

Company No: 07064321

esure Group plc
Annual Report and Accounts
for the year ended 31 December 2018

Contents

Strategic Report	3
Chairman's Statement	3
Strategic Report	4
Risk Management	8
Principal Risks	11
People	14
Corporate Governance	15
Board of Directors	15
Group Executive Committee	19
Directors' remuneration	24
Directors' Report	25
Corporate information	29
Statement of Directors' Responsibilities in respect of the Annual Report and the financial statements	30
Independent Auditor's Report to the members of esure Group plc	31
Financial statements	38
Consolidated financial statements	38
Notes to the Consolidated financial statements	42
The Company financial statements	82
Notes to the Company financial statements	85
Glossary of terms	88

Strategic Report

Chairman's Statement

Overview

As Chairman of esure, I look forward to the next chapter of esure's journey with Bain Capital as new owners.

The team is focused on evolving the Group's long-term strategy in response to a world which is changing at an increasing pace, with advances in digital and data analytics shaping customer expectations of all businesses. However, 2018 was not without challenge. Firstly, competitive market dynamics (lower premiums and elevated claims inflation in Motor) combined with the Group's own claims experience impacted the Group's underwriting performance. Secondly, the exceptional weather events seen across the U.K., particularly in the first half of the year, increased claims costs. While all of these factors led to a disappointing result for the year as a whole, we are taking appropriate steps to strengthen the Group's solvency capital position and with Bain Capital's backing, esure will be able to build on its strong foundations and invest in the innovation required to fully realise the exciting opportunities in this market.

Acquisition of esure Group plc by Bain Capital

On 14 August 2018, a wholly-owned subsidiary of funds advised by Bain Capital Private Equity, LP and its affiliates ('Bain Capital') announced an offer for esure Group plc ('esure') of 280 pence per ordinary share to be implemented by way of a Scheme of Arrangement, with additional equity financing provided by certain co-investors ('the Bain Capital Acquisition').

At two successive meetings on 3 October 2018, the Independent Shareholders voted to approve the Scheme and the Bain Capital Acquisition, following which, the Scheme became effective on 19 December 2018 and esure's shares were delisted from the London Stock Exchange's Official List.

Bain Capital, founded in 1984, is one of the world's leading private investment firms. Bain Capital partners with management teams to provide the strategic resources that build great companies and help them thrive. Bain Capital has made more than 800 primary and add-on investments and has c.USD105 billion in assets under management.

The Bain Capital Acquisition recognises the value created by esure's strategy to date and the value expected to be generated in future.

The Board and I welcome Bain Capital as new owners of esure.

Strong Governance and Board

I was pleased to accept Bain Capital's request to remain as Chairman of esure to facilitate a smooth transition to private ownership and I am grateful to our Senior Independent Director, Shirley Garrood, along with Alan Rubenstein and Peter Shaw all of whom have a wealth of experience and who also accepted Bain Capital's request to remain as Non-Executive Directors. This continuity will help promote and maintain the Board's commitment to high standards of corporate governance.

The search for a new Chief Executive Officer was well underway in 2018, however, that process was subsequently paused during the Bain Capital Acquisition. The search has resumed and is well advanced, and the Board intends to confirm a permanent appointment in 2019.

Angela Seymour-Jackson, Martin Pike and Nick Hugh stood down as Non-Executive Directors of the Board following completion of the transaction and I would like to thank them for their support and contribution to the business.

We welcome Robin Marshall, Phil Loughlin and Luca Bassi who joined the esure Board as representatives of Bain Capital on 19 December 2018, in addition to Steve Long, esure's Interim Chief Finance Officer, who joined the esure Board on the same date.

Sir Peter Wood, CBE
Chairman

Strategic Report

esure Group is a leading personal lines insurer in Motor and Home insurance through its two prominent brands: esure and Sheilas' Wheels.

The Group's strategy is to provide more customers with competitively priced products, without compromising on service. The Group's business model generates value across the insurance value chain and provides opportunity for profitable growth.

Key Performance Indicators ('KPIs')

The below provides an overview of the Group's Key Performance Indicators.

Key Performance Indicator	2018	2017
In-force policies (millions)	2.449	2.373
Combined operating ratio (%)	111.8	96.7
Trading profit (£m)	7.8	111.3
Net promoter score (sales & service)	46	45
Complaints (%)	0.6	0.6
Retention (%)	73	75

Definitions of the Group's KPIs can be found in the Glossary of terms.

