards.</p> <p>Our results: We found valuation of the claims outstanding to be acceptable (2016: acceptable).</p> |
| Valuation of Parent Company investments in Group undertakings (£232.5m; 2016: £229.0m) <i>Refer to page 123 (accounting policy) and page 124 (financial disclosures).</i> | Low risk high value assets: <p>The carrying amount of the Parent Company's investments in Group undertakings represents 99.9% (2016: 79.3%) of the Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the Parent Company financial statements, this is considered to be the area that had the greatest effect on our overall Parent Company audit.</p> | Our procedures included: <p>Test of detail: Comparing the carrying amount of 100% of investments with the relevant subsidiary's financial statements and/or draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether that subsidiary has historically been profit-making; and</p> <p>Assessing subsidiary audits: Assessing the work performed by the subsidiary audit teams on the two most significant underlying subsidiaries and considering the results of that work, on those subsidiaries' profits and net assets.</p> <p>Our results: We found the Company's assessment of the valuation of investment in subsidiaries to be acceptable (2016: acceptable).</p> |

Independent auditor's report to the members of esure Group plc continued

3. OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Materiality for the Group financial statements as a whole was set at £7.6m (2016: £7.5m), determined with reference to a benchmark of total Group revenue of £781.3m, of which it represents 1% (2016: 1%). We consider total revenue to be the most appropriate benchmark as it provides a more stable measure year on year than Group profit before tax.

Materiality for the Parent Company financial statements as a whole was set at £2.9m (2016: £2.6m), determined with reference to a benchmark of Company total assets, of which it represents 1% (2016: 1%).

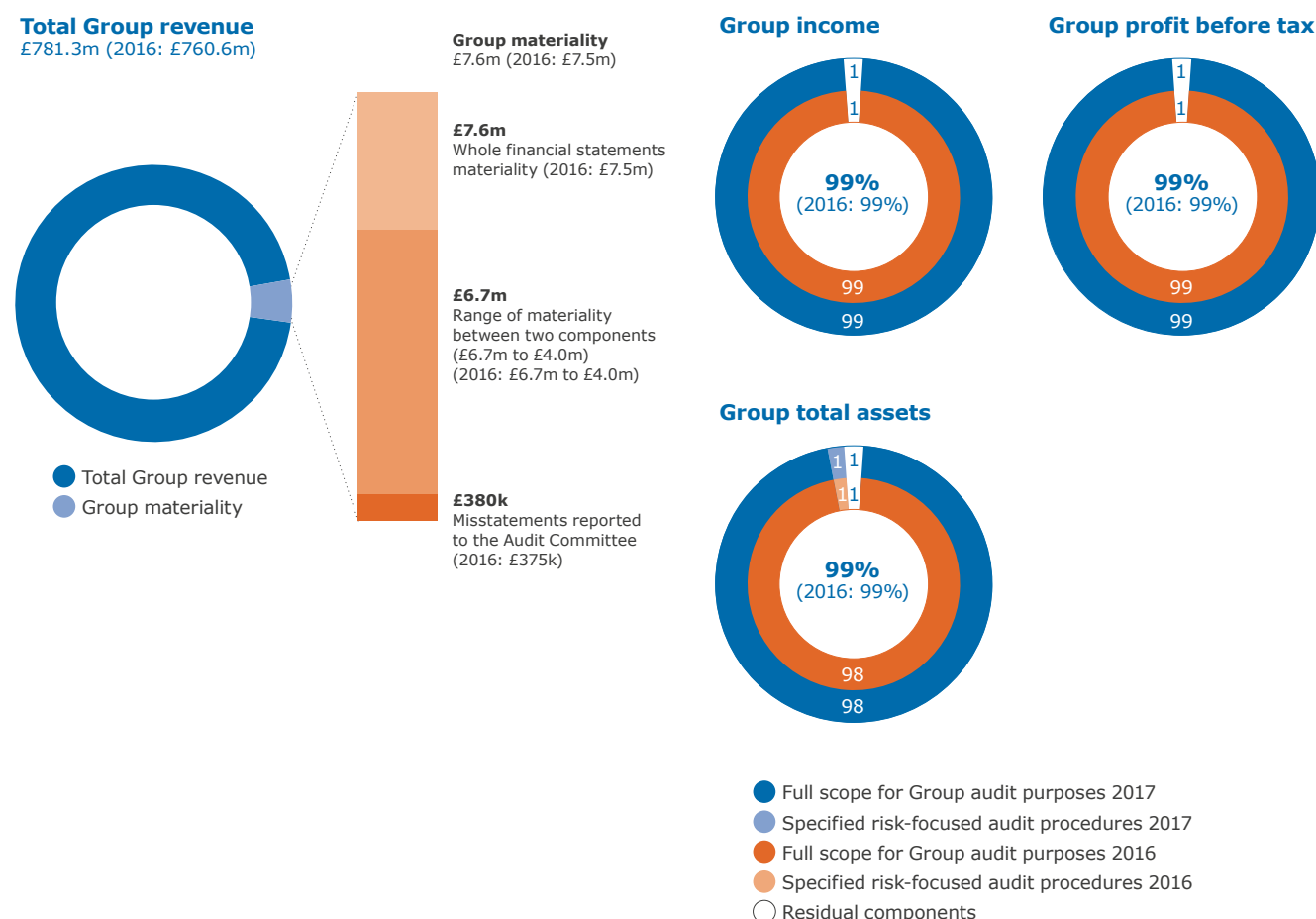
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £380k, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's six (2016: six) reporting components, we subjected two (2016: two) to full scope audits for Group purposes and one (2016: one) to specified risk-focused audit procedures. The latter was not individually financially significant enough to require a full scope audit for Group purposes, but did present specific individual risks that needed to be addressed.

The components within the scope of our work accounted for the percentages illustrated below.

The remaining 1% of total Group income, 1% of Group profit before tax and 1% of total Group assets is represented by three of the reporting components, none of which individually represented more than 1% of any of total Group income, Group profit before tax or total Group assets. For the residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team has also completed the audit of the significant components. The Group team set the component materiality which ranged from £6.7m to £4.0m, having regard to the mix of size and risk profile of the Group across the components.



4. WE HAVE NOTHING TO REPORT ON GOING CONCERN

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least 12 months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 19 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. WE HAVE NOTHING TO REPORT ON THE OTHER INFORMATION IN THE ANNUAL REPORT

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic Report and Directors' Report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion, the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Directors' Remuneration Report

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of Principal Risks and Longer-term Viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the viability statement on page 19 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures, drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the Annual Report and financial statements taken as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. WE HAVE NOTHING TO REPORT ON THE OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Independent auditor's report to the members of esure Group plc continued

7. RESPECTIVE RESPONSIBILITIES

Directors' responsibilities

As explained more fully in their statement set out on page 69, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company, or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

Our audit aimed to detect non-compliance with relevant laws and regulations (irregularities) that could have a material effect on the financial statements. We identified relevant areas of laws and regulations from our sector experience, through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Group's regulatory correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements, including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

In addition, we considered the impact of laws and regulations in the specific areas of regulatory capital, conduct, market abuse regulations and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the Directors and other management and inspection of regulatory correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related financial statement items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8. THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Philip Smart

(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London E14 5GL

6 March 2018

Consolidated statement of comprehensive income

| | Notes | Year ended 31 Dec 2017 £m | Year ended 31 Dec 2016 £m |
|---|-------|---------------------------------|---------------------------------|
| Gross written premiums | 5 | 820.2 | 655.0 |
| Gross earned premiums | 5 | 734.0 | 598.0 |
| Earned premiums, ceded to reinsurers | 5 | (56.2) | (43.1) |
| Earned premiums, net of reinsurance | 5 | 677.8 | 554.9 |
| Investment return and instalment interest | 6 | 61.5 | 55.7 |
| Other income | 7 | 42.0 | 36.9 |
| Total income | | 781.3 | 647.5 |
| Claims incurred and claims handling expenses | 20 | (592.5) | (509.5) |
| Claims incurred recoverable from reinsurers | 20 | 77.8 | 74.4 |
| Claims incurred, net of reinsurance | | (514.7) | (435.1) |
| Insurance expenses | 10 | (140.5) | (113.3) |
| Other operating expenses | 10 | (18.8) | (17.7) |
| Total expenses | | (674.0) | (566.1) |
| Finance costs | 13 | (8.7) | (8.7) |
| Profit before tax | | 98.6 | 72.7 |
| Taxation expense | 14 | (18.2) | (13.2) |
| Profit from continuing operations, net of tax | | 80.4 | 59.5 |
| Profit from discontinued operations, net of tax | 12 | – | 209.7 |
| Profit attributable to the owners of the Parent | | 80.4 | 269.2 |
| Other comprehensive income | | | |
| Items that will not be reclassified to profit or loss: | | | |
| Revaluation of land and buildings | 26 | 0.8 | 0.3 |
| Tax relating to items that will not be reclassified | 26 | 0.0 | 0.0 |
| | | 0.8 | 0.3 |
| Items that are or may be reclassified to profit or loss: | | | |
| Available-for-sale financial assets – change in fair value | 26 | 1.5 | 1.9 |
| Tax relating to items that are reclassified | 26 | (0.1) | (0.3) |
| | | 1.4 | 1.6 |
| Total comprehensive income for the period attributable to owners of the Parent | | 82.6 | 271.1 |
| Earnings per share (pence per share) | | | |
| – ordinary shares, basic | 16 | 19.2 | 64.6 |
| – ordinary shares, diluted | 16 | 19.0 | 64.3 |
| Earnings per share from continuing operations (pence per share) | | | |
| – ordinary shares, basic | 16 | 19.2 | 14.3 |
| – ordinary shares, diluted | 16 | 19.0 | 14.2 |

The notes on pages 79 to 119 form part of these financial statements.

Consolidated statement of financial position

| | Notes | As at 31 Dec 2017 £m | As at 31 Dec 2016 £m |
|-------------------------------------|--------|----------------------------|----------------------------|
| Assets | | | |
| Goodwill and intangible assets | 17 | 16.6 | 12.7 |
| Deferred acquisition costs | 22 | 44.9 | 37.8 |
| Property, plant and equipment | 18 | 29.3 | 32.5 |
| Financial investments | 19 | 929.3 | 839.0 |
| Reinsurance assets | 20 | 370.2 | 291.7 |
| Insurance and other receivables | 21 | 307.0 | 245.6 |
| Cash and cash equivalents | 19, 23 | 46.6 | 25.5 |
| Total assets | | 1,743.9 | 1,484.8 |
| Equity and liabilities | | | |
| Share capital | 26 | 0.3 | 0.3 |
| Share premium account | 26 | 45.8 | 45.4 |
| Capital redemption reserve | 26 | 44.9 | 44.9 |
| Other reserves | 26 | 5.1 | 2.9 |
| Retained earnings | | 201.9 | 178.0 |
| Total equity | | 298.0 | 271.5 |
| Liabilities | | | |
| Insurance contract liabilities | 20 | 1,214.5 | 1,002.3 |
| Borrowings | 19 | 123.1 | 122.8 |
| Insurance and other payables | 24 | 96.7 | 77.3 |
| Deferred tax liabilities | 25 | 0.9 | 3.2 |
| Derivative financial liabilities | 19 | 0.2 | 1.6 |
| Current tax liabilities | | 10.5 | 6.1 |
| Total liabilities | | 1,445.9 | 1,213.3 |
| Total equity and liabilities | | 1,743.9 | 1,484.8 |

The notes on pages 79 to 119 form part of these financial statements.

The financial statements were approved by the Board and authorised for issue on 6 March 2018 and signed on its behalf by:



Darren Ogden
Director

Registered number: 07064312

Consolidated statement of changes in equity

| | Notes | Share capital £m | Share premium £m | Capital redemption reserve £m | Other reserves £m | Retained earnings £m | Total equity £m |
|---------------------------------------|-------|---------------------|---------------------|-------------------------------------|----------------------|-------------------------|--------------------|
| Year ended 31 December 2016 | | | | | | | |
| At 1 January 2016 | 26 | 0.3 | 44.0 | 44.9 | 1.0 | 251.1 | 341.3 |
| Profit for the year | | – | – | – | – | 269.2 | 269.2 |
| Other comprehensive income | | – | – | – | 1.9 | – | 1.9 |
| Total comprehensive income | | – | – | – | 1.9 | 269.2 | 271.1 |
| Transactions with owners | | | | | | | |
| Issue of share capital | 26 | 0.0 | 1.4 | – | – | – | 1.4 |
| Share-based payments | 27 | – | – | – | – | 2.4 | 2.4 |
| Deferred tax on share-based payments | | – | – | – | – | (0.0) | (0.0) |
| Demerger of Gocompare.com | 12 | – | – | – | – | (301.8) | (301.8) |
| Dividends | 15 | – | – | – | – | (42.9) | (42.9) |
| Total transactions with owners | | 0.0 | 1.4 | – | – | (342.3) | (340.9) |
| At 31 December 2016 | | 0.3 | 45.4 | 44.9 | 2.9 | 178.0 | 271.5 |
| Year ended 31 December 2017 | | | | | | | |
| At 1 January 2017 | 26 | 0.3 | 45.4 | 44.9 | 2.9 | 178.0 | 271.5 |
| Profit for the year | | – | – | – | – | 80.4 | 80.4 |
| Other comprehensive income | | – | – | – | 2.2 | – | 2.2 |
| Total comprehensive income | | – | – | – | 2.2 | 80.4 | 82.6 |
| Transactions with owners | | | | | | | |
| Issue of share capital | 26 | 0.0 | 0.4 | – | – | – | 0.4 |
| Share-based payments | 27 | – | – | – | – | 3.5 | 3.5 |
| Deferred tax on share-based payments | | – | – | – | – | 1.0 | 1.0 |
| Dividends | 15 | – | – | – | – | (61.0) | (61.0) |
| Total transactions with owners | | 0.0 | 0.4 | – | – | (56.5) | (56.1) |
| At 31 December 2017 | | 0.3 | 45.8 | 44.9 | 5.1 | 201.9 | 298.0 |

The notes on pages 79 to 119 form part of these financial statements.

Consolidated statement of cash flows

| | Notes | Year ended 31 Dec 2017 £m | Year ended 31 Dec 2016 £m |
|--|--------|---------------------------------|---------------------------------|
| Cash flows from operating activities | | | |
| Profit after tax for the period | | 80.4 | 269.2 |
| Adjustments to reconcile profit after tax to net cash flows: | | | |
| – Finance costs | 13 | 8.7 | 8.7 |
| – Depreciation and revaluation of property, plant and equipment | 18 | 4.8 | 3.8 |
| – Amortisation of intangible assets | 17 | 4.6 | 15.2 |
| – Share-based payments | 27 | 3.5 | 2.4 |
| – Non-cash gain on demerger of Gocompare.com | 12 | – | (213.6) |
| – Taxation expense | 14, 12 | 18.2 | 16.0 |
| – Total investment return | 6, 12 | (13.0) | (20.7) |
| – Instalment interest | 6 | (48.5) | (37.7) |
| – Loss on the sale of property, plant and equipment | | 0.2 | 0.5 |
| Operating cash flows before movements in working capital, tax and interest paid | | 58.9 | 43.8 |
| Sales of financial investments | | 707.4 | 358.1 |
| Purchase of financial investments | | (792.7) | (465.2) |
| Interest, rent and dividends received less investment management expenses on financial investments | | 7.9 | 15.9 |
| Instalment interest received | | 53.3 | 41.6 |
| Changes in working capital: | | | |
| – Increase in insurance liabilities including reinsurance assets, unearned premium reserves and deferred acquisition costs | | 126.6 | 36.5 |
| – Increase in insurance and other receivables | | (61.9) | (49.3) |
| – Increase in trade and other payables including insurance payables | | 15.3 | 31.8 |
| Taxation paid | | (15.3) | (17.0) |
| Net cash generated from/(used in) operating activities | | 99.5 | (3.8) |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment, and software | 17, 18 | (9.4) | (8.3) |
| Net cash outflow from the demerger of Gocompare.com | 12 | – | (17.4) |
| Net cash used in investing activities | | (9.4) | (25.7) |
| Cash flows generated from/(used in) financing activities | | | |
| Proceeds on issue of ordinary shares | 26 | 0.4 | 1.3 |
| Interest paid on loans | 19 | (8.4) | (8.4) |
| Gocompare.com debt raise | 12 | – | 73.1 |
| Dividends paid | 15 | (61.0) | (42.9) |
| Net cash (used in)/generated from financing activities | | (69.0) | 23.1 |
| Net increase/(decrease) in cash and cash equivalents | | 21.1 | (6.4) |
| Cash and cash equivalents at the beginning of the year | 23 | 25.5 | 31.9 |
| Cash and cash equivalents at the end of the year | 23 | 46.6 | 25.5 |

The notes on pages 79 to 119 form part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2017

1. GENERAL INFORMATION

esure Group plc is a company incorporated in England and Wales. Its registered office is The Observatory, Reigate, Surrey, RH2 0SG.

The nature of the Group's operations is the writing of general insurance for private cars and homes. The Company's principal activity is that of a holding company.

All of the Company's subsidiaries are located in the United Kingdom, except for esure S.L.U., which is incorporated in Spain.

2. ACCOUNTING POLICIES

Basis of preparation

These financial statements present the esure Group plc Group financial statements for the year ended 31 December 2017, comprising the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and related notes, as well as the comparatives.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

At a General Meeting on 1 November 2016, the Company's shareholders approved the demerger of Gocompare.com and on 3 November 2016 the demerger was completed.

Under IFRS 5 – *Non-Current Assets Held for Sale and Discontinued Operations* ('IFRS 5') the results and the cash flows of the Gocompare.com business are, in line with the prior year financial statements, presented as discontinued operations.

These consolidated financial statements have been prepared on a going concern basis. As detailed in the Strategic Report on page 19, the Directors have assessed the Group's prospects and viability for the three-year period to 31 December 2020. Based on this robust assessment, the Directors confirm that they have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least the next 12 months.

These consolidated financial statements have been presented in Sterling and rounded to the nearest hundred thousand. Throughout these consolidated financial statements any amounts which are less than £0.05m are shown by 0.0, whereas a dash (-) represents that no balance exists.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial assets and land and buildings that are measured at fair value at the reporting date. The principal accounting policies adopted are set out below.

New and amended accounting standards adopted with no significant impact on the Group

The Group has applied the following standards and amendments for the first time for its annual reporting period commencing 1 January 2017:

- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)
- Disclosure Initiative (Amendments to IAS 7)
- Annual Improvements to IFRS Standards 2014–2016 Cycle – Amendments to IFRS 12

The adoption of these amendments did not have any impact on the current or prior periods.

New and amended accounting standards that have been issued but are not yet effective

The following standards have been issued and are effective for accounting periods ending after 31 December 2017 and are expected to have an impact on the Group financial statements.

IFRS 9 – *Financial Instruments*

As an insurance group, the Group is expecting to take the option to defer the effective date of the new standard to 1 January 2021, in line with IFRS 17. The standard includes requirements for recognition and measurement, impairment, derecognition of financial instruments and general hedge accounting. The Group's current analysis is that this will not have a material impact on our results.

IFRS 15 – *Revenue from Contracts with Customers*

The new standard is effective for periods beginning on or after 1 January 2018. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles-based five-step model to be applied to all contracts with customers. The Group has evaluated the impact of the new standard and believes that this will not have a material impact on our results.

IFRS 16 – *Leases*

The new standard is effective for periods beginning on or after 1 January 2019. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. This is in contrast with the current standard which differentiates between operating and finance leases. The Group has evaluated the impact of the new standard and believes that this will increase both fixed assets and leasing liabilities but will not have a material impact on our income statement.

Notes to the financial statements continued

For the year ended 31 December 2017

2. ACCOUNTING POLICIES CONTINUED

New and amended accounting standards that have been issued but are not yet effective continued

IFRS 17 – Insurance Contracts

The new standard is effective for periods beginning on or after 1 January 2021. The standard establishes principles for the recognition, measurement, presentation and disclosure of insurance and reinsurance contracts. The Group is currently evaluating the impact of the standard on its results.

Basis of consolidation

Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiary companies are consolidated using the acquisition method.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtained control, and continue to be consolidated until the date when such control ceases.

In preparing these consolidated financial statements, any intra-group balances, unrealised gains and losses or income and expenses arising from intra-group trading are eliminated. Where accounting policies used in individual financial statements of a subsidiary company differ from Group policies, adjustments are made to bring these policies in line with Group policies.

Revenue

Gross written premiums

Gross written premiums, being the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period, excluding taxes or duties based on premiums, are recognised on the date which the policy commences. Gross written premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods.

Unearned premiums

The proportion of gross written premiums that are to be earned in the accounting period after the balance sheet date are deferred as a provision for unearned premiums. Premiums earned are computed separately for each insurance contract and are recognised as revenue using the daily pro rata method, which is consistent with the incidence of risk assumed over the coverage period of the related policy.

Reinsurance premiums ceded

Reinsurance premiums are recognised and measured in a manner consistent with the related insured contracts issued by the Group and the specific terms of each reinsurance contract. Reinsurance premiums are expensed over the period that the reinsurance cover is provided based on the expected pattern of the reinsured risks. The unexpired portion of ceded reinsurance premiums is included in reinsurance assets.

Unearned reinsurance premiums ceded

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

Other income

Other income comprises sales of non-underwritten additional insurance products to Motor and Home insurance customers; policy administration fees; and fees generated from the appointment of firms used during the claims process and from car hire suppliers. Revenue earned on the sale of additional services includes both brokerage fees and commission, where the Group has a continuing relationship with the customer, and introducer fees where the Group does not have a continuing relationship with the customer.

Revenue relating to insurance broking is brought into the accounts when the policy placement has been completed and confirmed. Where the Group has an obligation to provide future services to the customer an element of income relating to the policy is deferred to cover the cost of fulfilling the associated contractual obligation plus a reasonable profit margin. Deferred revenue is credited to the income statement over the period matching the Group's obligations to provide those services. Where the Group has no contractual obligation to provide future services, the revenue is recognised immediately.

In certain circumstances, where the revenue cannot be reliably measured at the contract or policy inception date, broking fees and commission are recognised on a periodic basis when the consideration becomes due. Rebates of commissions and fees relating to the return of premiums for additional insurance products and services are recognised at the point the return is due.

Administration fees and referral fees from credit hire are recognised in the period in which the related services are provided.

2. ACCOUNTING POLICIES CONTINUED

Revenue continued

Investment income and instalment interest

Investment income comprises interest and dividend income and net gains (both realised and unrealised) on financial assets classified at fair value through profit or loss, including derivative financial instruments. Dividends are recognised when the right to receive payment is established. For listed securities, this is the date the security is listed as ex-dividend.

Interest income (including interest received from policyholders who pay by instalment) on assets classified as loans and receivables or as available-for-sale is recognised in the income statement as it accrues and is calculated using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees payable or receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows.

Investment income also includes rental income. Rental income represents income arising from operating leases and is recognised on a straight-line basis over the lease term.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as other income (as fees for additional services) over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognised as deferred income and released to the income statement in equal amounts over the expected useful life of the related asset.

Claims and expenses recognition

Gross claims incurred and claims handling expenses

Gross claims include all claims incurred during the year, whether reported or not, less recoveries, together with related internal and external handling costs that are directly related to the processing and settlement of claims, and any adjustment to claims outstanding from previous years.

Reinsurance claims

Reinsurance claims are recognised and measured in a manner consistent with the related insurance contracts issued by the Group and the specific terms of the reinsurance contract.

Finance costs

Finance costs comprise interest paid which is recognised in the income statement as it accrues and is calculated by using the effective interest rate method. Accrued interest is included within the carrying value of the interest-bearing financial liability.

Taxation

Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those enacted or substantively enacted by the reporting date. Current tax assets and liabilities also include adjustments in respect of tax expected to be payable or recoverable in respect of previous periods.

Current tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income and not in the income statement.

Deferred tax

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

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

Deferred tax is recognised in profit or loss except for deferred tax relating to items recognised outside the income statement which is recognised outside the income statement, either in other comprehensive income or directly in equity as appropriate.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Notes to the financial statements continued

For the year ended 31 December 2017

2. ACCOUNTING POLICIES CONTINUED

Foreign currency translation

Transactions in foreign currencies are translated to Sterling at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Sterling at the exchange rate at the reporting date. Foreign currency differences are recognised in profit or loss in the consolidated statement of comprehensive income.

Intangible assets

Goodwill

Goodwill is recognised on business combinations and the acquisition of joint ventures at cost less accumulated impairment losses. Goodwill arising on business combinations is presented in intangible assets. Positive goodwill is not amortised.

Impairment of goodwill

Goodwill arising on a business combination is tested annually for impairment. An impairment loss is recognised if the carrying amount of the cash generating unit (or units) to which the goodwill is allocated exceeds its recoverable amount. A recognised impairment loss is not reversed.

Software

Purchased software is recognised as an intangible asset, with the carrying value being reviewed at every reporting date for evidence of impairment and the value being written down if any impairment exists. If conditions subsequently improve, the previously recognised impairment may be reversed.

Amortisation of software begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The cost of purchased software is amortised on a straight-line basis over the expected useful life of the intangible asset. This has been set between two and seven years.

Expenditure on research activities is recognised in the consolidated statement of comprehensive income as an expense as incurred. Costs associated with the development of software for internal use are capitalised only if the software is technically feasible for sale or use on completion and the Group has both the intent and sufficient resources to complete the development. Subsequent expenditure is capitalised only if the cost of the asset can be reliably measured, will generate future economic benefits and there is an ability to use or sell the asset.

The cost of internally generated software is amortised over the expected useful life of the intangible asset on a straight-line basis. The expected useful life is between three and five years.

Other intangible assets

Intangible assets acquired are stated at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over their useful lives. For intangible assets that are recognised as part of business combinations, the Group makes an assessment of the fair value of the identified intangible assets acquired in the business combination. Intangible assets other than those arising as part of business combinations are recognised as long as it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group and its cost can be measured reliably. The Group holds no intangible assets with indefinite useful lives other than goodwill. The carrying value of intangible assets with finite useful lives is reviewed at every reporting date for evidence of impairment with the value being written down if any impairment exists. If conditions subsequently improve, the previously recognised impairment may be reversed and credited through the income statement.

The economic lives and amortisation methods of acquired intangible assets, other than software, are as follows:

| | |
|---------------------------------|---|
| Insurer customer relationships: | 5 to 6 years, based on the pattern of consumption of the benefits |
| Insurer brands: | 8 to 10 years, on a straight-line basis |

Property, plant and equipment

Property, plant and equipment comprises land and buildings occupied by the Group and fixtures, fittings and equipment (including computer hardware). Land and buildings are stated at their revalued amount, which is the fair value, less subsequent depreciation for buildings. All other assets are stated at cost less depreciation and accumulated impairment. Replacement or major inspection costs are capitalised when incurred if it is possible that future economic benefits associated with the item will flow to the entity and the costs can be measured reliably.

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation is calculated using the straight-line method to write off the cost less residual values of the assets over their economic lives, with the exception of freehold land which is not depreciated. The economic lives are as follows:

| | |
|-----------------------------------|-----------------------|
| Fixtures, fittings and equipment: | between 3 and 8 years |
| Freehold buildings: | 100 years |

The assets' residual values, useful lives and method of depreciation are reviewed and adjusted prospectively, if appropriate. An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income in the year in which the asset is derecognised.

2. ACCOUNTING POLICIES CONTINUED

Property, plant and equipment continued

Impairment and revaluation of property, plant and equipment

Carrying values are reviewed at each reporting date to determine whether there are any indications of impairment. If any such indications exist, the asset's recoverable amount is estimated and compared to the carrying value. The recoverable amount is the higher of the fair value of the asset, less costs to sell and the asset's value in use. Impairment losses are recognised through the income statement. Impairment may be reversed if conditions subsequently improve and credited through the income statement.

Revaluations of land and buildings are undertaken annually, with more frequent revaluations occurring where an assessment is made that the carrying amount may differ materially from its fair value. Where a revaluation occurs, any accumulated depreciation at the time of the revaluation is eliminated against the gross carrying amount of the asset.

Increases in the carrying amount arising on the revaluation of Group occupied property are credited to revaluation reserves in other comprehensive income, unless they offset previous decreases of the same asset that have been charged to the income statement, in which case the increase is also charged to the income statement. Similarly, decreases that offset previous increases of the same asset that have been credited to a revaluation surplus are recorded directly in other comprehensive income as a reduction in the revaluation surplus; other decreases are charged to the income statement.

Financial assets

Classification

Financial assets falling within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are designated/classified as 'at fair value through profit or loss' ('FVTPL'), 'loans and receivables', 'available-for-sale' ('AFS') or 'held for trading'. The Group determines the classification of its financial assets at initial recognition. The Group does not classify any financial assets as held to maturity financial assets.

The Group's financial assets include cash and cash equivalents, other debtors and quoted and unquoted financial investments including derivatives. Insurance receivables are also presented as financial assets.

Initial recognition of financial assets

The Group designates on initial recognition its financial assets held for investment purposes at FVTPL or AFS with the exception of derivatives, which are classified as held for trading. All other financial assets are classified as loans and receivables. For those financial investments designated at FVTPL or AFS, this is in accordance with the Group's documented investment strategy. Information relating to these investments is provided internally to the Group's Directors and key managers on a fair value basis.

The Group's financial assets are initially recognised at fair value, plus any directly attributable transaction costs, with the exception of financial assets at FVTPL for which directly attributable transaction costs are expensed as incurred. If the Group determines that the fair value of a financial asset on initial recognition differs from its transaction price, but the fair value measurement is not evidenced by a valuation technique that uses only data from observable markets, then this difference is deferred and is subsequently recognised as investment income only to the extent that there is a change in factor (including time) that would result in a market participant taking the data into account when setting a price for the financial asset.

Purchases and sales of financial assets are accounted for at the trade date.

Subsequent measurement

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised through profit or loss in the statement of comprehensive income. AFS financial assets are stated at fair value, with any resultant gain or loss (other than impairments and foreign currency movements) recognised through other comprehensive income and accumulated in other reserves. Interest income is recognised as investment income through the statement of comprehensive income and is calculated based on amortised cost using the effective interest rate. When AFS financial assets are derecognised, the gain or loss accumulated in other reserves is reclassified to profit or loss in the statement of comprehensive income.

Loans and receivables are measured at amortised cost less accumulated impairment losses using the effective interest rate method.

Impairment of financial assets

Objective evidence of impairment may include default on cash flows from the asset and reporting financial difficulty of the issuer or counterparty.

Financial assets measured at amortised cost

The Group assesses at each reporting date whether any financial assets held at amortised cost are impaired. Financial assets are impaired where there is evidence that one or more events occurring after the initial recognition of the asset may lead to a reduction in the estimated future cash flows arising from the asset. Impairment losses on financial assets classified as loans and receivables are calculated as the difference between the carrying value and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses and any reversals of impairments are recognised through the income statement.

Available-for-sale financial assets

Impairment losses on AFS financial assets are recognised by reclassifying the losses accumulated in other reserves to the income statement. The amount reclassified is the difference between the value on initial recognition and the current fair value, less any impairment loss previously recognised in the income statement. If the fair value of an impaired AFS financial asset subsequently increases, then the impairment loss is reversed through the income statement to the extent that it offsets impairment losses previously recognised; otherwise, it is recognised in other reserves.

Notes to the financial statements continued

For the year ended 31 December 2017

2. ACCOUNTING POLICIES CONTINUED

Financial assets continued

Derecognition of financial assets

A financial asset is derecognised when the rights to receive cash flows from that asset have expired or when the Group transfers substantially all the risks and rewards of ownership of the financial asset.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, the Group has a currently enforceable legal right to offset the recognised amounts and it intends to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the consolidated statement of comprehensive income unless required or permitted by any accounting standard or interpretation.

Reinsurance

The Group cedes insurance risk in the normal course of business for the purpose of limiting its potential losses from accepting insurance risk. Reinsurance assets represent amounts expected to be recovered from reinsurers in respect of claims incurred under the related insurance contracts and are estimated in a manner consistent with the outstanding claims provision or settled claims under the related insurance contracts.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. Any impairment loss is recorded in the consolidated statement of comprehensive income.

Insurance receivables

Insurance receivables are recognised when contracts are entered into and are measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost less accumulated impairment losses, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the consolidated statement of comprehensive income.

Deferred acquisition costs ('DAC')

Acquisition costs comprise all commission and other direct and indirect acquisition costs arising from the conclusion of insurance contracts. DAC represent the proportion of acquisition costs incurred that corresponds to the unearned premiums provision at the reporting date, and are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

Subsequent to initial recognition, DAC assets are amortised over the period in which the related revenues are earned. DAC assets are derecognised when the obligations under the related insurance contracts are either transferred or settled.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term deposits with original maturities of three months or less that are held to meet short-term cash commitments rather than for investment or other purposes.

Insurance contract liabilities

Provision for unearned premiums

The provision for unearned premiums represents the portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when the contracts are entered into and premiums are charged, and is released as earned premium in the consolidated statement of comprehensive income over the term of the contract in accordance with the pattern of insurance service provided under the contract.

Liability adequacy test

At each reporting date the Group reviews its unexpired risk and performs a liability adequacy test to determine whether the estimated cost of future claims and deferred acquisition costs exceeds the provision for unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant technical provision. If these estimates show that the carrying amount of the unearned premium is inadequate, the deficiency is recognised in the consolidated statement of comprehensive income and a corresponding provision for unexpired risk is recognised in the consolidated statement of financial position.

Outstanding claims provision

The provision for claims outstanding comprises provisions for the estimated cost of settling all claims incurred but not settled at the balance sheet date including related claims handling expenses, whether reported or not. Anticipated reinsurance recoveries and salvage and subrogation recoveries are disclosed separately as assets.

Insurance payables

Insurance payables are recognised when due and measured initially at the fair value of the consideration received. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

Financial liabilities

Financial liabilities falling within the scope of IAS 39 are classified as 'derivatives held for trading', or 'other financial liabilities'. The Group determines the classification of its financial liabilities at initial recognition.

2. ACCOUNTING POLICIES CONTINUED

Financial liabilities continued

The Group's 'other financial liabilities' include other payables and borrowings. Insurance payables are also presented as other financial liabilities.

Initial recognition

All financial liabilities are measured initially at fair value less, in the case of other financial liabilities, directly attributable transaction costs.

Subsequent measurement

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated statement of comprehensive income when the liabilities are derecognised. Amortised cost is calculated by taking into account any fees or costs that are an integral part of effective interest rate, transaction costs and all other premiums and discounts. The amortisation is included in finance costs in the consolidated statement of comprehensive income.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of comprehensive income.

Derivatives

Derivatives are measured at fair value both initially and subsequent to initial recognition. All changes in fair value are recognised in the consolidated statement of comprehensive income. Derivatives are presented as assets when the fair values are positive and as liabilities when the fair values are negative.

Hedge accounting

The Group does not currently designate any derivatives as hedging instruments.

Share capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other assets to holders of the financial instruments.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of the expenditure required to settle a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Employee benefits – pensions

The Group contributes to a defined contribution scheme for its employees. The contributions payable to this scheme are charged to the income statement in the accounting period to which they relate.

Leases

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as the related income. Contingent rents are recognised as revenue in the period in which they are earned (i.e. when virtually certain).

Group as a lessee – operating leases

Leases which do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are classified as operating leases. Operating lease payments, including the effects of any lease incentives, are recognised as an expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term. Contingent rentals are recognised as an expense in the period in which they are incurred.

Share-based payments

Equity-settled share-based payments to employees are measured at the grant date at the fair value of the equity instruments (excluding the effect of non-market vesting conditions but including the effect of market vesting conditions). Fair value is not subsequently remeasured.

The fair value of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity, based on the best estimate of the number of awards which will ultimately vest unconditionally with employees. The estimate of the number of awards expected to vest (excluding the effect of market vesting conditions) is revised at each reporting date, with any consequential changes to the charge recognised in the consolidated statement of comprehensive income.

Notes to the financial statements continued

For the year ended 31 December 2017

2. ACCOUNTING POLICIES CONTINUED

Where equity-settled share-based payments are modified, any incremental fair value is expensed on a straight-line basis over the revised vesting period.

Discontinued operations

Under IFRS 5, following the demerger, Gocompare.com represents a discontinued operation and the post-tax profit or loss, including direct transaction costs, is presented as a single amount on the face of the statement of comprehensive income in the prior year.

The demerger is a distribution of non-cash assets to the owners and, as such, falls under IFRIC 17. A fair value uplift, being the difference between the book value and the fair value at the date of distribution, of £213.6m is therefore seen on demerger; this is based on the share price at the date of demerger (note 12).

Non-trading costs

Non-trading costs are those costs which do not relate to the ongoing trading of the business.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of these consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates; however, the consolidated financial statements presented are based on conditions that existed at the balance sheet date.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty and critical judgements in applying the Group's accounting policies

Insurance contract liabilities

Estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not reported ('IBNR') at the reporting date. It can take a significant period of time before ultimate claims cost can be established with certainty for some types of claims.

The ultimate cost of outstanding claims is estimated by carrying out standard actuarial projections in line with the Institute and Faculty of Actuaries' Technical Actuarial Standards. These techniques use past claims information and development patterns of these claims to project the expected future claims cost both for notified and non-notified claims.

Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium and hence whether there is a requirement for an unexpired risk provision.

Please refer to note 20 for additional details.

4. SEGMENTAL INFORMATION

Differences to the Group's 2016 Annual Report and Accounts in the basis of segmentation

The Group makes decisions on customer acquisition and retention based on contribution. In addition to the underwriting contribution from Motor and Home, a diversified suite of additional insurance products and services provide opportunities to deliver enhanced customer contribution.