Financial Review

Group

	2018	2017
Gross written premiums (£m)	862.2	820.2
In-force policies (millions)	2.449	2.373
Trading profit (£m)	7.8	111.3
(Loss)/profit before tax (£m)	(15.4)	98.6
Combined operating ratio (%)	111.8	96.7
Loss ratio (%)	87.8	72.3
Expense ratio (%)	24.0	24.4
Solvency coverage (%)	108	156

Gross written premiums increased 5.1% to £862.2m (2017: £820.2m) aided by growth in both Motor and Home. The Group's loss before tax of £15.4m (2017: £98.6m profit) has been impacted by higher than expected claims costs in Motor, exceptional weather event related costs in Motor and Home, and fees relating to the Bain Capital Acquisition. The Group incurred exceptional weather costs of £20.0m in 2018 that impacted the Home and Motor accounts. Adjusting for these items, the Group's profit before tax was £5.4m (2017: £98.6m).

Trading profit, 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 £7.8m (2017: £111.3m).

Motor

Gross written premiums increased 5.1% to £771.4m (2017: £734.3m) aided by in-force policy growth of 2.2% to 1.937 million (2017: 1.895 million).

The Motor account generated a trading profit of £15.2m (2017: £102.7m) which comprised an underwriting loss, additional services revenues and an investment return.

The underwriting loss of £74.5m (2017: £24.9m profit) was driven by a period of elevated accidental damage and third-party damage claims inflation, adverse development on prior year reserves and lower premiums across the market. In addition, the exceptional weather conditions seen in the first half of the year impacted the account by £7.0m (2017: nil).

Prior year reserves have been strengthened in response to developments in small and medium-sized bodily injury claims.

The combined operating ratio of 110.7% (2017: 95.8%) is comprised of a loss ratio of 88.5% (2017: 73.2%) and an expense ratio of 22.2% (2017: 22.6%). The 2018 accident year loss ratio was 84.1% (2017: 76.9%). Adverse development of prior accident year reserves of £30.7m equated to 4.4% of net earned premiums (2017: £22.0m favourable; 3.7% favourable). The Group has continued to hold reserves in excess of the actuarial best estimate.

	2018	2017
Reported net loss ratio (%)	88.5	73.2
Prior year reserves (strengthening)/release (%)	(4.4)	3.7
Current accident year net loss ratio (%)	84.1	76.9

Additional services revenues of £78.4m (2017: £65.8m) benefitted from an increase in in-force policies. The investment return was £11.3m (2017: £12.0m). Further information on the investment return can be found below.

Home

Gross written premiums increased 5.7% to £90.8m (2017: £85.9m) aided by in-force policy growth of 6.9% to 511,000 (2017: 478,000).

The Home account generated a trading loss of £7.4m (2017: £8.6m profit) which comprised an underwriting loss, additional services revenues and an investment return.

The underwriting loss of £17.5m (2017: £2.3m loss) was largely impacted by weather-related claims costs in the first half of the year and subsidence claims in the second half of the year. The exceptional weather-related costs were £13.0m (2017: nil).

The combined operating ratio of 121.7% (2017: 102.8%) is comprised of a loss ratio of 82.1% (2017: 65.6%) and an expense ratio of 39.6% (2017: 37.2%). The 2018 accident year loss ratio was 85.7% (2017: 71.4%). Favourable development of prior accident year reserves of £2.9m equated to 3.6% of net earned premiums (2017: £4.7m; 5.8%).

Additional services revenues of £9.2m (2017: £9.9m) are lower due to the Group's pricing strategy for its additional products. The investment return was £0.9m (2017: £1.0m). Further information on the investment return can be found below.

	2018	2017
Reported net loss ratio (%)	82.1	65.6
Prior year reserves release (%)	3.6	5.8
Current accident year net loss ratio (%)	85.7	71.4

Investment return

The Group generated an investment return of £12.2m (2017: £13.0m) through an improvement in investment income, offset by higher investment charges and net losses on the portfolio.

Reconciliation of trading profit to (loss)/profit before tax

	2018	2017
	£m	£m
Trading profit	7.8	111.3
Non-trading costs	(13.3)	(1.8)
Finance costs	(8.7)	(8.7)
Amortisation of acquired intangible assets	(1.2)	(2.2)
(Loss)/ profit before tax	(15.4)	98.6

Non-trading costs were £13.3m (2017: £1.8m) of which £12.2m related to costs associated with the Bain Capital Acquisition of shares in esure Group plc and £1.1m related to costs associated with the former Chief Executive Officer stepping down.