In order to facilitate the management of the Group and post the demerger of Gocompare.com, the reporting to the Board of Directors has changed and the reportable segments under IFRS 8 *Operating Segments* reflect this change. The 2016 segments have been restated to reflect the new segmental reporting.

Operating segments

The Group has two operating segments as described below. These segments are also the Group's reportable segments and represent the manner in which the business is regularly reported to the Group's executive and Board of Directors.

Motor

This segment incorporates the revenues and expenses directly attributable to the Group's Motor insurance underwriting activities inclusive of additional insurance products underwritten by the Group and related non-underwritten additional services. Investment income is allocated to the segment on the basis of premium income.

Home

This segment incorporates the revenues and expenses directly attributable to the Group's Home insurance underwriting activities and related non-underwritten additional services. Investment income is allocated to the segment on the basis of premium income.

4. SEGMENTAL INFORMATION CONTINUED**Segmental revenues, expenses and other information**

An analysis of the Group's results by reportable segment is shown below:

Year ended 31 December 2017

| | Motor £m | Home £m | Continuing operations Total £m |
|--|----------------|---------------|---|
| Gross written premiums | 734.3 | 85.9 | 820.2 |
| Earned premiums, net of reinsurance | 596.3 | 81.5 | 677.8 |
| Investment income | 12.0 | 1.0 | 13.0 |
| Instalment interest income | 43.3 | 5.2 | 48.5 |
| Other income | 36.3 | 5.7 | 42.0 |
| Total income | 687.9 | 93.4 | 781.3 |
| Net incurred claims | (436.5) | (53.5) | (490.0) |
| Claims handling costs | (21.5) | (3.2) | (24.7) |
| Insurance expenses | (113.4) | (27.1) | (140.5) |
| Other operating expenses | (13.8) | (1.0) | (14.8) |
| Total expenses | (585.2) | (84.8) | (670.0) |
| Trading profit | 102.7 | 8.6 | 111.3 |
| Amortisation of acquired intangibles | | | (2.2) |
| Non-trading costs | | | (1.8) |
| Finance costs | | | (8.7) |
| Profit before taxation from continuing operations | | | 98.6 |
| Tax expense | | | (18.2) |
| Profit after taxation from continuing operations | | | 80.4 |
| Net expense ratio | 22.6% | 37.2% | 24.4% |
| Net loss ratio | 73.2% | 65.6% | 72.3% |
| Combined operating ratio | 95.8% | 102.8% | 96.7% |

The average number of in-force policies during the year ended 31 December 2017 was 2.28 million.

Notes to the financial statements continued

For the year ended 31 December 2017

4. SEGMENTAL INFORMATION CONTINUED

Segmental revenues, expenses and other information continued

An analysis of the Group's results by reportable segment is shown below:

Year ended 31 December 2016 (restated)

| | Motor £m | Home £m | Continuing operations Total £m |
|--|----------------|---------------|---|
| Gross written premiums | 563.7 | 91.3 | 655.0 |
| Earned premiums, net of reinsurance | 470.6 | 84.3 | 554.9 |
| Investment income | 16.1 | 2.0 | 18.1 |
| Instalment interest income | 32.6 | 5.0 | 37.6 |
| Other income | 31.5 | 5.4 | 36.9 |
| Total income | 550.8 | 96.7 | 647.5 |
| Net incurred claims | (356.4) | (55.6) | (412.0) |
| Claims handling costs | (19.5) | (3.6) | (23.1) |
| Insurance expenses | (85.8) | (27.5) | (113.3) |
| Other operating expenses | (13.4) | (1.1) | (14.5) |
| Total expenses | (475.1) | (87.8) | (562.9) |
| Trading profit | 75.7 | 8.9 | 84.6 |
| Amortisation of acquired intangibles | | | (2.3) |
| Non-trading costs | | | (0.9) |
| Finance costs | | | (8.7) |
| Profit before taxation from continuing operations | | | 72.7 |
| Tax expense | | | (13.2) |
| Profit after taxation from continuing operations | | | 59.5 |
| Net expense ratio | 22.4% | 36.9% | 24.6% |
| Net loss ratio | 75.7% | 66.0% | 74.2% |
| Combined operating ratio | 98.1% | 102.9% | 98.8% |

The average number of in-force policies during the year ended 31 December 2016 was 2.08 million.

There are no other material components of income and expense or non-cash items.

Trading profit from continuing operations, being earnings before interest, tax, non-trading expenses and amortisation of acquired intangible assets, is management's measure of the overall profitability of the Group's operating activities. The Group's segmental trading profit, comprising Motor and Home is £111.3m (2016: £84.6m).

The Group's profit in respect of continuing operations after tax is £80.4m (2016: £59.5m).

The Group incurred non-trading costs of £1.8m in 2017 of which £1.7m related to share-based payments in respect of the one-off award disclosed in note 27. The Group incurred non-trading costs of £0.9m in 2016 of which £0.4m related to share-based payments in respect of the long service and one-off awards disclosed in note 27 and £0.2m related to stamp duty and legal fees in respect of a new lease.

In 2016 the Group generated a trading profit £24.5m on its discontinued operation (Gocompare.com) prior to the demerger on 3 November 2016. An analysis of the discontinued operation is presented in note 12.

4. SEGMENTAL INFORMATION CONTINUED

Segmental profit drivers

Motor

Trading profit is 35.7% higher at £102.7m (2016: £75.7m). The underwriting performance of £24.9m (2016: £8.9m) reflects an improvement in the Group's current accident year loss ratio in the year as higher pricing earned through ahead of claims inflation. Instalment and other income net of other operating expenses increased 29.8% to £65.8m (2016: £50.7m), largely due to an increase in in-force policies and average premiums.

The combined operating ratio improved by 2.3ppts to 95.8% (2016: 98.1%) and this was largely driven by an improvement in the loss ratio of 2.5ppts to 73.2% (2016: 75.7%), with the expense ratio broadly stable at 22.6% (2016: 22.4%).

Home

Trading profit is marginally lower at £8.6m (2016: £8.9m). The Group's underwriting loss of £2.3m was similar to 2016 (loss of £2.4m), albeit 2017 has benefited from weather event costs that were lower than normal. Instalment and other income net of other operating expenses increased 6.5% to £9.9m (2016: £9.3m) aided by an improvement in non-underwritten additional insurance products.

The combined operating ratio was stable year-on-year at 102.8% (2016: 102.9%).

Statement of financial position

The assets and liabilities of the Group are reported on an aggregated consolidated basis. They are not allocated to reportable segments and are reported on the same basis as disclosed in the consolidated statement of financial position on page 76.

5. EARNED PREMIUMS, NET OF REINSURANCE

| | Year ended 31 Dec 2017 £m | Year ended 31 Dec 2016 £m |
|--|---------------------------------|---------------------------------|
| Continuing operations | | |
| Gross written premiums | 820.2 | 655.0 |
| Change in unearned premium provision | (86.2) | (57.0) |
| Gross earned premiums | 734.0 | 598.0 |
| Written premiums, ceded to reinsurers | (69.0) | (47.8) |
| Change in unearned premium provision | 12.8 | 4.7 |
| Earned premiums, ceded to reinsurers | (56.2) | (43.1) |
| Earned premiums, net of reinsurance | 677.8 | 554.9 |

6. INVESTMENT RETURN AND INSTALMENT INTEREST

| | Year ended 31 Dec 2017 £m | Year ended 31 Dec 2016 £m |
|--|---------------------------------|---------------------------------|
| Continuing operations | | |
| Interest income on financial investments | 11.8 | 13.4 |
| Interest income on cash deposits | 0.1 | 0.2 |
| Investment expenses | (4.1) | (3.5) |
| Fair value gains/(losses) on derivative financial instruments | 7.3 | (25.8) |
| (Losses)/gains on financial instruments at FVTPL | (6.3) | 33.5 |
| Gains on AFS financial instruments in P&L | 1.1 | - |
| Gains on AFS financial instruments recognised in OCI | 2.0 | - |
| Gains on AFS financial instruments reclassified from equity to P&L | 0.8 | - |
| Rental income | 0.3 | 0.3 |
| Total investment return | 13.0 | 18.1 |
| Instalment interest | 48.5 | 37.6 |
| Total investment return and instalment interest | 61.5 | 55.7 |

Total interest income calculated using the effective interest rate method comprises interest income on cash deposits and AFS debt securities and instalment interest.

Notes to the financial statements continued

For the year ended 31 December 2017

7. OTHER INCOME

| | Year ended 31 Dec 2017 £m | Year ended 31 Dec 2016 £m |
|------------------------------|---------------------------------|---------------------------------|
| Continuing operations | | |
| Fees for additional services | 42.0 | 36.9 |
| Total other income | 42.0 | 36.9 |

8. EMPLOYEE BENEFIT EXPENSE

| | Year ended 31 Dec 2017 £m | Year ended 31 Dec 2016 £m |
|---|---------------------------------|---------------------------------|
| Continuing operations | | |
| Wages and salaries | 55.0 | 51.9 |
| Social security costs | 6.8 | 5.6 |
| Pension costs (defined contribution schemes) | 2.6 | 2.5 |
| Equity-settled share-based payment expenses (note 27) | 1.6 | 2.6 |
| Total employee benefit expense | 66.0 | 62.6 |

The average number of employees, including Directors, during each period was:

| | Year ended 31 Dec 2017 | Year ended 31 Dec 2016 |
|--|---------------------------|---------------------------|
| Operations | 1,264 | 1,212 |
| Support | 425 | 411 |
| Total average number of employees | 1,689 | 1,623 |

9. DIRECTORS' REMUNERATION

| | Year ended 31 Dec 2017 £m | Year ended 31 Dec 2016 £m |
|--|---------------------------------|---------------------------------|
| Continuing operations | | |
| Emoluments | 2.8 | 2.9 |
| Exercised share awards | – | 0.4 |
| Contributions to defined contribution pension scheme | 0.1 | 0.1 |
| Total Directors' remuneration | 2.9 | 3.4 |

| | Year ended 31 Dec 2017 £m | Year ended 31 Dec 2016 £m |
|--|---------------------------------|---------------------------------|
| Remuneration of the highest paid Director | | |
| Emoluments | 0.9 | 1.1 |
| Exercised share awards | – | 0.2 |
| Contributions to defined contribution pension scheme | 0.1 | 0.1 |
| Total remuneration of the highest paid Director | 1.0 | 1.4 |

Directors' emoluments do not include the value of any share options granted to Directors. Full disclosure of the awards is provided in note 27.

Retirement benefits were accruing to two Directors (2016: two) in respect of defined contribution pension schemes.

10. INSURANCE AND OTHER OPERATING EXPENSES

| | Year ended 31 Dec 2017 £m | Year ended 31 Dec 2016 £m |
|--------------------------------------|---------------------------------|---------------------------------|
| Continuing operations | | |
| Acquisition of insurance contracts | 88.7 | 75.4 |
| Change in deferred acquisition costs | (7.1) | (12.5) |
| Administration | 58.9 | 50.4 |
| Insurance expenses | 140.5 | 113.3 |
| Other operating expenses | 18.8 | 17.7 |

During the year ended 31 December 2017, a reclassification of £0.1m is included within other operating expenses in relation to a revaluation of the Group's land and buildings (2016: £0.1m charge).

11. PROFIT AFTER TAX

Profit after tax is stated after charging/(crediting):

| | Year ended 31 Dec 2017 £m | Year ended 31 Dec 2016 £m |
|---|---------------------------------|---------------------------------|
| Continuing operations | | |
| Employee benefit expense (note 8) | 66.0 | 62.6 |
| Depreciation and revaluation of property, plant and equipment (note 18) | 4.0 | 3.9 |
| Amortisation of intangible assets (note 17) | 4.6 | 15.6 |
| Operating lease payments | 2.9 | 3.3 |
| Government grant income | (0.1) | (0.2) |

Auditor's remuneration from continuing and discontinued operations:

| | | |
|---|------------|-----|
| <i>Fees for audit services</i> | | |
| Audit of these financial statements | 0.1 | 0.1 |
| Audit of financial statements of subsidiaries of the Company | 0.3 | 0.3 |
| Total audit fees | 0.4 | 0.4 |
| <i>Fees for non-audit services</i> | | |
| Audit-related assurance services | 0.1 | 0.1 |
| Tax advisory fees | – | 0.1 |
| Corporate finance services in relation to demerger of Gocompare.com | – | 1.4 |
| Total non-audit fees | 0.1 | 1.6 |
| Total Group auditor remuneration | 0.5 | 2.0 |

Amortisation arises on software, acquired brands and customer relationships. Amortisation charged is recorded within insurance expenses and other operating expenses.

In 2016, non-audit fees were principally related to the reporting accountant role for the Group's demerger of Gocompare.com, related work including tax advice specific to the demerger and a review of the accounting treatment proposed by management.

Notes to the financial statements continued

For the year ended 31 December 2017

12. DEMERGER OF GOCOMPARE.COM

On 1 January 2016, the Group owned 100% of the ordinary share capital of Gocompare.com and controlled 100% of the voting rights.

On 7 June 2016 the Board announced a strategic review which concluded that a demerger should be pursued. At a General Meeting on 1 November 2016, the Company's shareholders approved the demerger of Gocompare.com. On 3 November 2016, the demerger was completed and the shares in Gocompare.com were admitted to the premium segment of the Official List and to trading on the main market of the London Stock Exchange.

Gocompare.com is an internet based price comparison website for financial and non-financial products.

Demerger

The demerger was effected by the Group making an interim in-specie distribution of Gocompare.com shares to shareholders. Following approval of the demerger by shareholders, but before the approval of the demerger dividend by the Board, Gocompare.com drew down debt of £75m under a term loan facility and paid a cash dividend to the Group of £73.3m.

Gocompare.com has been presented as a discontinued operation with all income and expenses shown as a single line in the statement of comprehensive income. The demerger is considered a distribution of non-cash assets to owners and, as such, falls under IFRIC 17 which requires a revaluation to fair value. A non-cash gain of £213.6m, based on the fair value of the assets at demerger (based on the share price on the date of demerger), is therefore recorded in the statement of comprehensive income.

The following tables summarise the performance of Gocompare.com from 1 January 2016 to the demerger on 3 November 2016.

| | Period ended 3 Nov 2016 £m |
|--|----------------------------------|
| Investment return | 0.0 |
| Fees for additional services | 113.1 |
| Total income | 113.1 |
| Other operating expenses | (88.6) |
| Trading profit | 24.5 |
| Amortisation of acquired intangibles | (11.1) |
| Fees associated with the demerger of Gocompare.com | (14.5) |
| Non-cash demerger gain | 213.6 |
| Profit before tax | 212.5 |
| Taxation expense | (2.8) |
| Profit after tax from discontinued operations | 209.7 |

The following table analyses the cash flows relating to the discontinued operation included in the consolidated cash flow statement from 1 January to the demerger on 3 November 2016.

| | Period ended 3 Nov 2016 £m |
|--|----------------------------------|
| Net cash generated from operating activities | 26.8 |
| Net cash used by investing activities | (1.1) |
| Net increase in cash and cash equivalents | 25.7 |

All statement of financial position items are, post demerger, derecognised from the statement of financial position with the net assets at demerger being shown as a single movement in the statement of changes in equity of £301.8m, being the valuation of the distribution to shareholders. The non-cash gain of £213.6m is recorded as an increase in goodwill and intangible assets immediately prior to demerger.

12. DEMERGER OF GOCOMPARE.COM CONTINUED

The following schedule details the assets and liabilities of the demerged group.

| | 3 Nov 2016 £m |
|--------------------------------|------------------|
| Assets | |
| Goodwill and intangible assets | 372.0 |
| Property, plant and equipment | 1.4 |
| Other receivables | 21.2 |
| Cash and cash equivalents | 17.4 |
| Total assets | 412.0 |
| Liabilities | |
| Other payables | 29.2 |
| Current tax liabilities | 2.2 |
| Deferred tax liabilities | 5.7 |
| Borrowings | 73.1 |
| Total liabilities | 110.2 |
| Net assets | 301.8 |

The average number of employees, including Directors, in the period was:

| | Period ended 3 Nov 2016 |
|------------------|----------------------------|
| Price comparison | 139 |

13. FINANCE COSTS

Finance costs in each period represents the total interest expense calculated using the effective interest rate method.

| | Year ended 31 Dec 2017 £m | Year ended 31 Dec 2016 £m |
|--|---------------------------------|---------------------------------|
| Continuing operations | | |
| Interest expense on 10 year Subordinated Notes (see note 19) | 8.7 | 8.7 |
| Total finance costs | 8.7 | 8.7 |

14. TAXATION

| | Year ended 31 Dec 2017 £m | Year ended 31 Dec 2016 £m |
|---|---------------------------------|---------------------------------|
| Continuing operations | | |
| Current taxes on income for the reporting period | 19.6 | 13.9 |
| Tax adjustment relating to income for prior periods | – | (0.2) |
| Total current tax | 19.6 | 13.7 |
| Origination and reversal of temporary differences | (1.5) | (0.2) |
| Effect of change in tax rate | 0.1 | (0.3) |
| Total deferred tax credit | (1.4) | (0.5) |
| Taxation expense | 18.2 | 13.2 |

The tax rate used for the calculations is the Corporation Tax rate of 19.25% (2016: 20.00%) payable by the corporate entities in the UK on taxable profits under tax law in that jurisdiction.

Notes to the financial statements continued

For the year ended 31 December 2017

14. TAXATION CONTINUED

The tax expense for the year can be reconciled to the profit before tax per the consolidated statement of comprehensive income as follows:

| | Year ended 31 Dec 2017 £m | Year ended 31 Dec 2016 £m |
|---|---------------------------------|---------------------------------|
| Continuing operations | | |
| Profit before taxation | 98.6 | 72.7 |
| Taxation calculated at 19.25% (2016: 20.00%) | 19.0 | 14.5 |
| Effect of expenses that are not deductible | 0.0 | 0.3 |
| Adjustments in relation to the current tax of prior years | – | (0.2) |
| Non-taxable income | (0.8) | (0.8) |
| Change in tax rate | 0.0 | (0.6) |
| Taxation expense | 18.2 | 13.2 |

| | Year ended 31 Dec 2017 £m | Year ended 31 Dec 2016 £m |
|--|---------------------------------|---------------------------------|
| Tax recognised directly in equity | | |
| Deferred tax (charge)/credit recognised directly in equity | (0.9) | 0.3 |
| Total tax recognised directly in equity | (0.9) | 0.3 |

The deferred tax recognised directly in equity relates to deferred tax arising on share-based payments where the amount of the estimated future tax deduction exceeds the amount of the related cumulative remuneration expense recognised.

There is also deferred tax recognised directly in other comprehensive income that relates to AFS investments.

Factors affecting the tax charge for future periods

A reduction in the standard rate of Corporation Tax from 20% to 19% was effective from 1 April 2017. There will be a further reduction in the rate of Corporation Tax to 17% from 1 April 2020. This change was substantively enacted at the year end date.

15. DIVIDENDS

A 2017 interim dividend per share of 4.1p (£17.1m) was declared by the Board of Directors in August 2017 (2016: interim dividend per share of 3.0p, £12.5m). Subsequent to the year end, a 2017 final dividend per share of 9.4p (£39.3m) was declared by the Board of Directors (2016: final dividend per share of 10.5p, £43.9m).

16. EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the earnings attributable to the owners of the Group and the weighted average of ordinary shares in issue during the period, excluding ordinary shares held as employee benefit trust shares. A calculation is also shown based on the earnings from continuing operations attributable to the owners of the Group.

Diluted

Diluted earnings per share is calculated by dividing the earnings attributable to the owners of the Group by the weighted average of ordinary shares in issue during the period adjusted for any dilutive potential ordinary shares. A calculation is also shown based on the earnings from continuing operations attributable to the owners of the Group. Share issues during the year are set out in note 26.

The difference between the basic and diluted weighted average number of shares outstanding during the year, being 5,586,240 (2016: 2,009,742), relates to the dilutive potential of the share-based payment arrangements. Details of share awards are set out in note 27.

| | Year ended 31 Dec 2017 £m | Year ended 31 Dec 2016 £m |
|--|---------------------------------|---------------------------------|
| Profit after taxation | 80.4 | 269.2 |
| Weighted average number of ordinary shares (million) – basic | 418.0 | 416.6 |
| Earnings per share – basic (pence) | 19.2 | 64.6 |
| Weighted average number of ordinary shares (million) – diluted | 423.6 | 418.6 |
| Earnings per share – diluted (pence) | 19.0 | 64.3 |

Continuing operations earnings per share

| | Year ended 31 Dec 2017 £m | Year ended 31 Dec 2016 £m |
|--|---------------------------------|---------------------------------|
| Profit from continuing operations, net of tax | 80.4 | 59.5 |
| Weighted average number of ordinary shares (million) – basic | 418.0 | 416.6 |
| Earnings per share from continuing operations – basic (pence) | 19.2 | 14.3 |
| Weighted average number of ordinary shares (million) – diluted | 423.6 | 418.6 |
| Earnings per share from continuing operations – diluted (pence) | 19.0 | 14.2 |

Discontinued operations earnings per share

| | Year ended 31 Dec 2017 £m | Year ended 31 Dec 2016 £m |
|--|---------------------------------|---------------------------------|
| Profit from discontinued operations, net of tax | – | 209.7 |
| Weighted average number of ordinary shares (million) – basic | 418.0 | 416.6 |
| Earnings per share from continuing operations – basic (pence) | – | 50.3 |
| Weighted average number of ordinary shares (million) – diluted | 423.6 | 418.6 |
| Earnings per share from continuing operations – diluted (pence) | – | 50.1 |

Notes to the financial statements continued

For the year ended 31 December 2017

17. GOODWILL AND INTANGIBLE ASSETS

| | Goodwill £m | Software £m | Acquired brands £m | Customer relationships £m | Total £m |
|--|----------------|----------------|--------------------------|---------------------------------|-------------|
| Cost | | | | | |
| As at 1 January 2016 | 127.7 | 10.5 | 65.1 | 21.5 | 224.8 |
| Additions in the year | – | 5.2 | – | – | 5.2 |
| Disposals in the year | – | (0.2) | – | – | (0.2) |
| Demerger of Gocompare.com | (127.7) | (1.7) | (40.9) | (10.2) | (180.5) |
| As at 31 December 2016 | – | 13.8 | 24.2 | 11.3 | 49.3 |
| Additions in the year | – | 8.7 | – | – | 8.7 |
| Disposals in the year | – | (0.7) | – | – | (0.7) |
| As at 31 December 2017 | – | 21.8 | 24.2 | 11.3 | 57.3 |
| Accumulated amortisation and impairment | | | | | |
| As at 1 January 2016 | – | 4.7 | 23.5 | 15.1 | 43.3 |
| Amortisation for the year | – | 2.3 | 9.0 | 4.3 | 15.6 |
| Disposals in the year | – | (0.2) | – | – | (0.2) |
| Demerger of Gocompare.com | – | (1.1) | (12.9) | (8.1) | (22.1) |
| As at 31 December 2016 | – | 5.7 | 19.6 | 11.3 | 36.6 |
| Amortisation for the year | – | 2.4 | 2.2 | – | 4.6 |
| Disposals in the year | – | (0.5) | – | – | (0.5) |
| As at 31 December 2017 | – | 7.6 | 21.8 | 11.3 | 40.7 |
| Net book value | | | | | |
| As at 31 December 2016 | – | 8.1 | 4.6 | – | 12.7 |
| As at 31 December 2017 | – | 14.2 | 2.4 | – | 16.6 |

Included in software as at 31 December 2017 is £5.3m relating to software assets that are not yet available for use in the manner intended by management (31 December 2016: £2.0m). As a result, no amortisation has been charged on these assets during the year. Work on bringing these assets into a condition necessary for their intended use is expected to be completed during 2018, after which the assets are expected to have a useful economic life of two to seven years.

Goodwill of £127.7m as at 1 January 2016 relates to goodwill arising on the acquisition of Gocompare.com by the Group.

Included in acquired brands and customer relationships were the Gocompare.com brand and the Gocompare.com customer relationships recognised on application of IFRS 3 to the acquisition of the outstanding 50% of the ordinary share capital of Gocompare.com on 31 March 2015.

The other acquired brands and customer relationship intangible assets represent the Sheilas' Wheels and esure brands and customer relationships acquired by the Group as part of the acquisition of esure Holdings Limited in February 2010. These assets were fair valued at the date of acquisition in accordance with the requirements of IFRS 3. The brands are being amortised on a straight-line basis over their estimated useful economic lives of between eight and ten years. The customer relationships are being amortised on a reducing balance basis over their estimated useful economic lives of between five and six years.

Impairment testing on intangible assets

The Group tests intangible assets with finite useful lives for impairment where there are indicators that their carrying value may be impaired. There were no indicators of impairment in the periods reported for any intangible assets with finite useful lives and as a result no impairment testing was performed.

IAS 36 *Impairment of Assets* requires that all intangible assets not yet in use are tested for impairment annually. This testing was performed for the assets not yet in use at year end.

18. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings £m | Fixtures, fittings and equipment £m | Total £m |
|-----------------------------------|--------------------------|--|-------------|
| Cost | | | |
| As at 1 January 2016 | 12.9 | 28.5 | 41.4 |
| Additions in the year | 0.0 | 3.4 | 3.4 |
| Demerger of Gocompare.com | – | (2.3) | (2.3) |
| Disposals in the year | – | (1.5) | (1.5) |
| Revaluation of land and buildings | 0.0 | – | 0.0 |
| As at 31 December 2016 | 12.9 | 28.1 | 41.0 |
| Additions in the year | – | 0.8 | 0.8 |
| Disposals in the year | – | (0.8) | (0.8) |
| Revaluation of land and buildings | 0.7 | – | 0.7 |
| As at 31 December 2017 | 13.6 | 28.1 | 41.7 |
| Accumulated depreciation | | | |
| As at 1 January 2016 | – | 6.6 | 6.6 |
| Depreciation for the year | 0.1 | 3.9 | 4.0 |
| Demerger of Gocompare.com | – | (0.9) | (0.9) |
| Disposals in the year | – | (1.1) | (1.1) |
| Revaluation of land and buildings | (0.1) | – | (0.1) |
| As at 31 December 2016 | – | 8.5 | 8.5 |
| Depreciation for the year | 0.1 | 4.7 | 4.8 |
| Disposals in the year | – | (0.8) | (0.8) |
| Revaluation of land and buildings | (0.1) | – | (0.1) |
| As at 31 December 2017 | – | 12.4 | 12.4 |
| Carrying amount | | | |
| As at 31 December 2016 | 12.9 | 19.6 | 32.5 |
| As at 31 December 2017 | 13.6 | 15.7 | 29.3 |

Included in property, plant and equipment as at 1 January 2016 was £18.8m relating to computer hardware assets that were not yet available for use in the manner intended by management. These assets are now being used by the business and depreciation is being charged accordingly.

Owner-occupied properties are stated at their revalued amounts, as assessed by qualified external valuers annually, all with recent relevant experience. These values are assessed in accordance with the relevant parts of the current RICS Valuation Standards in the UK ('Red Book'). More frequent revaluations are performed by management to assess that the carrying amount does not materially differ from its fair value.

This assessment, on the basis of existing use value and in accordance with UK Valuation Standard 1.3, is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses and any other characteristics of the property that would cause its market value to differ from that needed to replace the remaining service potential at least cost. The valuation assessment adopts market-based evidence and is in line with guidance from the International Valuation Standards Committee and the requirements of IAS 16 *Property, Plant and Equipment*.

Independent valuations were performed as at 31 December 2017 and 31 December 2016. If land and buildings were not stated at their revalued amounts, and were instead held under the cost model, land and buildings would have a carrying value at 31 December 2017 of £11.7m (31 December 2016: £11.8m).

Notes to the financial statements continued

For the year ended 31 December 2017

19. FINANCIAL ASSETS AND LIABILITIES

19.1. Financial assets

| | As at 31 Dec 2017 £m | As at 31 Dec 2016 £m |
|---|----------------------------|----------------------------|
| Financial investments designated at FVTPL: | | |
| Shares and other variable yield securities and units in unit trusts | 49.8 | 39.3 |
| Debt securities and other fixed income securities | 160.2 | 394.5 |
| Deposits with credit institutions | 372.1 | 209.3 |
| Financial investments held for trading: | | |
| Derivative financial instruments | 1.1 | 0.1 |
| Financial investments at FVTPL | 583.2 | 643.2 |
| AFS financial assets: | | |
| Debt securities and other fixed income securities | 342.0 | 192.6 |
| Shares in unquoted equity investments | 4.1 | 3.2 |
| Total financial investments | 929.3 | 839.0 |
| Loans and receivables: | | |
| Insurance and other receivables (note 21) | 252.3 | 198.2 |
| Cash and cash equivalents (note 23) | 46.6 | 25.5 |
| Total financial assets | 1,228.2 | 1,062.7 |

Financial investments are held to support the Group's insurance activities and may be required to be realised in order to meet the obligations arising out of those activities at any time.

Available-for-sale financial assets

During 2017, the Group continued to refine and enhance its asset and liability matching for capital management purposes by designating some financial assets acquired during the year as available-for-sale. Any movements in fair value of these assets is accounted for in other comprehensive income, reducing volatility in the income statement. These assets continue to have a longer average duration of 4.1 years (2016: 2.6 years) which leads to an increased sensitivity to interest rate changes but are closely aligned to the Group's liability exposure.

Derivative financial instruments, at fair value through profit or loss

To eliminate as far as possible the effect of exchange rate fluctuations on the value of investments denominated in currencies other than Sterling, the Group has purchased forward currency contracts. The Group also uses government bond futures as a mechanism to adjust investment portfolio duration. The Group's exposure to currency risk is set out in note 19.3(a).

Infrastructure equity and direct lending

As a result of the Group's strategic asset allocation review in 2017, capital commitments to new asset classes are recognised within its surplus liquidity funds at year end, ahead of these commitments being invested in 2018.

The Surplus portfolio seeks to deliver returns in asset classes that are aligned with the Group's risk appetite, in particular with reference to its solvency capital requirements. The Group's strategic asset allocation review was finalised in 2017. This resulted in a divestment from its high yield fixed income assets and a subsequent commitment to infrastructure equity and direct lending. Commitments are expected to be invested during 2018. See note 28.

19. FINANCIAL ASSETS AND LIABILITIES CONTINUED**19.2. Financial liabilities**

| | As at 31 Dec 2017 £m | As at 31 Dec 2016 £m |
|--|----------------------------|----------------------------|
| Financial liabilities held for trading: | | |
| Derivative financial instruments | 0.2 | 1.6 |
| Other financial liabilities: | | |
| Borrowings (see below) | 123.1 | 122.8 |
| Insurance and other payables (note 24) | 26.0 | 17.1 |
| Total financial liabilities | 149.3 | 141.5 |

| | As at 31 Dec 2017 £m | As at 31 Dec 2016 £m |
|----------------------------|----------------------------|----------------------------|
| Borrowings | | |
| 10 year Subordinated Notes | 123.1 | 122.8 |
| Total borrowings | 123.1 | 122.8 |

Derivative financial instruments are due within one year.

19.2. Financial liabilities

The movement in Group borrowings in the year is attributable to:

| | £m |
|-------------------------------------|--------------|
| As at 31 December 2016 | 122.8 |
| Cash outflow | (8.4) |
| Non-cash movement: interest accrued | 8.7 |
| As at 31 December 2017 | 123.1 |

Subordinated Notes

£125m 10 year Subordinated Notes were issued by esure Group plc on 19 December 2014 at the rate of 6.75% per annum, with payments made biannually. Directly attributable fees were £2.9m. The fair value of the 10 year Subordinated Notes at 31 December 2017 was £147.5m.

The nominal £125m Subordinated Notes have a maturity date of 19 December 2024. The Notes are direct, unsecured and subordinated obligations of the Group, ranking pari passu and without preference amongst themselves, and will, in the event of the winding-up of the Group or in the event of an administrator of the Group being appointed and giving notice that it intends to declare and distribute a dividend, be subordinated to the claims of all senior creditors and policyholders of the Group.

19.3. Financial risk management objectives

The Group is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from insurance policies as they fall due. The most important components of this financial risk are market risk (including interest rate risk, equity risk and currency risk), credit risk and liquidity risk.

The Group policy concerning risk ensures compliance with Solvency II 'Prudent Person Principle' requirements.

Notes to the financial statements continued

For the year ended 31 December 2017

19. FINANCIAL ASSETS AND LIABILITIES CONTINUED

19.3. Financial risk management objectives continued

(a) Market risk

Market risk represents the uncertainty in the financial position due to fluctuations in the level and in the volatility of market prices of assets and liabilities.

There continues to be uncertainty in the Ogden discount rate which impacts the cash flows relating to large claims and frequency of Periodical Payment Orders, and this affects the ability to match assets to these liabilities. In addition, there is volatility in the UK based assets due to Brexit.

Key elements

- Interest rate risk
- Equity risk
- Spread risk
- Concentration risk

Mitigation

- The investment strategy is set with consideration to the overall market risk of the portfolio. Oversight of the Group's investment strategy is undertaken by the management Investment Committee and overall financial risks by the Financial Risk Committee, both chaired by the Chief Finance Officer.
- Market risk is managed through regular monitoring, including the drivers of investment return and value at risk measures, counterparty exposures and interest rate sensitivities of our assets and liabilities.
- Asset liability management is a key area of focus within the investment strategy, with continuous monitoring and actions taken against the risk appetites set.
- The Group manages the level of investment counterparty credit risk it accepts by placing limits on its exposure to a single counterparty or groups of counterparties, and on geographical counterparties, geographical segments and sectors. Investment manager mandates limit concentration risk, ensuring diversification in such a way as to avoid excessive accumulation of risk in the portfolio. Such risks are subject to regular review within the Investment Committee.
- The investment strategy does not expose the Group to material currency risk or the risks arising from active trading of derivatives. Derivative instruments are only used as a risk mitigation technique.

Sensitivities

Interest rate risk

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of the financial investments bearing interest rate risk will fluctuate because of changes in market interest rates at the reporting date. For an increase of 100 basis points in the Bank of England base rate the profit before tax for the period would decrease by £4.5m (2016: £3.7m), reflecting the reduction in fair value on assets designated as FVTPL and equity would decrease by £19.4m (2016: £16.4m). For a decrease of 50 basis points in the Bank of England base rate the profit before tax for the period would increase by £2.3m (2016 (25 basis points): £0.9m), reflecting the increase in fair value on assets designated as FVTPL and equity would increase by £9.7m (2016 (25 basis points): £4.1m). The increased sensitivity to interest rates, on an equity basis, is caused by the increase in the basis points range used in the analysis, due to the increase in the Bank of England rate.

Equity risk

If equity market indices had increased or decreased by 10%, the profit before tax for the year would increase or decrease by £5.0m (2016: £3.9m).

Currency risk

One investment manager, who holds shares and other variable yield securities, is permitted per their mandate to have unhedged currency risk exposure of up to £16.3m (2016: £12.2m). At the reporting date, the Group has direct exposure to both US Dollars and Euros through shares with a value of £3.2m (2016: £2.1m). If the Sterling rates with either of these foreign currencies had strengthened/weakened by 10%, the profit before tax for the year would decrease/increase by £0.3m (2016: £0.2m).

19. FINANCIAL ASSETS AND LIABILITIES CONTINUED**19.3. Financial risk management objectives** continued**(b) Credit risk**

Credit risk is the loss or adverse change in the financial situation, resulting from fluctuations in the credit standing of counterparties and any debtors to which the Group is exposed.

Key elements

- Reinsurance counterparty risk
- Supplier debtor risk

Mitigation

- There are risk appetite metrics set against the creditworthiness of reinsurers and concentration risk – these are monitored prior to finalisation of any contract and on an ongoing basis to ensure that it remains in line with our risk appetite.
- As part of our supplier management process, credit exposures to third parties are regularly monitored and controlled.

Investments bearing credit risk, and cash and cash equivalents, are summarised below, together with an analysis by credit rating as at the reporting date:

| | As at 31 Dec 2017 £m | As at 31 Dec 2016 £m |
|--|----------------------------|----------------------------|
| Derivative financial instruments | 1.1 | 0.1 |
| Debt securities | 502.2 | 587.1 |
| Deposits with credit institutions | 372.1 | 209.3 |
| Cash at bank and in hand | 46.6 | 25.5 |
| Investments bearing credit risk and cash and cash equivalents | 922.0 | 822.0 |
| AAA | 427.7 | 300.9 |
| AA | 194.5 | 204.8 |
| A | 195.8 | 155.5 |
| BBB | 100.4 | 94.0 |
| Below BBB or not rated | 3.6 | 66.8 |
| Investments bearing credit risk and cash and cash equivalents | 922.0 | 822.0 |

For a widening of 100 basis points in credit spreads across the entire credit quality curve the profit before tax for the period would decrease by £5.0m (2016: £5.0m), reflecting the reduction in fair value on assets designated as FVTPL, and the impact on equity would be a decrease by £12.6m (2016: £7.4m).

Shares and other variable yield securities and units in unit trusts do not bear credit risk. Cash and cash equivalents are 'A' rated.

The analysis by credit rating illustrates a significant increase in credit quality over the period under review, with a higher proportion of assets rated 'AAA' in 2017 compared to 2016 (46% in 2017; 37% in 2016).

Insurance receivables due from policyholders and other debtors are not subject to credit rating and are not included in the table above. Owing to the high number of individual policyholders through which the Group has minimal individual exposure, the overall risk of default to the Group is considered to be insignificant. The Group regularly reviews the ageing and individual characteristics of the counterparties of insurance receivables and other debtors to manage credit risk and to ensure that impairments are made where necessary. No credit limits were exceeded during the year, and no significant financial assets are past due but not impaired at the reporting date.

(c) Liquidity risk

Liquidity risk is the risk that the Group is unable to realise investments and other assets in order to settle financial obligations when they fall due.

Key elements

- Liquidity risk

Mitigation

- The Group continues to monitor its liquidity risk by considering the Group's operating cash flows, stressed for catastrophe scenarios, dividend payouts, liquidity strains and investment strategy to mitigate this risk.
- Oversight of liquidity risk is undertaken by the Financial Risk Committee.

Notes to the financial statements continued

For the year ended 31 December 2017

19. FINANCIAL ASSETS AND LIABILITIES CONTINUED

19.3. Financial risk management objectives continued

The amounts disclosed in the tables in relation to debt securities and borrowings include payments of both principal and interest:

| | Less than 1 year £m | Between 1 and 5 years £m | More than 5 years £m | Total £m | Carrying value £m |
|--|---------------------------|--------------------------------|----------------------------|----------------|-------------------------|
| Financial assets and salvage and subrogation assets | | | | | |
| At 31 December 2017 | | | | | |
| Derivative financial instruments | 1.1 | – | – | 1.1 | 1.1 |
| Debt securities and other fixed income securities | 101.3 | 344.4 | 94.2 | 539.9 | 502.2 |
| Deposits with credit institutions | 372.1 | – | – | 372.1 | 372.1 |
| Cash at bank and in hand | 46.6 | – | – | 46.6 | 46.6 |
| Loans and receivables including salvage and subrogation assets | 291.5 | 8.5 | – | 300.0 | 300.0 |
| Total excluding reinsurers' share of outstanding claims | 812.6 | 352.9 | 94.2 | 1,259.7 | 1,222.0 |
| Reinsurers' share of outstanding claims | 66.6 | 174.5 | 95.7 | 336.8 | 336.8 |
| Total | 879.2 | 527.4 | 189.9 | 1,596.5 | 1,558.8 |

Financial and insurance liabilities

At 31 December 2017

| | | | | | |
|--|--------------|--------------|--------------|----------------|----------------|
| Borrowings | 8.4 | 42.2 | 129.2 | 179.8 | 123.1 |
| Derivative financial instruments | 0.2 | – | – | 0.2 | 0.2 |
| Insurance and other payables and social security and other taxes | 58.5 | – | – | 58.5 | 58.5 |
| Financial and tax liabilities | 67.1 | 42.2 | 129.2 | 238.5 | 181.8 |
| Claims outstanding | 317.4 | 365.1 | 116.4 | 798.9 | 798.9 |
| Unearned premium reserve | 273.5 | 100.3 | 8.4 | 382.2 | 382.2 |
| Financial and insurance liabilities | 658.0 | 507.6 | 254.0 | 1,419.6 | 1,362.9 |

| | Less than 1 year £m | Between 1 and 5 years £m | More than 5 years £m | Total £m | Carrying value £m |
|--|---------------------------|--------------------------------|----------------------------|----------------|-------------------------|
| Financial assets and salvage and subrogation assets | | | | | |
| At 31 December 2016 | | | | | |
| Derivative financial instruments | 0.1 | – | – | 0.1 | 0.1 |
| Debt securities and other fixed income securities | 180.9 | 339.7 | 113.5 | 634.1 | 587.1 |
| Deposits with credit institutions | 209.3 | – | – | 209.3 | 209.3 |
| Cash at bank and in hand | 25.5 | – | – | 25.5 | 25.5 |
| Loans and receivables including salvage and subrogation assets | 230.6 | 8.1 | – | 238.7 | 238.7 |
| Total excluding reinsurers' share of outstanding claims | 646.4 | 347.8 | 113.5 | 1,107.7 | 1,060.7 |
| Reinsurers' share of outstanding claims | 18.4 | 103.8 | 148.9 | 271.1 | 271.1 |
| Total | 664.8 | 451.6 | 262.4 | 1,378.8 | 1,331.8 |

Financial and insurance liabilities

At 31 December 2016

| | | | | | |
|--|--------------|--------------|--------------|----------------|----------------|
| Borrowings | 8.4 | 33.8 | 150.3 | 192.5 | 122.8 |
| Derivative financial instruments | 1.6 | – | – | 1.6 | 1.6 |
| Insurance and other payables and social security and other taxes | 39.6 | – | – | 39.6 | 39.6 |
| Financial and tax liabilities | 49.6 | 33.8 | 150.3 | 233.7 | 164.0 |
| Claims outstanding | 249.7 | 283.4 | 139.8 | 672.9 | 672.9 |
| Unearned premium reserve | 217.0 | 83.6 | 8.2 | 308.8 | 308.8 |
| Financial and insurance liabilities | 516.3 | 400.8 | 298.3 | 1,215.4 | 1,145.7 |

19. FINANCIAL ASSETS AND LIABILITIES CONTINUED

19.3. Financial risk management objectives continued

(d) Capital management and regulation

The Group maintains a capital structure consistent with the Group's risk profile and the regulatory market requirements of its business. The Group's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risk inherent in the business;
- to satisfy the requirements of its policyholders and regulators;
- to maintain financial and capital strength to support growth; and
- to retain financial flexibility by maintaining strong liquidity and access to a range of capital markets.

Solvency II is the solvency framework implemented on 1 January 2016 as the capital adequacy regime for the European insurance industry. It established a set of EU-wide capital requirements and risk management standards with the aim of increasing protection for policyholders. The Group is regulated by the Prudential Regulation Authority ('PRA') on both a Group basis and, for the Group's principal underwriter, esure Insurance Limited, on a solo basis.

The Board has considered the risk appetite of the Group as part of the Own Risk and Solvency Assessment process under Solvency II. The Board believes an appropriate level of capital coverage of its Solvency Capital Requirement ('SCR') to be in the region of 130%–150%. The capital surplus above the SCR provides sufficient headroom to absorb adverse capital events and should enable the Group to continue to meet its regulatory capital requirements. As expected, the Group has operated in the middle to upper end of the range, providing flexibility to fund further profitable growth.

The Group's dividend policy is to target a base dividend of 50% of profit after tax and enhance the base dividend with a further special dividend, if the Group has sufficient capital and distributable reserves, after allowing for an appropriate level of capital coverage of the Group's SCR and future growth opportunities. The Board remains committed to returning excess capital to shareholders where it does not believe it can utilise retained capital for further profitable growth.

Refer to page 14 for further information about the Group's draft and unaudited 31 December 2017 Solvency II capital position.

(e) Fair value estimation

In accordance with IFRS 13 *Fair Value Measurement* financial instruments reported at fair value and revalued properties have been categorised into a fair value measurement hierarchy as follows:

Quoted prices (unadjusted) in active markets for identical assets or liabilities – (Level 1)

Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets. An active market is a market in which transactions for the asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) – (Level 2).

Fair value measurements that are derived from inputs other than quoted prices included in Level 1, if all significant inputs required to fair value an instrument are observable, would result in the instrument being included in Level 2. The majority of assets classified as Level 2 are over-the-counter corporate bonds, where trades are less frequent owing to the nature of the assets. Inputs used in pricing the Group's Level 2 assets include:

- quoted prices for similar (i.e. not identical) assets in active market;
- quoted prices for identical or similar assets in markets that are not active, the prices are not current, or price quotations vary among market makers, or in which little information is released publicly;
- inputs that are derived principally from, or corroborated by, observable market data by correlation; and
- for forward exchange contracts, the use of observable forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

The Group's policy, should there be a change to the valuation techniques or level of activity in the market in which that asset is traded, is to transfer the asset between levels effective from the beginning of the reporting period. In line with the requirements of IFRS 13 *Fair Value Measurement*, the Group classifies all debt securities as Level 2 assets with the exception of Government backed securities which are classified as Level 1 unless they are illiquid.

Following a review, the liquidity funds held by the Group have been reclassified from Level 2 to Level 1 in both the current year and the comparatives.

Notes to the financial statements continued

For the year ended 31 December 2017

19. FINANCIAL ASSETS AND LIABILITIES CONTINUED

19.3. Financial risk management objectives continued

(e) Fair value estimation continued

Inputs for the asset or liability that are not based on observable market data (unobservable inputs) – (Level 3)

Unobservable inputs have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date (or market information for the inputs to any valuation models). As such, unobservable inputs reflect assumptions about the inputs that market participants would use in pricing the asset.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. The Group held Level 3 AFS financial assets of £4.1m as at 31 December 2017 (2016: £3.2m), representing an investment in an unquoted equity investment which has been valued using a discounted cash flow valuation model.

Under IFRS 13, land and buildings with a carrying value of £13.6m (2016: £12.9m) are classified as Level 3 assets. Owner-occupied properties are stated at their revalued amounts, as assessed by qualified external valuers annually, all with recent relevant experience. These values are assessed in accordance with the relevant parts of the current RICS Valuation Standards in the UK ('Red Book'). The valuer's opinion of fair value was primarily derived using comparable recent market transactions on arm's length terms. No sensitivity analysis has been performed due to the nature of the valuation.

The following table presents the Group's assets and liabilities measured at fair value:

| | Level 1 £m | Level 2 £m | Level 3 £m | Total fair value £m |
|--|---------------|---------------|---------------|---------------------------|
| At 31 December 2017 | | | | |
| Financial assets | | | | |
| Derivative financial instruments | – | 1.1 | – | 1.1 |
| Equity securities | 49.8 | – | – | 49.8 |
| Debt securities | 63.2 | 97.0 | – | 160.2 |
| Deposits with credit institutions | 372.1 | – | – | 372.1 |
| Total financial assets at fair value through profit or loss | 485.1 | 98.1 | – | 583.2 |
| Debt securities | 141.3 | 200.7 | – | 342.0 |
| Unquoted equity securities | – | – | 4.1 | 4.1 |
| Total AFS financial assets | 141.3 | 200.7 | 4.1 | 346.1 |
| Land and buildings | – | – | 13.6 | 13.6 |
| Financial liabilities | | | | |
| Derivative financial instruments | – | 0.2 | – | 0.2 |
| Total financial liabilities reported at fair value | – | 0.2 | – | 0.2 |
| | Level 1 £m | Level 2 £m | Level 3 £m | Total fair value £m |
| At 31 December 2016 | | | | |
| Financial assets | | | | |
| Derivative financial instruments | – | 0.1 | – | 0.1 |
| Equity securities | 39.3 | – | – | 39.3 |
| Debt securities | 106.9 | 287.6 | – | 394.5 |
| Deposits with credit institutions | 209.3 | – | – | 209.3 |
| Total financial assets at fair value through profit or loss | 355.5 | 287.7 | – | 643.2 |
| Debt securities | 107.1 | 85.5 | – | 192.6 |
| Unquoted equity securities | – | – | 3.2 | 3.2 |
| Total AFS financial assets | 107.1 | 85.5 | 3.2 | 195.8 |
| Land and buildings | – | – | 12.9 | 12.9 |
| Financial liabilities | | | | |
| Derivative financial instruments | – | 1.6 | – | 1.6 |
| Total financial liabilities reported at fair value | – | 1.6 | – | 1.6 |

20. REINSURANCE ASSETS AND INSURANCE CONTRACT LIABILITIES

20.1. Insurance Risk

Insurance risk arises from the inherent uncertainties as to the occurrence, amount and timing of insured events. These would include significant weather-related events and personal injury claims. The Board is responsible for setting the overall underwriting strategy and defining the Risk Appetite, with monitoring delegated to the Pricing Committee. The Group uses excess of loss reinsurance contracts to mitigate insurance risk, essentially by reducing exposure to large individual claims or aggregated losses from single events.

Underwriting and pricing risk

The Group underwrites general insurance business for private cars and homes in mainland Britain and the associated additional insurance products. The book consists of a large number of individual policies spread across the whole geographic area which helps to minimise concentration risk, especially in terms of weather-related risks. As well as pricing, the Group has additional controls in place to segment the market and target those segments it wishes to underwrite. Further systems and controls are in place to mitigate application fraud risk.

The Group has systems and management information in place to continually monitor underwriting performance and pricing adequacy through the Pricing Committee.

Claims management risk

The Group employs a variety of strategies to ensure the correct claims are paid in a timely manner and reserve provisions made on a case-by-case basis to reflect the Group's future liabilities.

These include:

- UK-based claims centres, with over 700 specialists; well resourced and expertly trained staff benefit from image and workflow technology to control paper flow and procedures to enhance efficiency and effectiveness;
- its own network of motor repairers and dedicated teams offering an extensive range of services directly to 'not at fault' third parties to efficiently control credit hire cost and legal fees. Over 90% of accidental damage claims are settled through the repair network; and
- comprehensive anti-fraud strategies are in place to check both fraudulent claims and new business applications.

Reinsurance

The Group purchases reinsurance as a risk transfer mechanism to mitigate risks that are outside the Group's appetite for individual claim or event exposure and to reduce the volatility caused by large individual and accumulation losses. By doing so, the Group protects its capital and the underwriting result of each line of business.

Currently the Group has in place non-proportional excess of loss reinsurance programmes for its Motor and Home underwriting activities. The purpose of these programmes is to provide cover for both individual large losses, for Motor and Home, and accumulation losses arising from natural and other catastrophe events for Home. Motor and Home reinsurance treaties are in place covering all years in which the Group has underwritten policies in each line of business.

The Group's Motor reinsurance programme was renewed on 1 July 2017 and subsequently extended for six months to the end of 2018:

| Layer | Placement | Placement | Placement |
|-----------------|-----------------------------------|--------------------------------|------------------------------------|
| | 1 January 2017 to 30 June 2017 | 1 July 2017 to 30 June 2018 | 1 July 2018 to 31 December 2018 |
| £1m x £1m | 100% | 85% | 100% |
| Unlimited x £2m | 100% | 100% | 100% |

The like-for-like cost increase of the programme renewed on 1 July 2017 was 33%, equating to an increase of £10 per vehicle, as a consequence of the change in the Ogden discount rate in February 2017 from 2.5% to minus 0.75%. The Home reinsurance programme was renewed on 1 July 2017 with no material changes to the programme.

The Group's reinsurance programmes are reviewed on an annual basis and capital modelling is used to identify the most appropriate structure and risk retention profile, taking into account the Group's business objective of minimising volatility and the prevailing cost and availability of reinsurance in the market.

Counterparty credit risk is a key consideration when the Group enters into reinsurance treaties. See note 19.3(b) for more detail.

Notes to the financial statements continued

For the year ended 31 December 2017

20. REINSURANCE ASSETS AND INSURANCE CONTRACT LIABILITIES CONTINUED

20.1. Insurance Risk continued

Reserving risk

Reserving risk is defined as the uncertainty regarding either the current level of reserves or the payment distribution over their lifetime. The Group analyses and projects historical claims development data and uses a number of actuarial techniques to both test and forecast claims provisions. In addition, the Group also provides data to external actuaries who assess the adequacy of the Group's claims provisions.

Apart from historical analysis, the Group also takes into account changes in risk profile and underwriting policy conditions, changes in legislation or regulation and changes in other external factors.

The ultimate costs and expenses of the claims for which these reserves are held are subject to a number of material uncertainties. As time passes between the reporting of a claim and the final settlement of the claim, circumstances can change that may require established reserves to be adjusted either upwards or downwards. Factors such as changes in the legal environment, results of litigation, propensity of personal injury claims, changes in medical and care costs, and costs of vehicle and home repairs can all substantially impact overall costs and expenses of claims, and cause a material divergence from the bases and assumptions on which the reserves were calculated.

Claims subject to PPOs are an area of uncertainty relating to the claims provision at 31 December 2017. For known PPOs and claims which have been identified as potential PPO awards, cash flow projections are carried out in order to estimate an ultimate cost on a gross and net of reinsurance basis. The cash flow projections are undertaken on a discounted basis. The total net claims provision recognised for PPOs and potential PPOs in the consolidated statement of financial position represents less than 5% of net claims outstanding at 31 December 2017. In the context of the Group's approach to the mitigation and management of underwriting risk, its reinsurance programme (including its approach to mitigating counterparty credit risk) and the Group's prudent approach to reserving for potential PPOs, the risk of an adverse development of the Group's reserves for PPO claims is not considered to be significant.

The Group's policy is to hold sufficient provisions, including those to cover claims which have been incurred but not reported ('IBNR'), to meet all liabilities as they fall due. Apart from that part of the provisions relating to PPOs, claims provisions are not discounted. The Directors remain satisfied that the outstanding claims reserves included in these financial statements provide an appropriate margin over projected ultimate claims costs.

20.2. Analysis of recognised amounts

| | As at 31 Dec 2017 £m | As at 31 Dec 2016 £m |
|--|----------------------------|----------------------------|
| Gross | | |
| Claims outstanding (before deduction of salvage and subrogation recoveries) and claims handling expenses | 798.9 | 672.9 |
| Unearned premiums | 415.6 | 329.4 |
| Total insurance liabilities, gross | 1,214.5 | 1,002.3 |
| Recoverable from reinsurers | | |
| Claims outstanding | 336.8 | 271.1 |
| Unearned premiums | 33.4 | 20.6 |
| Total reinsurers' share of insurance liabilities | 370.2 | 291.7 |
| Net | | |
| Claims outstanding (before deduction of salvage and subrogation recoveries) and claims handling expenses | 462.1 | 401.8 |
| Unearned premiums | 382.2 | 308.8 |
| Total insurance liabilities, net | 844.3 | 710.6 |
| Due within one year (gross) | 590.8 | 546.4 |
| Due in more than one year (gross) | 623.7 | 455.9 |

20. REINSURANCE ASSETS AND INSURANCE CONTRACT LIABILITIES CONTINUED**20.2. Analysis of recognised amounts** continued

| | As at 31 Dec 2017 £m | As at 31 Dec 2016 £m |
|--|----------------------------|----------------------------|
| Reinsurance assets | | |
| Reinsurers' share of insurance liabilities | 370.2 | 291.7 |
| Total assets arising from reinsurance contracts | 370.2 | 291.7 |
| Expected to be recovered within one year | 67.1 | 39.0 |
| Expected to be recovered in more than one year | 303.1 | 252.7 |

Amounts due from reinsurers in respect of claims already paid by the Group on the contracts that are reinsured are included in insurance and other receivables (note 21). No reinsurance assets have been impaired.

Claims outstanding and claims handling expenses are shown before deducting amounts in respect of salvage and subrogation.

| | As at 31 Dec 2017 £m | As at 31 Dec 2016 £m |
|---|----------------------------|----------------------------|
| Net claims outstanding (before deduction of salvage and subrogation recoveries) and claims handling | 462.1 | 401.8 |
| Salvage and subrogation recoveries | (47.7) | (40.5) |
| Net claims outstanding and claims handling expenses | 414.4 | 361.3 |

20.3. Sensitivity of recognised amounts to changes in assumptions

The following table shows the impact of a 1% variation in the loss ratio on profit or loss and shareholders' equity after tax as at 31 December 2017:

| | Accident year | | | | | | | | | |
|-----------------------------|---------------|------|------|------|------|------|------|------|------|------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| Net loss ratio | 85% | 95% | 79% | 61% | 68% | 69% | 79% | 79% | 78% | 76% |
| Impact of 1% variation (£m) | 3.4 | 4.2 | 3.7 | 3.7 | 3.9 | 4.0 | 4.0 | 4.0 | 4.5 | 5.5 |

The impact is stated net of reinsurance and tax at the current rate.