The Group incurred £8.7m in finance costs (2017: £8.7m) relating to the £125.0m of 6.75% ten-year tier two Subordinated Notes issued on 19 December 2014 ("the Notes").

Solvency

The Group's solvency coverage was 108% at 31 December 2018 (2017: 156%). This reduction follows higher than expected claims costs, against a backdrop of lower premiums across the market. The Group's Eligible Own Funds are lower at £356.7m (2017: £415.4m), driven by the loss in the period, an increase in technical provisions in line with the loss ratio and lower premiums across the market. The Solvency Capital Requirement increased to £330.3m (2017: £266.4m), due to an increase in technical provisions and a reduction in the loss absorbing capacity of deferred tax reflecting the loss in the year. The Group is taking action to improve its solvency capital coverage ratio and is considering a range of options including reinsurance. The Group currently expects to be capital generative in 2019. No dividend has been or will be declared with respect to the financial year ended 31 December 2018.

The Group's capital position is outlined below:

	2018	2017
	£m	£m
Own Funds	356.7	415.4
Tier 1	238.8	290.1
Tier 2	117.9	125.3
Solvency Capital Requirement	330.3	266.4
Coverage Ratio	108%	156%

Reserving

Outstanding claims reserves continue to be the most significant financial judgement in the Group's financial statements. The Audit Committee received reports on claims reserves throughout the year from the external auditor, the internal actuary and the independent external actuary (Willis Towers Watson). The Audit Committee also meets with the Chief Actuary without management present at least once a year and met twice during 2018. In response to the Group's claims experience in 2018, the Board has sought additional third-party assurance in relation to the claims reserves, including actuarial best estimate, controls, process and governance. The Audit Committee has challenged and debated the process, key judgements and assumptions and having noted the inherent uncertainties associated with reserving for claims, is satisfied that the outstanding claims reserves included in these financial statements include an appropriate margin over projected ultimate claims costs.

Dividend Policy

The Board will consider dividends to its shareholder if the Group has excess capital and distributable reserves. The Board will consider a number of factors when determining the level of dividend, which includes but is not limited to the level of available distributable reserves; opportunities for growth; potential strategic opportunities; and the outlook for solvency capital, including capital generation and headroom required to absorb adverse capital events.

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 and aims to maintain distributable reserves that provide sufficient cover for dividends.

Outlook

The Group expects market conditions to remain competitive in 2019. The Group will continue to invest in its capabilities and to pursue profitable growth opportunities. The Group is taking action to improve its solvency capital coverage ratio and is considering a range of options including reinsurance. The Group currently expects to be capital generative in 2019.

Risk 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 Group 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 within the business. 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 and 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 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 the Group's 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.

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 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.

The Group's risk management strategy integrates risk assessment and evaluation into the Group's business operations, planning and capital management.

The Board has set a risk management strategy as an integral element in its pursuit of business objectives and in the fulfilment of its obligations to our shareholder, regulators, customers, colleagues and stakeholders. 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.

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 colleagues are incentivised. This ensures that colleague 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, the Audit 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.

Governance Framework

Board of Directors		
	Risk Committee	Audit Committee
Senior Management and Executive Committees	Risk Management and Compliance Teams	Internal Audit Team (Outsourced to Mazars LLP)
1st Line of Defence – Operational Business Area Risk ownership and management. Primary responsibility for risks that esure takes in the pursuit of its strategic objectives. Embedding of the risk framework, risk management practices, processes and controls.	2nd Line of Defence – Risk Management and Compliance function Provision of oversight and challenge to business areas and management. Coordination of risk and compliance activities and reporting including ensuring an effective risk framework is embedded within the 1st line of defence.	3rd Line of Defence – Internal Audit function Independent and objective assurance on the internal control environment. Oversight focused on the design and operating effectiveness of the governance processes, risk management procedures and internal control.

Strategic Risk Statements

Financial

Earnings

The Group's strategy is to manage profitable growth and volatility within a cyclical market through targeted growth opportunities, continuous adaptation in its underwriting, pricing and claims, and a focus on expense management.

Capital and Liquidity

The Group's aim is to ensure there are appropriate financial resources in place to deliver on its policyholder and corporate obligations.

Non-Financial

Conduct Risk and Customer

Through the Group's strategy, culture, product design and service delivery, it aims to deliver fair outcomes for its customers and ensure that they are at the core of everything it does.

Operations and Information Systems

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.

People

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.

Principal Risks

RISK	KEY ELEMENTS	MITIGATION
UNDERWRITING RISK Definition <p>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> Current risk profile <p>There is 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, as well as Brexit potentially impacting claims inflation. We have in place fixed cost and longer-term arrangements mitigating some of the inflationary risks.</p>	<ul style="list-style-type: none"> • Pricing Risk • Reserving Risk • Catastrophe Risk 	<ul style="list-style-type: none"> • There is regular monitoring in place of the external environment, including Brexit, to understand and react to the changing market, ensuring that the Group is well placed to benefit from any developments. Specific Brexit scenarios have been run considering the potential risks around “No Deal/Hard Brexit” to identify actions and potential impact across underwriting, operational and market risks. • The claims management processes ensure that there is strong customer service, management of claims costs and management information to understand claimstrends. • There is a 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. Oversight of the reserving risk is undertaken by the Reserve Committee. • There is reinsurance in place to protect the business from large losses and catastrophe events.
MARKET RISK Definition <p>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 aligns and ensures compliance with Solvency II ‘Prudent Person Principle’ requirements.</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. • 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.

Current risk profile

There continues to be uncertainty around 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. In response, we have reduced our investment risk including tightening our Asset Liability Matching.

- 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.
- 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.

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.

- Reinsurance counterparty Risk
- Supplier debtor Risk

- 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.

Current risk profile

There are no specific concerns currently.

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.

- Liquidity Risk

- The Group continues to monitor its liquidity risk by considering the Group's operating cash flows, stressed for catastrophe scenarios, dividend pay-outs, liquidity strains and investment strategy to mitigate this risk.
- Oversight of liquidity risk is undertaken by the Financial Risk Committee.

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.

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.

Current risk profile

There are currently a significant level of cyber threats globally that could impact the business.

- 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

- The Group has a 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.

CONDUCT RISK

Definition

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

Current risk profile

There is a significant level of regulatory focus on the sector including vulnerable customers, a market-wide study of general insurance pricing, in addition to General Data Protection Regulation, the Insurance Distribution Directive and the extension of the Senior Managers' Regime which were the focus in 2018.

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

- 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 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

At esure, our colleagues are what make us great. The Group's ambition is to be a workplace where colleagues feel engaged and inspired. Our working environment is supportive and cultivates opportunity.

Nurturing a positive working culture is fundamental to the Group's success and goes hand in hand with delivering outstanding customer service. The Group is proud that its efforts were recognised externally, receiving several awards including a Bronze award for the Best Large Contact Centre in Europe at the European Contact Centre and Customer Service Awards. The Group now employs 2,053 people across three offices.

Engagement

Each year, all colleagues are invited to participate in an annual engagement survey which allows the Group to measure engagement and satisfaction levels. The 2018 survey demonstrated the highest response rate yet – with 94% of colleagues taking part. The Group continued to see some significant improvements in this year's results, demonstrating that it is listening to colleagues and making a difference. Engagement increased with a score of 76%, Communication increased to 77% and Training and Development increased to 72%.

The Group's Employee Consultation Group ('ECG') also gives colleagues the opportunity to give feedback and suggestions. The ECG is made up of elected representatives from each office along with representatives from different areas of the business. The Group have implemented various changes as a result of discussions with the ECG.

Numerous events are run throughout the year to engage colleagues: from regular dress-down days, award nights, competitions, sport-based events, wellbeing events, to a Christmas quiz and Christmas lunch for all colleagues.

Training and Development

The Group is dedicated to developing the potential of colleagues. In a fast-moving world, colleagues are constantly learning and developing as the Group invests in the skills and tools necessary to deliver change and innovation in the right way.

In 2018, esure continued to invest in its Talent programmes. 'Future Leaders', developing the pipeline for Senior Management role; and 'Rising Stars' helping junior colleagues reach the next stage of their career. It also ran 'Management Excellence', a programme supporting Team Leaders to further develop their management skills.

In the last year, esure extended its Apprenticeship programme, giving more colleagues the opportunity to gain experience and broaden their knowledge within the Insurance Industry. In 2018, the Group had 30 apprentices, while in 2019 we will be extending the Apprenticeship programme further.

esure is a proud supporter of AutoRaise, a charity that helps develop talent and reverse the skills shortage within the vehicle repair industry. We are also delighted that one of our colleagues was appointed a Trustee of the charity in 2018.

Charity and Community

The Group actively supports communities local to each office as well as national and local charities. Each office has a regional Community Committee run by esure volunteers. The committees undertake a wide range of fundraising activities: everything from fun days, food and clothing appeals to cake sales. Throughout 2018 they raised a fantastic £56,000, as well as supporting broader appeals such as 'Bags 4 School', the Ward 84 Summer Party for patients at Royal Manchester Children's Hospital and the Christmas Bauble appeal providing Christmas gifts to local people.