Notes to the financial statements continued

For the year ended 31 December 2017

20. REINSURANCE ASSETS AND INSURANCE CONTRACT LIABILITIES CONTINUED

20.4. Claims development tables

The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims.

Tables (a) and (b) illustrate how the Group's estimate of total claims incurred for each accident year has developed over the past ten years, including a reconciliation to the claims liability reported in the consolidated balance sheet. esure Group plc acquired esure Holdings Limited on 11 February 2010. The estimated claims disclosed in the tables prior to the date of acquisition are those of esure Holdings Limited.

Table (c) expresses the development of net incurred claims by reference to the loss ratio for each accident year over the past ten years.

(a) Insurance claims – gross ultimate claims

[illegible]

20. REINSURANCE ASSETS AND INSURANCE CONTRACT LIABILITIES CONTINUED**20.4. Claims development tables** continued**(b) Insurance claims – net ultimate claims**

| Accident year | 2008 £m | 2009 £m | 2010 £m | 2011 £m | 2012 £m | 2013 £m | 2014 £m | 2015 £m | 2016 £m | 2017 £m | Total £m |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|--------------|
| Ultimate net earned premium | 424.1 | 514.9 | 452.1 | 459.7 | 480.2 | 489.2 | 490.8 | 495.6 | 554.9 | 677.8 | 5,039.3 |
| Estimate of ultimate net claims costs: | | | | | | | | | | | |
| – At end of reporting year | 374.5 | 510.3 | 446.8 | 360.1 | 401.0 | 404.7 | 423.8 | 423.1 | 450.8 | 516.8 | |
| – One year later | 373.8 | 495.0 | 392.5 | 317.3 | 356.7 | 357.9 | 394.8 | 396.3 | 435.2 | | |
| – Two years later | 372.0 | 495.0 | 374.6 | 296.4 | 331.9 | 345.9 | 391.4 | 389.8 | | | |
| – Three years later | 371.7 | 495.1 | 363.9 | 285.0 | 326.3 | 340.4 | 390.0 | | | | |
| – Four years later | 367.6 | 494.5 | 360.9 | 284.5 | 325.6 | 339.8 | | | | | |
| – Five years later | 366.3 | 492.7 | 358.6 | 281.8 | 324.8 | | | | | | |
| – Six years later | 364.7 | 489.5 | 358.6 | 281.6 | | | | | | | |
| – Seven years later | 362.1 | 489.4 | 358.3 | | | | | | | | |
| – Eight years later | 361.0 | 489.2 | | | | | | | | | |
| – Nine years later | 362.0 | | | | | | | | | | |
| Current estimate of cumulative claims | 362.0 | 489.2 | 358.3 | 281.6 | 324.8 | 339.8 | 390.0 | 389.8 | 435.2 | 516.8 | 3,887.5 |
| Cumulative payments to date | (360.9) | (487.2) | (357.2) | (280.9) | (321.9) | (329.3) | (360.1) | (343.2) | (355.0) | (290.9) | (3,486.6) |
| Liability recognised in the consolidated statement of financial position | | | | | | | | | | | 400.9 |
| Reserve in respect of prior periods | | | | | | | | | | | 1.9 |
| Provision for claims handling costs | | | | | | | | | | | 11.6 |
| Salvage and subrogation | | | | | | | | | | | 47.7 |
| Total net reserve included in the consolidated statement of financial position | | | | | | | | | | | 462.1 |

(c) Insurance claims – net loss ratio development

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|------|------|------|------|------|------|------|------|------|------|
| Estimate of ultimate loss ratio: | | | | | | | | | | |
| – At end of reporting year | 88% | 99% | 99% | 78% | 84% | 83% | 86% | 85% | 81% | 76% |
| – One year later | 88% | 96% | 87% | 69% | 74% | 73% | 80% | 80% | 78% | |
| – Two years later | 88% | 96% | 83% | 64% | 69% | 71% | 80% | 79% | | |
| – Three years later | 88% | 96% | 80% | 62% | 68% | 70% | 79% | | | |
| – Four years later | 87% | 96% | 80% | 62% | 68% | 69% | | | | |
| – Five years later | 86% | 96% | 79% | 61% | 68% | | | | | |
| – Six years later | 86% | 95% | 79% | 61% | | | | | | |
| – Seven years later | 85% | 95% | 79% | | | | | | | |
| – Eight years later | 85% | 95% | | | | | | | | |
| – Nine years later | 85% | | | | | | | | | |

Notes to the financial statements continued

For the year ended 31 December 2017

20. REINSURANCE ASSETS AND INSURANCE CONTRACT LIABILITIES CONTINUED

20.5. Movements in insurance liabilities and reinsurance assets

(a) Claims recognised in the financial statements and claims handling expenses

The movements in claims recognised, including claims handling expenses, both gross and net of reinsurance, are shown below:

| | 2017 | | | 2016 | | |
|--|--------------|----------------------------|--------------|--------------|----------------------------|--------------|
| | Gross £m | Reinsurers' share £m | Net £m | Gross £m | Reinsurers' share £m | Net £m |
| At 1 January | 619.9 | (271.1) | 348.8 | 567.6 | (209.3) | 358.3 |
| Cash paid for claims settled in year | (448.1) | 12.2 | (435.9) | (434.3) | 12.6 | (421.7) |
| Change arising from: | | | | | | |
| Current year claims | 640.4 | (123.6) | 516.8 | 534.6 | (83.7) | 450.9 |
| Prior year claims | (72.6) | 45.7 | (26.9) | (48.0) | 9.3 | (38.7) |
| Total at end of year | 739.6 | (336.8) | 402.8 | 619.9 | (271.1) | 348.8 |
| Provision for claims handling costs | 11.6 | – | 11.6 | 12.5 | – | 12.5 |
| Salvage and subrogation | 47.7 | – | 47.7 | 40.5 | – | 40.5 |
| Total reserve per statement of financial position | 798.9 | (336.8) | 462.1 | 672.9 | (271.1) | 401.8 |

Claims incurred and claims handling expenses as disclosed in the consolidated statement of comprehensive income comprise:

| | Year ended 31 Dec 2017 | | | Year ended 31 Dec 2016 | | |
|---|------------------------|----------------------------|--------------|------------------------|----------------------------|--------------|
| | Gross £m | Reinsurers' share £m | Net £m | Gross £m | Reinsurers' share £m | Net £m |
| Claims incurred | 567.8 | (77.8) | 490.0 | 486.6 | (74.4) | 412.2 |
| Claims handling expenses | 24.7 | – | 24.7 | 22.9 | – | 22.9 |
| Claims incurred and claims handling expenses | 592.5 | (77.8) | 514.7 | 509.5 | (74.4) | 435.1 |

During 2017, the Group continued to experience favourable development of prior accident year reserves (£26.9m reduction in prior year claims reserves net of reinsurance in the year ended 31 December 2017), but to a lesser extent than during the year ended 31 December 2016 (£38.7m reduction in prior year claims reserves net of reinsurance in the year ended 31 December 2016).

(b) Provisions for unearned premiums

The movements for the year, both gross and net of reinsurance, are summarised below:

| | 2017 | | | 2016 | | |
|-----------------------------------|--------------|----------------------------|--------------|--------------|----------------------------|--------------|
| | Gross £m | Reinsurers' share £m | Net £m | Gross £m | Reinsurers' share £m | Net £m |
| Unearned premium provision | | | | | | |
| At beginning of the year | 329.4 | (20.6) | 308.8 | 272.4 | (15.9) | 256.5 |
| Premiums written in the year | 820.2 | (69.0) | 751.2 | 655.0 | (47.8) | 607.2 |
| Premiums earned in the year | (734.0) | 56.2 | (677.8) | (598.0) | 43.1 | (554.9) |
| At end of year | 415.6 | (33.4) | 382.2 | 329.4 | (20.6) | 308.8 |

21. INSURANCE AND OTHER RECEIVABLES

| | As at 31 Dec 2017 £m | As at 31 Dec 2016 £m |
|--|----------------------------|----------------------------|
| Insurance receivables | 245.6 | 190.2 |
| Prepayments and accrued income | 7.0 | 6.9 |
| Other debtors | 6.7 | 8.0 |
| Salvage and subrogation assets | 47.7 | 40.5 |
| Total insurance and other receivables | 307.0 | 245.6 |

Insurance receivables and other debtors are financial assets classified as loans and receivables. For more details see note 19, which includes the ageing of these loans and receivables.

The Directors believe the carrying value of these financial assets approximates their fair value.

All insurance receivables and other receivables are expected to be recovered within one year, aside from £8.5m of salvage and subrogation assets which are expected to be recovered in more than one year (2016: £8.1m).

22. DEFERRED ACQUISITION COSTS

Movement in the deferred acquisition costs asset are as follows:

| | As at 31 Dec 2017 £m | As at 31 Dec 2016 £m |
|-----------------------------------|----------------------------|----------------------------|
| Deferred acquisition costs | | |
| At 1 January | 37.8 | 25.3 |
| Movement during the period | 7.1 | 12.5 |
| At 31 December | 44.9 | 37.8 |

23. CASH AND CASH EQUIVALENTS

| | As at 31 Dec 2017 £m | As at 31 Dec 2016 £m |
|--------------------------|----------------------------|----------------------------|
| Cash at bank and in hand | 46.6 | 25.5 |
| Total | 46.6 | 25.5 |

24. INSURANCE AND OTHER PAYABLES

| | As at 31 Dec 2017 £m | As at 31 Dec 2016 £m |
|---|----------------------------|----------------------------|
| Insurance payables | 26.0 | 17.1 |
| Accrued expenses | 19.3 | 22.6 |
| Social security and other taxes | 32.5 | 22.5 |
| Deferred income | 18.9 | 15.1 |
| Total insurance and other payables | 96.7 | 77.3 |

Insurance payables and accrued expenses principally comprise amounts outstanding for suppliers and ongoing costs. The average credit period taken for invoiced trade purchases is 21.0 days (2016: 21.7 days). The Directors consider that the carrying amount of insurance and other payables approximates their fair value. All insurance and other payables are expected to be settled within one year, aside from Government grants.

Included within deferred income is £0.1m in Government grants (2016: £0.2m). This is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Scottish Executive Grants have been received by the Group based on two factors: expenditure on fixed assets and the creation of new jobs. In order for the Group to avoid repayment of the grants received, the new jobs created in order to meet the grant conditions must remain in existence for a period of at least five years.

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For the year ended 31 December 2017

25. DEFERRED TAX ASSETS AND LIABILITIES

The following are the deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior periods.

The analysis of deferred tax assets and deferred tax liabilities is as follows:

| | As at 31 Dec 2017 £m | As at 31 Dec 2016 £m |
|-------------------------------------|----------------------------|----------------------------|
| Deferred tax assets | 1.9 | 0.7 |
| Deferred tax liabilities | (2.8) | (3.9) |
| Net deferred tax liabilities | (0.9) | (3.2) |

The net movement on the deferred tax account is as follows:

| | As at 31 Dec 2017 £m | As at 31 Dec 2016 £m |
|--|----------------------------|----------------------------|
| At 1 January | (3.2) | (11.6) |
| Income statement expense in respect of continuing operations (note 14) | 1.5 | 0.2 |
| Income statement credit in respect of discontinued operations | – | 2.5 |
| Effect of change in tax rate | (0.1) | 0.3 |
| Demerger of Gocompare.com (note 12) | – | 5.7 |
| Deferred tax recognised directly in equity | 0.9 | (0.3) |
| At 31 December | (0.9) | (3.2) |

The deferred tax rate used is 20.35% (2016: 19.91%).

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

| | Deferred acquisition costs £m | Share-based payments £m | Total £m |
|---|--|-------------------------------|-------------|
| Deferred tax assets | | | |
| Brought forward as at 1 January 2016 | 0.2 | 0.8 | 1.0 |
| (Charged)/credited to the income statement on continuing operations | 0.1 | (0.3) | (0.2) |
| Deferred tax recognised directly in equity | – | (0.1) | (0.1) |
| At 31 December 2016 | 0.3 | 0.4 | 0.7 |
| Brought forward as at 1 January 2017 | 0.3 | 0.4 | 0.7 |
| (Charged)/credited to the income statement on continuing operations | (0.5) | 0.7 | 0.2 |
| Deferred tax recognised directly in equity | – | 1.0 | 1.0 |
| At 31 December 2017 | (0.2) | 2.1 | 1.9 |

There is an unrecognised deferred tax asset on land and buildings of £2.0m at 31 December 2017 (2016: £2.0m) for which there is insufficient likelihood that future taxable gains will be available against which the asset can be utilised.

25. DEFERRED TAX ASSETS AND LIABILITIES CONTINUED

| | Accelerated capital allowances £m | Intangible assets £m | Claims equalisation reserve £m | AFS reserve £m | Total £m |
|---|--------------------------------------|-------------------------|-----------------------------------|-------------------|--------------|
| Deferred tax liabilities | | | | | |
| Brought forward as at 1 January 2016 | (0.6) | (9.5) | (2.5) | 0.0 | (12.6) |
| Demerger of Gocompare.com (note 12) | 0.0 | 5.7 | – | – | 5.7 |
| (Charged)/credited to the income statement on continuing operations | (0.2) | 0.3 | 0.4 | 0.0 | 0.5 |
| Credited to the income statement on discontinued operations | 0.0 | 2.5 | – | – | 2.5 |
| Effect of change in tax rate on continuing operations | 0.1 | (0.1) | 0.3 | – | 0.3 |
| Deferred tax recognised directly in equity | – | – | – | (0.3) | (0.3) |
| At 31 December 2016 | (0.7) | (1.1) | (1.8) | (0.3) | (3.9) |
| Brought forward as at 1 January 2017 | (0.7) | (1.1) | (1.8) | (0.3) | (3.9) |
| (Charged)/credited to the income statement on continuing operations | 0.3 | 0.7 | 0.3 | (0.0) | 1.3 |
| Effect of change in tax rate on continuing operations | (0.1) | 0.0 | 0.0 | – | (0.1) |
| Deferred tax recognised directly in equity | – | – | – | (0.1) | (0.1) |
| At 31 December 2017 | (0.5) | (0.4) | (1.5) | (0.4) | (2.8) |

26. SHARE CAPITAL AND OTHER RESERVES

| | Ordinary shares £m | Share premium £m | Capital redemption reserve £m | Other reserves £m | Total £m |
|--|-----------------------|---------------------|----------------------------------|----------------------|--------------|
| At 1 January 2016 | 0.3 | 44.0 | 44.9 | 1.0 | 90.2 |
| Issue of share capital | 0.0 | 1.4 | – | – | 1.4 |
| Fair value movements on AFS assets | – | – | – | 1.9 | 1.9 |
| Tax relating to fair value movements on AFS assets | – | – | – | (0.3) | (0.3) |
| Fair value movements on land and buildings | – | – | – | 0.3 | 0.3 |
| Tax relating to fair value movements on land and buildings | – | – | – | 0.0 | 0.0 |
| At 31 December 2016 | 0.3 | 45.4 | 44.9 | 2.9 | 93.5 |
| Issue of share capital | 0.0 | 0.4 | – | – | 0.4 |
| Fair value movements on AFS assets | – | – | – | 1.5 | 1.5 |
| Tax relating to fair value movements on AFS assets | – | – | – | (0.1) | (0.1) |
| Fair value movements on land and buildings | – | – | – | 0.8 | 0.8 |
| Tax relating to fair value movements on land and buildings | – | – | – | 0.0 | 0.0 |
| At 31 December 2017 | 0.3 | 45.8 | 44.9 | 5.1 | 96.1 |

During the year ended 31 December 2017, 226,724 ordinary shares of 1/12 pence were issued by the Group for £0.4m (31 December 2016: 1,063,991 ordinary shares of 1/12 pence were issued by the Group for £1.4m). The authorised, allotted, called up and fully paid share capital of esure Group plc as at 31 December 2017 was 418,143,596 ordinary shares of 1/12 pence each (31 December 2016: 417,916,872 ordinary shares of 1/12 pence each). The shares have full voting and dividend rights.

No shares are held in Treasury. The esure Employee Benefit Trust held 25,000 ordinary shares as at 31 December 2017 (31 December 2016: nil) and the Trustees waived their rights to dividend payments.

Notes to the financial statements continued

For the year ended 31 December 2017

26. SHARE CAPITAL AND OTHER RESERVES CONTINUED

During the year ended 31 December 2017, £1.5m was credited to other comprehensive income in respect of fair value movements on an AFS financial asset (31 December 2016: £1.9m).

During the year ended 31 December 2017, £0.8m was credited to other comprehensive income in respect of fair value movements on land and buildings (31 December 2016: £0.3m).

The capital redemption reserve was created during the year ended 31 December 2013 for a £44.9m share repurchase.

27. SHARE-BASED PAYMENTS

The Group has a number of equity-settled, share-based compensation plans. An award will not be granted under the executive plans if it would cause the number of shares allocated in the ten calendar year period following flotation to exceed 5% of the ordinary share capital in issue at that time. Similarly, an award will not be granted under the employee plans if it would cause the number of shares allocated in the ten calendar year period following flotation to exceed 10% of the ordinary share capital in issue at that time. Holders of these awards (other than the three-year and five-year SAYE schemes) will receive dividend equivalents in respect of the dividends that would have been paid between grant date and vesting date for ordinary shares which vest under their awards, calculated on a basis and paid in a manner to be determined by the Remuneration Committee before the awards vest. Details of the share-based compensation plans and their financial effect are set out below.

(a) Performance Share Plan

The Performance Share Plan ('PSP') and the Strategic Leadership Plan ('SLP') are discretionary share plans for the Group's Executive and Senior management. Awards have been made under the PSP and SLP as follows:

| | Year ended 31 Dec 2017 SLP (Number granted) | Year ended 31 Dec 2016 SLP (Number granted) | Year ended 31 Dec 2015 PSP (Number granted) |
|-------------------|---|---|---|
| Stuart Vann | 543,185 | 571,807 | 321,155 |
| Darren Ogden | 309,258 | 322,970 | 275,275 |
| Senior management | 1,506,128 | 1,318,574 | 1,440,107 |

Under the schemes, the shares vest at the end of a three-year period dependent upon continued employment by the Group and achieving predefined performance conditions associated with the Group's earnings per share ('EPS') and total shareholder return ('TSR'). For the 2015 Directors' scheme, two-thirds of each award is based on EPS performance and one-third on TSR performance (with the two measures applying independently to different parts of each award). For the 2015 Senior management scheme, 50% of the awards are subject to the EPS and TSR performance conditions (i.e. one-third and one-sixth respectively) and 50% of the awards are subject only to continued employment until vesting. For the 2016 and 2017 schemes, for both Directors and Senior management, 75% of the awards are subject to an absolute TSR performance condition, with the remaining 25% of the awards subject to a relative TSR performance condition.

Further information on the share-based payments, including the performance conditions and changes in the year, is provided in the Directors' Remuneration Report.

| | 2017 SLP awards | 2016 SLP awards | 2015 PSP awards |
|--|---|--------------------------------------|---|
| | 20 March 2017/date employee joined | 14 June 2016/date employee joined | 25 March 2015/date employee joined |
| Grant dates | | | |
| Number of shares initially granted | 2,358,571 | 2,213,351 | 2,036,537 |
| Number outstanding at 1 January 2017 | Nil | 2,213,351 | 1,733,408 |
| Forfeited/lapsed during the year | 9,947 | 292,744 | 153,125 |
| | 33,278 for good leavers at Group's discretion | | 11,494 for good leavers at Group's discretion |
| Vested during the period | | - | |
| Exercised during the period | 33,278 | - | 11,494 |
| Average exercise price during the year | £nil | £nil | £nil |
| Number outstanding at 31 December 2017 | 2,315,346 | 1,920,607 | 1,568,789 |
| Contractual life | 3 years | 3 years | 3 years |
| Exercise price for remaining awards | £nil | £nil | £nil |

27. SHARE-BASED PAYMENTS CONTINUED**(b) Deferred Bonus Plan**

As disclosed in the Directors' Remuneration Policy on page 49, at least 30% of the annual bonus awarded to Directors and Senior management is deferred into an award of shares under the Deferred Bonus Plan ('DBP'), with the deferred portion vesting in equal thirds over a three-year period. Awards have been made under the plan as follows:

| | Year ended 31 Dec 2017 DBP (Number granted and outstanding at 31 Dec 2017) |
|-------------------|---|
| Stuart Vann | 67,015 |
| Darren Ogden | 45,422 |
| Senior management | 109,843 |

Valuation of SLP and DBP awards

As part of the awards are subject to a share price-related (TSR) performance condition, the fair value of these awards was estimated using a Stochastic (Monte-Carlo) model.

The remaining awards are not subject to a share price-related performance condition (EPS) and the fair value of the awards was estimated using a Black-Scholes valuation model.

The inputs into the models were:

| | 2017 SLP awards |
|---|--------------------|
| Share price at grant | £2.40 |
| Exercise price | £nil |
| Volatility % p.a. (calculated on a weekly basis over a historical period in line with the expected term of the awards at the date of grant) | 27.4% |
| Dividend yield % p.a. | nil |
| Risk-free rate % | 0.15% |
| Expected life | 3 years |

The inputs were later adjusted as appropriate for those awards granted to employees upon joining the Group. The total estimated fair value of the 2017 SLP options at the dates of grant was £2.9m (2016 SLP awards: £1.8m; 2015 PSP awards: £3.8m). Please refer to the Group's 2016 and 2015 Annual Reports for the inputs to the models associated with the 2016 and 2015 awards.

2016 senior management awards in addition to the SLP

During the year ended 31 December 2016, a new senior management hire was granted 46,581 shares without performance conditions with an estimated fair value of £1.93 at the date of grant. 51% of these awards vested on 10 November 2017 when the share price was £2.60, and the remainder are due to vest on 10 November 2018 dependent on continuing employment by the Group. The Remuneration Committee made the awards to compensate for remuneration that was forfeited on leaving a previous employer.

During the year ended 31 December 2016, a new senior management hire was granted 53,561 shares without performance conditions with an estimated fair value of £2.01 at the date of grant. The awards are due to vest on 10 November 2018 dependent on continuing employment by the Group. The Remuneration Committee made the awards to compensate for remuneration that was forfeited on leaving a previous employer.

2014 senior management awards in addition to the PSP

During the year ended 31 December 2014, a new senior management hire was granted 171,621 shares without performance conditions with an estimated fair value of £2.22 at the date of grant. 46% of these awards vested on 29 May 2015 when the share price was £2.59, 37% vested on 31 May 2016 when the share price was £2.84 and the remainder vested on 31 May 2017 when the share price was £2.71. The Remuneration Committee made the awards to compensate for remuneration that was forfeited on leaving a previous employer.

Notes to the financial statements continued

For the year ended 31 December 2017

27. SHARE-BASED PAYMENTS CONTINUED

(b) Deferred Bonus Plan continued

Restructuring Award Plan ('RAP')

RAP awards were made to Directors and senior management during 2016. The purpose of the RAP was to compensate for the significant opportunity lost under outstanding unvested incentive arrangements at the point of the demerger as a result of any reduced market value of the Group and the reduced size of the Group following the demerger, as well as to reward selected employees of the esure Group with share-based awards in recognition of the strategic development of the Gocompare.com business since its acquisition and for the successful completion of the demerger and Admission.

Where share awards preserve rather than enhance the benefit to the award holders, an expense is not recognised for that element of the award. The RAP awards totalled £4.0m, of which £2.2m was recognised as an expense over the 12-month vesting period, the remaining £1.8m not being recognised.

| | Year ended 31 Dec 2017 (Number granted and vested) |
|-------------------|--|
| Stuart Vann | 777,524 |
| Darren Ogden | 518,349 |
| Senior management | 777,522 |

Under the scheme, the shares vested on 10 November 2017, when the share price was £2.60. Refer to the Group's 2016 Annual Report for the inputs to the model associated with the RAP awards.

(c) Save As You Earn ('SAYE') schemes

The Group has a three-year SAYE scheme and a five-year SAYE scheme. Under the 2017 scheme, the Group's employees are offered the opportunity to save between £5 and £500 each month in order to purchase shares in either three or five years' time at an exercise price at a 20% discount on the share price at the date before invitations were issued to participate.

The details of these awards are set out below:

| Date of grant | 2017 SAYE scheme | | 2016 SAYE scheme | |
|---|------------------|---------------|------------------|---------------|
| | 3-year scheme | 5-year scheme | 3-year scheme | 5-year scheme |
| | 1 September 2017 | | 29 December 2016 | |
| Number of shares initially granted | 465,832 | 65,135 | 1,568,640 | 142,889 |
| Number outstanding at 1 January 2017 | Nil | Nil | 1,568,190 | 142,889 |
| Forfeited/lapsed during the year | 11,966 | 264 | 148,360 | 1,089 |
| Vested for good leavers at Group's discretion during year | – | – | 1,282 | – |
| Number outstanding at 31 December 2017 | 453,866 | 64,871 | 1,419,674 | 141,800 |
| Number exercisable at 31 December 2017 | – | – | 1,126 | – |
| Average exercise price during the year | | | £1.5972 | |
| Exercise price of outstanding awards | £2.270 | | £1.5972 | |

| Date of grant | 2015 SAYE scheme | | 2014 SAYE scheme | |
|---|------------------|---------------|------------------|---------------|
| | 3-year scheme | 5-year scheme | 3-year scheme | 5-year scheme |
| | 9 September 2015 | | 3 September 2014 | |
| Number of shares initially granted | 706,966 | 101,823 | 527,607 | 67,144 |
| Number outstanding at 1 January 2017 | 380,275 | 21,649 | 223,993 | 22,866 |
| Forfeited/lapsed during the year | 163,709 | 1,712 | 46,421 | – |
| Exercised during the year | – | – | 159,839 | – |
| Vested for good leavers at Group's discretion during year | 13,436 | 169 | – | – |
| Number outstanding at 31 December 2017 | 203,130 | 19,768 | – | 22,866 |
| Number exercisable at 31 December 2017 | 1,882 | – | 17,733 | – |
| Average exercise price during the year | £1.912 | | £2.08 | |
| Exercise price of outstanding awards | £1.912 | | £2.08 | |

27. SHARE-BASED PAYMENTS CONTINUED**(c) Save As You Earn ('SAYE') schemes continued**

| Date of grant | 2013 SAYE scheme | |
|--|------------------|---------------|
| | 3-year scheme | 5-year scheme |
| | 6 September 2013 | |
| Number of shares initially granted | 1,083,748 | 176,260 |
| Number outstanding at 1 January 2017 | – | 86,275 |
| Number exercisable at 1 January 2017 | 39,976 | – |
| Forfeited/lapsed during the year | 16,877 | 13,529 |
| Exercised during the year | 23,099 | 5,025 |
| Number outstanding at 31 December 2017 | – | 67,721 |
| Number exercisable at 31 December 2017 | – | 1,855 |
| Average exercise price during the year | £1.940 | |
| Exercise price of outstanding awards | £1.940 | |

Valuation of SAYE awards

The fair values of the awards were estimated using a Black-Scholes valuation model. The inputs into the models used to value the 2017 awards were:

| Scheme | 3-year SAYE | 5-year SAYE |
|-----------------------|-------------|-------------|
| Share price at grant | £2.735 | £2.735 |
| Exercise price | £2.2704 | £2.2704 |
| Volatility % p.a. | 31.4% | 32.2% |
| Dividend yield % p.a. | 4.90% | 4.90% |
| Risk-free rate % | 0.27% | 0.50% |
| Expected life (years) | 3.42 | 5.42 |

For the three-year scheme, the volatility has been based on the daily historical volatility of the Group over a period commensurate with the expected term. For the five-year scheme, as the Group listed in 2013, there is insufficient share price data to measure the historical volatility over the expected term. The historic volatility has therefore been calculated for the longest period for which trading activity is available with the historical volatility of similar entities following a comparable period in their lives being used to extend this period to the expected term.

The estimated fair value of the 2017 SAYE options at the date of grant was £0.0m (2016: £0.1m; 2015: £0.3m; 2014: £0.3m; 2013: £0.4m). Refer to the Group's 2016, 2015, 2014 and 2013 Annual Reports for the inputs to the models associated with the 2016, 2015, 2014 and 2013 awards.

(d) Financial effect of share-based payments made

The total expense recognised for the year arising from the share-based payments above was £3.5m (2016: £2.4m). All share-based payment transactions were accounted for as equity settled.

Notes to the financial statements continued

For the year ended 31 December 2017

28. COMMITMENTS

(a) Pension capital commitments

The Group contributes to a Group Personal Pension defined contribution scheme available to all staff, of which 1,466 employees participated in the scheme at 31 December 2017 (2016: 1,451).

The pension cost charge for the period represents contributions payable by the Group to the scheme and amounted to £2.6m (2016: £2.2m). There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

(b) Capital commitments

The Group has entered into the following contracts for assets which have not been provided for at the balance sheet date:

| | As at 31 Dec 2017 £m | As at 31 Dec 2016 £m |
|---|----------------------------|----------------------------|
| Fixed asset acquisitions contracted for but not provided in these consolidated financial statements | 0.3 | 0.3 |
| Investment commitments (see note 19) | 120.0 | – |

(c) Operating lease commitments – where the Group is a lessee

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | As at 31 Dec 2017 £m | As at 31 Dec 2016 £m |
|---|----------------------------|----------------------------|
| Not later than 1 year | 2.4 | 2.3 |
| Later than 1 year and no later than 5 years | 15.0 | 13.7 |
| Later than 5 years | 26.3 | 30.1 |
| Total minimum lease payments payable | 43.7 | 46.1 |

(d) Operating lease commitments – where the Group is a lessor

The future aggregate minimum lease payments receivable under non-cancellable operating leases are as follows:

| | As at 31 Dec 2017 £m | As at 31 Dec 2016 £m |
|---|----------------------------|----------------------------|
| Not later than 1 year | – | 0.1 |
| Later than 1 year and no later than 5 years | – | 0.0 |
| Later than 5 years | – | – |
| Total minimum lease payments receivable | – | 0.1 |

29. GROUP SUBSIDIARY COMPANIES

esure Group plc has the following principal subsidiaries as at 31 December 2017:

| | Country of incorporation | Class of shares held | Principal activity | Held directly or indirectly | Percentage held |
|-----------------------------------|--------------------------|----------------------|-------------------------------|-----------------------------|-----------------|
| esure Insurance Limited | England and Wales | Ordinary | General insurance | Indirect | 100% |
| esure Services Limited | England and Wales | Ordinary | Administration and management | Indirect | 100% |
| esure Holdings Limited | England and Wales | Ordinary | Holding company | Indirect | 100% |
| esure Property Limited | England and Wales | Ordinary | Property investment | Indirect | 100% |
| esure Finance Limited | England and Wales | Ordinary | Holding company | Direct | 100% |
| esure Property Management Limited | England and Wales | Ordinary | Non-trading | Indirect | 100% |
| esure S.L.U. | Spain | Ordinary | Non-trading | Indirect | 100% |
| esure broker Limited | England and Wales | Ordinary | Insurance intermediary | Indirect | 100% |

The registered office of all of the subsidiaries above, apart from esure S.L.U., is The Observatory, Reigate, Surrey RH2 0SG. The registered office of esure S.L.U. is Ronda Sant Pere 17, 2ª plant, Barcelona, Spain.

All of the subsidiaries above are included in the consolidation of esure Group plc.

esure Property Management Limited and esure S.L.U. are dormant and are exempt from the requirements of the Companies Act 2006 to prepare annual financial statements.

30. RELATED PARTY TRANSACTIONS

The following transactions took place with related parties during the year:

a) Transactions with shareholders

The following transactions took place with shareholders and related entities:

- One of the Directors has a beneficial part-ownership interest in a company which leased office space from the Group. The company also charged the Group for travel expenses incurred by employees of the Group.
- Eight of the Directors hold shares in Gocompare.com post demerger, which pays commissions and charges fees for introducing insurance business.
- One of the Directors had a beneficial part-ownership interest in a restaurant which has been used by the Group for corporate events and entertaining purposes.

| | Year ended 31 Dec 2017 £m | Year ended 31 Dec 2016 £m |
|--|---------------------------------|---------------------------------|
| Value of income/(expense) for the year: | | |
| Lease of office space net of travel expenses charged | 0.1 | 0.2 |
| Net fees charged by Gocompare.com | (10.2) | (1.6) |
| Restaurants | (0.0) | (0.1) |
| Total expense for the year | (10.1) | (1.5) |
| Amount receivable/(payable) at the year end: | | |
| Lease of office space net of travel expenses charged | – | 0.1 |
| Net fees payable to Gocompare.com | (0.4) | (0.7) |
| Restaurants | – | (0.0) |
| Total amount payable at the year end | (0.4) | (0.6) |

b) Compensation of key management personnel

The key management personnel are considered to be the Directors. Please refer to the Directors' Remuneration Report for more details.

Parent Company statement of financial position

| | Notes | As at 31 Dec 2017 £m | As at 31 Dec 2016 £m |
|---|-------|----------------------------|----------------------------|
| Fixed assets | | | |
| Investments | 4 | 232.5 | 229.0 |
| Current assets | | | |
| Investments: call deposits | | 0.0 | 58.9 |
| Debtors | 5 | 1.3 | 0.9 |
| Cash at bank | | 0.1 | 0.0 |
| Total current assets | | 1.4 | 59.8 |
| Creditors: amounts falling due within one year | 6 | (10.3) | (10.6) |
| Net current assets | | (8.9) | 49.2 |
| Total assets less current liabilities | | 223.6 | 278.2 |
| Creditors: amounts falling due after more than one year | 6 | (122.8) | (122.5) |
| Net assets | | 100.8 | 155.7 |
| Capital and reserves | | | |
| Share capital | 7 | 0.3 | 0.3 |
| Share premium account | 7 | 45.8 | 45.4 |
| Capital redemption reserve | 7 | 44.9 | 44.9 |
| Profit and loss account | | 9.8 | 65.1 |
| Shareholders' funds – all equity | | 100.8 | 155.7 |

The notes on pages 123 to 125 form part of these financial statements.

These financial statements were approved by the Board on 6 March 2018 and signed on its behalf by:



Darren Ogden
Director

Registration Number: 07064312

Parent Company statement of cash flows

| | Notes | Year ended 31 Dec 2017 £m | Year ended 31 Dec 2016 £m |
|---|-------|---------------------------------|---------------------------------|
| Cash flows from operating activities | | | |
| Profit after tax for the year | | 2.2 | 379.9 |
| Adjustments to reconcile profit after tax to net cash flows: | | | |
| – Finance costs | | 8.7 | 8.7 |
| – Taxation credit | 3 | (1.7) | (1.7) |
| – Dividends received from subsidiary undertakings | | (9.1) | (287.1) |
| – Non-cash gain on demerger of Gocompare.com | | – | (202.9) |
| – Total investment return | | (0.1) | 0.5 |
| Operating cash flows before movements in working capital, tax and interest paid | | 0.0 | (102.6) |
| Purchase of financial investments (investments: call deposits) | | – | (70.8) |
| Sale of financial investments (investments: call deposits) | | 58.9 | 32.7 |
| Interest received on financial investments | | 0.1 | – |
| Changes in working capital: | | | |
| – Decrease in debtors | | 0.0 | 8.3 |
| – Decrease in payables | | (0.3) | (7.1) |
| Taxation received | | 1.3 | 1.7 |
| Net cash generated/(used) in operating activities | | 60.0 | (137.8) |
| Cash flows from investing activities | | | |
| Dividends received from subsidiary undertakings | | 9.1 | 188.2 |
| Net cash generated in investing activities | | 9.1 | 188.2 |
| Cash flows used in financing activities | | | |
| Proceeds on issue of ordinary shares | | 0.4 | 1.4 |
| Interest paid on loans | | (8.4) | (8.9) |
| Dividends paid | | (61.0) | (42.9) |
| Net cash used in financing activities | | (69.0) | (50.4) |
| Net increase in cash and cash equivalents | | 0.1 | 0.0 |
| Cash and cash equivalents at the beginning of the year | | 0.0 | 0.0 |
| Cash and cash equivalents at the end of the year | | 0.1 | 0.0 |

The notes on pages 123 to 125 form part of these financial statements.

Parent Company statement of changes in equity

| | Share capital £m | Share premium £m | Capital redemption £m | Profit and loss account £m | Total equity £m |
|---------------------------------------|---------------------|---------------------|--------------------------|----------------------------------|-----------------------|
| Year ended 31 December 2016 | | | | | |
| At 1 January 2016 | 0.3 | 44.0 | 44.9 | 26.9 | 116.1 |
| Profit for the year | – | – | – | 379.9 | 379.9 |
| Total comprehensive income | – | – | – | 379.9 | 379.9 |
| Transactions with owners: | | | | | |
| Issue of share capital | 0.0 | 1.4 | – | – | 1.4 |
| Share-based payments | – | – | – | 3.0 | 3.0 |
| Dividends | – | – | – | (42.9) | (42.9) |
| Demerger of Gocompare.com | – | – | – | (301.8) | (301.8) |
| Total transactions with owners | 0.0 | 1.4 | – | (341.7) | (340.3) |
| At 31 December 2016 | 0.3 | 45.4 | 44.9 | 65.1 | 155.7 |
| Year ended 31 December 2017 | | | | | |
| At 1 January 2017 | 0.3 | 45.4 | 44.9 | 65.1 | 155.7 |
| Profit for the year | – | – | – | 2.2 | 2.2 |
| Total comprehensive income | – | – | – | 2.2 | 2.2 |
| Transactions with owners: | | | | | |
| Issue of share capital | 0.0 | 0.4 | – | – | 0.4 |
| Share-based payments | – | – | – | 3.5 | 3.5 |
| Dividends | – | – | – | (61.0) | (61.0) |
| Total transactions with owners | 0.0 | 0.4 | – | (57.5) | (57.1) |
| At 31 December 2017 | 0.3 | 45.8 | 44.9 | 9.8 | 100.8 |

The notes on pages 123 to 125 form part of these financial statements.