Corporate Governance

Board of Directors

Sir Peter Wood **Chairman**

Background and experience

Sir Peter Wood founded the Group in February 2000. 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. Sir Peter is Chairman of Gocompare.com Group plc.

Prior appointments

Previously, Sir Peter founded Direct Line insurance in 1985, retiring as chairman in 1997. He 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.

Committee membership

None.

Darren Ogden **Interim Chief Executive Officer**

Background and experience

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.

Darren is a qualified accountant with over 25 years' experience in the insurance industry.

Prior appointments

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

Committee membership

Darren chairs the Group Executive Committee.

Steve Long **Interim Chief Finance Officer**

Background and experience

Steve was appointed to the Board of esure Group plc on 19 December 2018. He joined esure in January 2012. He was promoted to Deputy Chief Finance Officer in September 2016 and became Interim Chief Finance Officer in January 2018. During his tenure with the Group, Steve has taken a leading role in the development of the finance function, including the Group's IPO in 2013, subsequent acquisition and demerger of GoCompare and implementation of Solvency II.

Steve is a qualified Chartered Accountant with over 10 years' experience in the insurance industry.

Prior appointments

He previously spent a number of years at KPMG where he worked with a variety of clients on a broad range of projects within their Financial Services Audit and Advisory Function.

Committee membership

Steve is a member of the Group Executive Committee.

Shirley Garrood

Deputy Chairman and Senior Independent Director

Background and experience

Shirley was appointed to the Board as a Non-Executive Director in July 2013. She 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. Shirley is a non-executive director and senior independent director of Hargreaves Lansdown plc. She will become a non-executive director at the BBC in July 2019.

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 Chief Operating Officer from 2000 to 2001.

Committee membership

Shirley chairs the Audit Committee and is a member of the Risk Committee.

Alan Rubenstein

Independent Non-Executive Director

Background and experience

Alan was appointed to the Board as a Non-Executive Director in March 2017. Alan has had a long and distinguished career in investment banking and asset management. Alan is a director of the British Coal Staff Superannuation Scheme Trustees Ltd and Chairman of their investment sub-committee.

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 to 2008 and before that at Morgan Stanley from 1997 to 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 Varity 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.

Committee membership

Alan is a member of the Audit and Risk Committees.

Peter Shaw

Independent Non-Executive Director

Background and experience

Peter was appointed to the Board as a Non-Executive Director in March 2017. He has a wide range of experience in both risk and business roles throughout a career in financial services of over 30 years. Peter is a non-executive director of Willis Limited and Aldermore Bank plc.

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.

Committee membership

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

Robin Marshall

Non-Executive Director

Background and experience

Robin joined Bain Capital Private Equity in 2009. He is a Managing Director and Co-Head of the European Private Equity team. Prior to joining Bain Capital Private Equity, Robin was a Partner at 3i. He was the founding partner of 3i's US Private Equity business and before that was a Managing Director of 3i's UK business. Robin received his Master's Degree from the University of Glasgow. He was also a post-graduate Thouron Fellow at the University of Pennsylvania.

Prior appointments

Previously, Robin held roles with McKinsey & Company and Procter & Gamble.

Committee membership

None.

Philip Loughlin

Non-Executive Director

Background and experience

Philip joined Bain Capital Private Equity in 1996. He is a Managing Director in the Consumer, Retail & Dining and Financial & Business Service Verticals and a member of the North American Private Equity team. Philip received an MBA from Harvard Business School, where he was a Baker Scholar. He graduated magna cum laude with an AB from Dartmouth College.

Prior appointments

Prior to joining Bain Capital Private Equity, Philip was a consultant at Bain & Company. He also served in operating roles at Eagle Snacks, Inc. and Norton Company.

Committee membership

None.

Luca Bassi

Non-Executive Director

Background and experience

Luca joined Bain Capital Private Equity in 2003. He is co-Head of the Technology Financial and Business Services vertical and a member of the European Private Equity team. Luca focuses in investments in the financial technology and services sector as well as on the coverage of Southern Europe (Italy and Spain). Luca received an MBA from Columbia Business School. He graduated magna cum laude with a BS in Economics from Bocconi University.

Prior appointments

Prior to joining Bain Capital, he worked for Goldman Sachs in the Investment Banking Division in London where he advised Italian and international companies on cross-border M&A transactions. Previously, he worked as a strategy consultant at Bain & Company in Milan where he focused on the financial services sectors.

Committee membership

None.

Board membership changes during the year

- Stuart Vann stepped down as Chief Executive Officer with effect from 18 January 2018
- Maria Dolores Dancausa stepped down from the Board with effect from 17 May 2018
- Nick Hugh, Angela Seymour-Jackson and Martin Pike stepped down from the Board with effect from 19 December 2018
- Robin Marshall, Luca Bassi, Philip Loughlin, Matthew Bryant and Steve Long were appointed to the Board on 19 December 2018
- Matthew Bryant stepped down from the Board on 3 April 2019.

Group Executive Committee

Darren Ogden

Interim Chief Executive Officer

See biography in full on page 15.

Steve Long

Interim Chief Finance Officer

See biography in full on page 15.

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.

David Pitt

Chief Operating Officer

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

Background and experience

David has almost 30 years' 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, 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 her 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 and a member of the Remuneration Committee.

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.

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.

Corporate Governance Structure

The Board has delegated a number of its responsibilities to Board Committees, which utilise the expertise and experience of their members to examine subjects in detail and make recommendations to the Board where required. This delegation allows the Board to focus more of its time on strategic and other broader matters. The Chairmen of each Board Committee provides the Board with a verbal update on matters discussed at each meeting, and Board Committee minutes are made available to the whole Board through a secure online system.

The Group is firmly committed to high standards of corporate governance and maintaining a sound framework for the control and management of the business. Until the cancellation of the listing of esure Group plc's shares from the London Stock Exchange's Official List ('the Delisting') on 19 December 2018, the Group followed the principles and provisions of the April 2016 version of the Financial Reporting Council's UK Corporate Governance Code ('the 2016 Code'). Following the Delisting, the Board remains committed to high standards of corporate governance and best practice. The Board recognises that effective governance is key to the implementation of strategy for our shareholder and wider stakeholders. The Group intends to comply with the December 2018 Wates Corporate Governance Principles for Large Private Companies in respect of its financial year commencing on 1 January 2019.

As a major UK general insurer, the Group is familiar and comfortable with the corporate governance practices expected of an unlisted company with listed debt and the legislation applicable to Public Interest Entities. 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 and the Wates Corporate Governance Principles can be found at frc.org.uk.

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, are comprised 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.

Effective governance is achieved by a governance framework underpinned by structure, oversight responsibilities, talent, culture and infrastructure. The effective governance framework for the Group comprises the following:

- a Board comprising a mix of Executive and Non-Executive Directors with independent leadership;
- an Executive Committee reporting to the Chief Executive Officer;
- Board committees for Audit and Risk;
- Executive business oversight committees;
- Senior Management apportionment of responsibilities;
- a 'Three Lines of Defence' operating model with independent reporting lines; and
- regular and transparent conversations with regulators.

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 high standards of corporate governance and ensuring effective communications with our shareholder and wider stakeholders. 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.

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 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 Chief Executive Officer is also responsible for ensuring effective internal controls and risk management systems are in place. The Chairman and the 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. The Interim Chief Executive Officer and Interim Chief Financial Officer positions remain an area of focus and the Board intends to confirm permanent appointments in 2019.

Non-Executive Directors

The Non-Executive Directors bring a very broad level of experience and judgement to the Board and make a valuable contribution to achieving the Group's objectives. They 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 stakeholders.

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.

Diversity

A Diversity Policy has been approved and adopted by the Board. 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. The Group is 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. The Diversity Policy can be found on the 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.

Board evaluation

Due to the Acquisition by Bain Capital, the scheduled external Board evaluation was not carried out in 2018, but going forward the Group intends to comply with the Wates Principle of undertaking regular internal evaluations.

Website

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

Directors' Remuneration

All Directors	Year ended 31 December 2018	Year ended 31 December 2017
Directors emoluments	£1,989,391	£2,833,918
Payments in respect of pension	£78,765	£140,746
Long-Term Incentive schemes	£1,571,203	£601,890
Total	£3,639,359	£3,576,554

Long-Term incentives

As a result of the completion of the Acquisition of esure Group by Bain Capital in December 2018, all of the pre-completion outstanding awards under the Group's share incentive schemes vested or lapsed at the point of Acquisition and Bain Capital acquired 100% of the issued share capital of esure Group plc. The cash paid pursuant to the Acquisition by Bain Capital was £2.80p per share.