Notes to the Parent Company financial statements

For the year ended 31 December 2017

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

esure Group plc (the 'Company' or the 'Parent Company') is a company incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101').

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU, but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The financial statements have been prepared on a going concern basis. In considering the appropriateness of this assumption, the Board has reviewed the Company's projections for the next 12 months and beyond, including cash flow forecasts. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least the next 12 months. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the Parent Company is not presented.

The Parent Company audit fee is not disclosed in these financial statements as it is disclosed in the consolidated financial statements of esure Group plc (note 11).

2. PARENT COMPANY ACCOUNTING POLICIES

In these financial statements, the Company has not provided the following disclosures and will continue to take the exemptions available under FRS 101 in future years subject to no objection being raised by a shareholder:

- disclosures in respect of transactions with wholly owned subsidiaries;
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRSs;
- the disclosures required by IFRS 7 and IFRS 13 regarding financial instruments; and
- disclosures in respect of key management personnel required by IAS 24.

As the consolidated financial statements of esure Group plc include the equivalent disclosures, the Company has not provided the following disclosures and will continue to take the exemptions available under FRS 101 in future years subject to no objection being raised by a shareholder:

- the disclosures required by IAS 1 regarding movements in share capital;
- IFRS 2 *Share Based Payments* in respect of Group settled share-based payments (see note 27 of the consolidated financial statements); and
- the disclosures required by IFRS 7 and IFRS 13 regarding financial instrument disclosures.

The disclosures are available on written request to the esure Group plc address provided on page 130.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements:

Income from investments in Group undertakings

Income from investments in Group undertakings comprises dividend income. Dividends are recognised when the right to receive payment is established.

Taxation

The accounting policies applied to current and deferred tax are consistent with those disclosed in note 2 of the consolidated financial statements. No deferred tax arose in the year ended 31 December 2017 or the year ended 31 December 2016.

Investments in Group undertakings

Investments in Group undertakings are stated in the statement of financial position at cost less provision for impairment. The cost of investments in Group undertakings includes the cost of granting equity instruments to the employees of subsidiaries, in line with the requirements of IFRS 2 *Share Based Payments*.

Financial assets

The Company's financial assets as at 31 December 2017 and 31 December 2016 include amounts owed by Group undertakings, investments in call deposits and cash at bank which are classified as 'loans and receivables'. The accounting policies applied to these financial assets are consistent with those disclosed in note 2 of the consolidated financial statements.

Financial liabilities

The Company's financial liabilities as at 31 December 2017 and 31 December 2016 include amounts owed to Group undertakings, other payables and borrowings which are all classified as 'other financial liabilities'. The accounting policies applied to these financial liabilities are consistent with those disclosed in note 2 of the consolidated financial statements.

Notes to the Parent Company financial statements continued

For the year ended 31 December 2017

3. TAXATION

The tax rate used for the calculations is the Corporation Tax rate of 19.25% (2016: 20.00%) payable by the corporate entities in the UK on taxable profits under tax law in that jurisdiction.

| | Year ended 31 Dec 2017 £m | Year ended 31 Dec 2016 £m |
|--|---------------------------------|---------------------------------|
| Profit before taxation | 0.5 | 378.2 |
| Taxation calculated at 19.25% (2016: 20.00%) | 0.1 | 75.6 |
| Effects of: Non-taxable income | (1.8) | (77.3) |
| Taxation credit | (1.7) | (1.7) |

4. INVESTMENTS

| | Year ended 31 Dec 2017 £m | Year ended 31 Dec 2016 £m |
|---------------------------------|---------------------------------|---------------------------------|
| As at 1 January | 229.0 | 226.1 |
| Additions: share-based payments | 3.5 | 2.9 |
| As at 31 December | 232.5 | 229.0 |

There are no provisions for impairment. Included in the cost of investments in Group undertakings is £12.4m (2016: £8.9m) in relation to the cost of share schemes for the benefit of employees of esure Services Limited (an indirectly wholly owned subsidiary) to be settled in the shares of esure Group plc. Details of these awards are disclosed in the consolidated financial statements (note 27).

Investments in Group undertakings, which are wholly directly owned, are as follows:

| | Country of incorporation | Class of shares held | Registered office address |
|-----------------------|--------------------------|----------------------|--|
| esure Finance Limited | England and Wales | Ordinary | The Observatory, Reigate, Surrey RH2 0SG |

5. DEBTORS

| | As at 31 Dec 2017 £m | As at 31 Dec 2016 £m |
|--|----------------------------|----------------------------|
| Due within one year | | |
| Amounts owed by Group undertakings | 0.0 | 0.0 |
| Accrued interest | 0.0 | 0.0 |
| Current tax | 1.3 | 0.9 |
| Total debtors due within one year | 1.3 | 0.9 |

6. CREDITORS AND OTHER PAYABLES**Amounts falling due within one year**

| | As at 31 Dec 2017 £m | As at 31 Dec 2016 £m |
|--|----------------------------|----------------------------|
| Amounts owed to Group undertakings | 9.9 | 9.3 |
| Accrued expenses | 0.1 | 1.0 |
| Accrued interest on 10 year Subordinated Notes | 0.3 | 0.3 |
| Total creditors due within one year | 10.3 | 10.6 |

Amounts falling due after more than one year

| | As at 31 Dec 2017 £m | As at 31 Dec 2016 £m |
|---|----------------------------|----------------------------|
| Borrowings: 10 year Subordinated Notes | 122.8 | 122.5 |
| Total creditors due after more than one year | 122.8 | 122.5 |

Full details of the Company's 10 year Subordinated Notes are included in the consolidated financial statements of esure Group plc above at note 19.2.

7. SHARE CAPITAL AND OTHER RESERVES

Full details of the Company's share capital and reserves are included in the consolidated financial statements of esure Group plc above at note 26. Full details of dividends declared during the year are included in the consolidated financial statements of esure Group plc above at note 15.

8. DEMERGER OF GOCOMPARE.COM IN 2016

Full details of the demerger of Gocompare.com are included in the consolidated financial statements of esure Group plc above at note 12. As the cost of the investment in the Company accounts was £98.9m (based on the cost at which the investment was held in esure Services Limited), the non-cash gain seen on demerger under IFRIC 17 was £202.9m.

Corporate information

DIRECTORS

Sir Peter Wood
Darren Ogden
Shirley Garrood
María Dolores Dancausa
Martin Pike
Alan Rubenstein (appointed 8 March 2017)
Angela Seymour-Jackson
Peter Shaw (appointed 8 March 2017)
Peter Ward (stepped down 17 May 2017)
Stuart Vann (stepped down 18 January 2018)

SECRETARY

Alice Rivers

AUDITORS

KPMG LLP
Chartered Accountants and Statutory Auditor
15 Canada Square
London E14 5GL

CORPORATE BROKERS

Deutsche Bank
Winchester House
1 Great Winchester Street
London EC2N 2DB

Peel Hunt LLP
Moor House
120 London Wall
London EC2Y 5ET

REGISTERED OFFICE

The Observatory
Reigate
Surrey RH2 0SG

Glossary of terms

The definitions set out below apply throughout this document, unless the context requires otherwise.

| | |
|--|---|
| 'Actuarial Best Estimate' | is the probability-weighted average of all future claims and cost scenarios, which is calculated using historical data, actuarial methods and judgements. |
| 'Board' | means the Board of Directors of the Company from time to time. |
| 'Business' | means the business of the Group. |
| 'Claims incurred, net of reinsurance' | is the cost of claims incurred in the period, less any recoveries from reinsurers. It includes claims payments and movements in claims reserves. |
| 'Claims reserves' | are the Group's best estimate of the final cost of claims and related expenses which the Group will need to pay for claims relating to earned business. |
| 'Company' | means esure Group plc, a company incorporated in England and Wales with registered number 07064312 whose registered office is The Observatory, Castlefield Road, Reigate, Surrey RH2 0SG. |
| 'Defaqto' | is a leading independent financial research company in the UK. |
| 'Earnings per share ('EPS')' | is the Group's profit after tax allocated to the weighted average number of Ordinary Shares in the Company in issue. |
| 'Footprint expansion' | means the Group's underwriting initiative to quote competitively for more customers. |
| 'Gocompare.com' | is a company incorporated in England and Wales with registered number 06062003 whose registered office is Imperial House, Imperial Way, Newport NP10 8UH. |
| 'Group' or 'esure Group' | means the Company and its subsidiaries. |
| 'Gross earned premium' | is the total premium earned during the period on premiums underwritten in the current and previous underwriting years. |
| 'Gross written premiums' | are the total premiums relating to policies which began during the period. |
| 'IFRS' | means International Financial Reporting Standards. |
| 'Incurred but not reported ('IBNR')' | are part of the Group's claims reserves, set aside to cover claims from accidents that have occurred but not been reported to the Group. IBNR is necessarily an actuarial estimate. |
| 'Lifetime Customer Value' | the Group looks to deliver a positive return across the period that a customer chooses to stay with the business. |
| 'Ogden Rate' | is the discount rate set by the Lord Chancellor and used by UK courts to calculate lump sum settlements. |
| 'Ordinary shares' | means the ordinary shares with a nominal value of 1/12 pence each in the capital of the Company. |
| 'ORSA' | means Own Risk and Solvency Assessment and aims to assess the overall solvency needs of an insurance company. |
| 'Periodic Payment Orders ('PPOs')' | are claims payments used to settle large personal injury claims. In addition to providing a lump sum, PPOs provide regular index-linked payments for some or all of the future financial loss suffered. |
| 'Prudent Person Principle' | is a Solvency II rule requiring insurers to only make investments that a 'prudent person' would make. It does not require that those charged with governance should always makes correct decisions; but requires them to make decisions that will be generally accepted as sound by an average person and such decisions should be made as if they were managing their own affairs. |
| 'Reinsurance' | is an arrangement whereby the Group transfers part of the accepted insurance risk to a panel of insurers. This allows the Group to mitigate its risk of losses from claims. |
| 'SFCR' | means Solvency and Financial Condition Report. |
| 'Solvency II' | is an EU legislative programme implemented in all 28 Member States on 1 January 2016. Primarily it concerns the amount of capital that EU insurance companies must hold to reduce the risk of insolvency. |
| 'The Notes' | means the £125m 6.75% 10 year Tier 2 Subordinated Notes issued on 19 December 2014. |
| 'Underwriting' | is the receipt of premium in return for the provision of insurance to a policyholder. The underwriting year refers to the financial year in which the policy begins. |

Glossary of terms continued

Alternative Performance Measures

Throughout this report, the Group uses a number of Alternative Performance Measures ('APMs'). The Group prepares its financial statements under IFRS and by definition these measures are not IFRS metrics.

These APMs are used by the Group, alongside IFRS measures, for both internal performance analysis and to help shareholders and other users of the Annual Report and financial statements to better understand the Group's performance.

Additional Services Revenue ('ASR')

- (1) **'Non-underwritten additional insurance products'** are the commission margins for the Group generated from sales of such products.
- (2) **'Policy administration fees and other income'** is the income received as a result of administration charges, e.g. as a result of mid-term alterations to policy details by the policyholder and cancellation charges. Other income includes introduction fees where the Group does not have a continuing relationship with the customer.
- (3) **'Claims income'** is the income generated by the Group from the appointment of firms used during the claims process, including car hire and medical suppliers. This also includes legal panel membership fees from Scotland.
- (4) **'Non-underwritten additional services'** is the total income from the Group's non-underwritten additional services and products.
- (5) **'Underwritten additional insurance products'** is the revenue calculated by deducting the Group's claims costs associated with its underwritten additional insurance products from the gross written premiums relating to these products in a particular period.
- (6) **'Non-underwritten additional services trading profit'** is the total non-underwritten additional services income less the total associated expenses.

| | |
|-----------------------------------|---|
| 'ASR per IFP' | is the income derived from additional services revenues divided by the average number of in-force policies in the year. This measure demonstrates that the Group is able to generate additional revenue alongside the core insurance premium. |
| 'Combined operating ratio' | is a metric for assessing the performance of a general insurance firm, calculated as the loss ratio plus the expense ratio. |
| 'Contribution' | means the trading profit/(loss) generated from underwriting, non-underwritten additional services revenues and investments. |
| 'Cost per policy' | are the total expenses incurred by the Group (excluding claims indemnity costs) divided by the average number of in-force policies in the year. |
| 'Expense ratio' | means net insurance expenses plus claims handling costs as a percentage of earned premiums, net of reinsurance. |
| 'Fraud savings' | are the estimated cost savings that the Group has made from initiatives undertaken to deter and identify fraudulent activity. This measure demonstrates the operational savings and claims indemnity cost benefits the Group has delivered in the period. |
| 'In-force policies' | means the number of live policies as at 31 December. |
| 'Loss ratio' | means claims incurred net of reinsurance as a percentage of earnings premiums, net of reinsurance. |
| 'Net Promoter Score' | is an index that measures the willingness of customers to recommend a company's products or services to others. |
| 'Non-trading costs' | means costs incurred by the business that do not relate to the ongoing trading of the Group. |
| 'Total Shareholder Return' | is a performance measure which compares share price movement with reinvested dividends as a percentage of the share price at the beginning of the period. |
| 'Trading profit' | is earnings before interest, tax, non-trading expenses and amortisation of acquired intangible assets. |

Shareholder information

SHAREHOLDINGS

As at 1 March 2018, there were 1,249 holders of Ordinary Shares whose shareholdings are analysed below.

| Balance ranges | Total number of holdings | Percentage of holders | Total number of shares | Percentage issued capital |
|-------------------|--------------------------|-----------------------|------------------------|---------------------------|
| 1-1,000 | 499 | 39.96% | 227,294 | 0.05% |
| 1,001-5,000 | 330 | 26.42% | 778,359 | 0.19% |
| 5,001-10,000 | 61 | 4.88% | 443,334 | 0.11% |
| 10,001-100,000 | 185 | 14.81% | 6,746,952 | 1.61% |
| 100,001-1,000,000 | 133 | 10.65% | 50,344,566 | 12.04% |
| 1,000,001-Highest | 41 | 3.28% | 359,610,012 | 86.00% |
| Totals | 1,249 | 100.00% | 418,150,517 | 100.00% |

ONLINE SERVICE

To help us cut down on the number of documents we print and post, we encourage all shareholders to use our online services at www.shareview.co.uk.

This allows shareholders to:

- cast a proxy vote online;
- view their shareholding balance, any shareholding movements on their shareholding and to get an indicative valuation;
- view dividend payments received;
- register/change bank mandate instructions;
- update their contact details; and
- elect to receive shareholder communications electronically.

Also, information that is not sent out by post, including half-year results, trading statements, results presentations and news updates, can also be found on our website www.esuregroup.com/investors/results.

MANAGING YOUR SHARES

The Company's register of members is maintained by our Registrar, Equiniti. Shareholders with queries relating to their shareholding should contact Equiniti directly. Alternatively, shareholders may find the 'Investors' section of our corporate website useful for general enquiries.

REGISTRAR'S CONTACT DETAILS

Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA
t: +44(0)371 384 2030 (shareholders) or +44(0)121 415 7047 (from outside the UK)
Online: www.equiniti.com
Stock code: ESUR

SHARE PRICE

Information on the esure Group plc share price is available at www.esuregroup.com/investors.

ANNUAL GENERAL MEETING 2018 ('AGM')

This year's AGM will be held at Tithe Barn, Burford Bridge Hotel, Dorking, Surrey RH5 6BX on Thursday 17 May 2018. The meeting will start at 3.30pm and registration will be available from 3.15pm.

FINANCIAL CALENDAR

| | |
|-------------------|---|
| 07 March 2018 | Full-year results announced |
| 12 April 2018* | Ex-dividend date – final dividend |
| 13 April 2018* | Record date to be eligible for the final dividend |
| 03 May 2018* | Q1 Trading update |
| 17 May 2018* | Annual General Meeting |
| 25 May 2018* | Final dividend paid to shareholders |
| 14 August 2018* | Interim results |
| 30 August 2018* | Ex-dividend date – interim dividend |
| 31 August 2018* | Record date to be eligible for the interim dividend |
| 12 October 2018* | Interim dividend paid to shareholders |
| 08 November 2018* | Q3 Trading update |

* All future dates are indicative and subject to change.

Shareholder information continued

SHAREGIFT

If you have a small shareholding that is uneconomical to sell, you may want to consider donating it to ShareGift (registered charity no. 1052686), a charity that specialises in the donation of small, unwanted shareholdings to good causes. You can find out more by visiting www.sharegift.org or by calling +44 (0)20 7930 3737.

For further information: ShareGift, 17 Carlton House Terrace, London SW1Y 5AH.

UNSOLICITED MAIL

The Company is legally obliged to make its register of members available to the public, subject to a proper purpose test. As a consequence of this, some shareholders may receive unsolicited mail. Shareholders wishing to limit the amount of such mail should write to the Mailing Preference Service ('MPS') at: MPS FREEPOST LON20771, London W1E 0ZT. Telephone: 0845 703 4599 or www.mpsonline.org.uk.

SHAREHOLDER SECURITY – HOW TO AVOID SHARE FRAUD

Shareholders may receive unsolicited and suspicious phone calls from 'brokers' offering to buy their shares at a price far in excess of their market value. We believe this may be a scam, commonly referred to as a 'boiler room'. The callers obtain your details from publicly available sources of information.

Shareholders are cautioned to be very wary of any unsolicited advice, offers to buy shares at a discount, or to sell your shares at a premium. Remember, if it sounds too good to be true, it probably is! You should treat the call with extreme caution. The safest thing to do is to hang up.

More detailed information and guidance is available on the Investors section of our corporate website: www.esuregroup.com/investors

PUBLISHED INFORMATION

If you would like to receive a hard copy of this Annual Report please contact the Company Secretariat at the Company's registered office below. A PDF copy of this report can also be downloaded from our website.

AUDITORS

KPMG LLP
15 Canada Square
London E14 5GL
t: +44(0)20 7311 1000

CORPORATE BROKERS

Deutsche Bank
Winchester House
1 Great Winchester Street
London EC2N 2DB
t: +44(0)20 7545 8000

Peel Hunt LLP
Moor House
120 London Wall
London EC2Y 5ET
t: +44(0)20 7418 8900

INVESTOR RELATIONS

Chris Wensley – Head of Investor Relations and Corporate Strategy
t: +44(0)1737 641 324
e: ir@esure.com

MEDIA RELATIONS

Chris Barrie
Citigate Dewe Rogerson
t: +44(0)20 7638 9571
e: esure@citigatedr.co.uk

REGISTERED OFFICE AND HEAD OFFICE

esure Group plc
The Observatory
Castlefield Road
Reigate
Surrey RH2 0SG
t: +44(0)1737 222 222
Registered No. 7064312
LEI 213800K0I3F5LM54PT80

www.esuregroup.com

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Sheilas Wheels

The Observatory | Castlefield Road | Reigate | Surrey RH2 0SG | 01737 222 222