Highest Paid Director	Year ended 31 December 2018	Year ended 31 December 2017
Directors emoluments	£647,894	£894,532
Payments in respect of pension	£74,626	£83,866
Long-Term Incentive schemes	£1,571,203	£381,949
Total	£2,293,723	£1,360,347

Directors' Report

The Directors present their Report together with the audited accounts for the year ended 31 December 2018.

esure Group plc is a public limited company, incorporated and domiciled in England and Wales. Its registered office is in England (see Corporate Information) and it is authorised by the PRA and is regulated by the FCA and the PRA. The Group has no branches outside the United Kingdom.

On 14 August 2018, the 'Independent Directors' of the Company (being all directors other than Sir Peter Wood) and Bain Capital announced that they had reached an agreement on the terms of a cash offer led by Bain Capital for the Group of 280 pence per ordinary share in the Company.

The Bain Capital offer was accepted on 3 October 2018 by the Company's 'Independent Shareholders' (being the Company's shareholders other than Sir Peter Wood), and the Acquisition completed on 19 December 2018 with the Group Delisting from the London Stock Exchange on the same date. In deciding to recommend the offer to the Independent Shareholders, the Independent Directors considered the strategic benefits that the acquisition would bring to esure's business, and concluded that it would deliver attractive value to shareholders in allowing them to crystallise the value of their holdings.

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

Chairman's statement – page 3.

Strategic Report – pages 3-7.

Risk Management – pages 8-10.

Corporate Governance Report – pages 15-23.

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 2018 and a description of the principal risks and uncertainties faced by the Company in addition to certain non-financial reporting matters.

Results

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

Dividends

The Directors do not propose to recommend the payment of a final dividend in respect of the year ending 31 December 2018 (2017: 13.5 pence per share).

Post-balance sheet events

There were no significant post-balance sheet events affecting the Group since 31 December 2018.

Board of Directors

The names and biographical details of the current Directors who served on the Board and changes to the composition of the Board that occurred during the 2018 financial year and up to the date of this report are provided in the Corporate Governance section and are incorporated into this Directors' Report by reference.

Appointment, Retirement and Removal of Directors

The appointment and replacement of Directors is governed by the Company's Articles of Association ('the Articles'), as adopted on 3 October 2018 ('the Articles'), and the Companies Act 2006. The Articles may only be amended by a special resolution of the shareholder. 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. The shareholder may also remove any Director prior to the expiration of his or her office by special resolution and appoint a replacement by ordinary resolution.

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. These indemnities do not cover the Directors for fraudulent activities.

Employees

As at 31 December 2018, the Group employed 2,053 people of which 1,021 are women (49.7%) and 1,032 are men (50.3%).

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.

The Group seeks to promote equal opportunities for all, through the provision of employment practices and policies that recognise the diversity of employees and ensure that neither current 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.

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 employees with, or who obtain, a disability in addition to and prospective disabled 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 briefings, business updates, team meetings and internal communications. Employees' views are gathered through the Employee Consultation Group, department forums and employee surveys. 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.

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 colleagues. The Group aims to ensure that employees comply with all relevant UK legislation and regulations, and this is underpinned by the policies in place and managed by the Human Resources function.

Bribery and Corruption

The Group maintains high 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

The Group's policy is not to make any donations or contributions to political parties or organisations and no such payments were made during the year within the EU or otherwise.

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 2019 Annual General Meeting. 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 the Group's choice of auditor.

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.

As part of normal business practice, the Audit Committee reviewed the effectiveness of the external auditor, including consideration of the quality of the external auditor's report to the Audit Committee and the interaction of the audit partner with the Audit Committee and were satisfied with the performance and effectiveness of KPMG and concluded that KPMG continues to display the necessary attributes of independence and objectivity. The Audit Committee therefore considered it unnecessary for 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 Audit Committee is minded, subject to the ongoing assessment of effectiveness and independence, to tender following the implementation of IFRS 17.

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. The Group's financial position reflects appropriate reserves, a conservative investment portfolio and capital 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.

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 is in place. The initial term expires on 5 January 2023. esure may terminate for convenience at any time, on at least six months' notice, subject to payment of an early termination fee.

Research and Development

In the ordinary course of business, the Group develops new products and services.

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 colleagues 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 to Mazars LLP.

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.

This section, together with the reports set out on pages 15 to 28, are approved by order of the Board.



Alice Rivers
Company Secretary
4 April 2019

Corporate information

DIRECTORS for the year 1 January 2018 to 31 December 2018

Sir Peter Wood

Darren Ogden

Shirley Garrood

Alan Rubenstein

Peter Shaw

Stuart Vann (stepped down 18 January 2018)

María Dolores Dancausa (stepped down 17 May 2018)

Nick Hugh (appointed 27 June 2018, stepped down 19 December 2018)

Martin Pike (stepped down 19 December 2018)

Angela Seymour-Jackson (stepped down 19 December 2018)

Steve Long (appointed 19 December 2018)

Luca Bassi (appointed 19 December 2018)

Matthew Bryant (appointed 19 December 2018, stepped down 3 April 2019)

Philip Loughlin (appointed 19 December 2018)

Robin Marshall (appointed 19 December 2018)

SECRETARY

Alice Rivers

AUDITORS

KPMG LLP - Chartered Accountants and Statutory Auditor

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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 have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (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 and applicable law (UK Generally Accepted Accounting Practice), 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, reliable and prudent;
- 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 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 is 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.

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.



Darren Ogden
Interim Chief Executive Officer
4 April 2019

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 2018 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 2018 and of the Group's loss 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;
- 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.

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 first appointed as auditor by the Directors for the financial year ended 31 December 2000. The period of total uninterrupted engagement is for the 19 financial years ended 31 December 2018. 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 public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, 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 below the key audit matters 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.

The impact of uncertainties due to the UK exiting the European Union on our audit

Refer to page 11 (principal risks), page 42 (accounting policy) and page 42 (financial disclosures).

The risk:

Unprecedented levels of uncertainty

All audits assess and challenge the reasonableness of estimates, in particular as described in Valuation of claims outstanding below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance.

Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.

Our response:

We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:

- Our Brexit knowledge: We considered the directors' assessment of Brexit-related sources of risk for the group's business and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks.
- Sensitivity analysis: When addressing Valuation of claims outstanding and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty.
- Assessing transparency: As well as assessing individual disclosures as part of our procedures on Valuation of claims outstanding we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.

Our results:

As reported under valuation of claims outstanding, we found the resulting estimates and related disclosures of claims outstanding and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Valuation of claims outstanding

(£961.5m; 2017: £798.9m)

Refer to page 49 (accounting policy) and page 68 (financial disclosures).

The risk:

Subjective valuation: 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. 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 and assumptions are required to determine the best estimate of reported claims and the IBNR and losses arising from bodily injury claims for motor insurance, some of which involve periodic payment orders ("PPOs"), for which settlement amounts are inherently uncertain.

Resulting key areas of focus are the key actuarial assumptions, including inflation, ultimate loss ratio (being the ultimate loss as a proportion of the premiums received), claims development trends, Ogden rate changes, net cost per policy, PPO propensities, discount rates applied to PPOs and longevity.

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of claims outstanding has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount. The financial statements (note 18) disclose the sensitivity estimated by the Group.

Our response:

With the assistance of our own actuarial specialists, our procedures included:

- Control operation: We met with the Group's actuarial team to understand the internal reserving processes and controls. 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;
- Assessed valuer's credentials: We evaluated the competence, capabilities and objectivity of the Group's internal actuaries and external actuaries used by the Group based on discussions, 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;
- 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;
- 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;
- 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;
- Expectation vs. outcome: We have assessed whether changes in the methodology or key assumptions are reasonable based on changes in the industry and the Group's historical claims experience, and have considered whether all changes we would expect have been made. We tested the amounts provided on large bodily injury claims (including the Ogden Uplift and the PPO Uplift) in the context of significant uncertainty;
- Independent re-performance: Independent re-projection of claims outstanding using our own models for bodily injury claims for motor insurance;
- Methodology choice: We have considered the reasonableness of the methodologies and projections of the internal actuary by understanding the rationale of the approach;
- 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 Company's reserving methodology; and
- 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.

Our results

We found valuation of the claims outstanding to be acceptable (2017: acceptable).

Valuation of Parent Company investments in Group undertakings

(£234.6m; 2017: £232.5m)

Refer to page 85 (accounting policy) and page 86 (financial disclosures).

The risk:

Low risk high value assets:

The carrying amount of the Parent Company's investments in Group undertakings represents 96.8% (2017: 99.9%) 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.

Our response:

Our procedures included:

- 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
- 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.

Our results:

We found the Company's assessment of the valuation of the investment in subsidiaries to be acceptable (2017: acceptable).

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 £8.2m (2017: £7.6m), determined with reference to a benchmark of total Group revenue of £893.5m (of which it represents 1% (2017: 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 £2.3m (2017: £2.9m), determined with reference to a benchmark of company total assets, of which it represents 1% (2017: 1%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £410k, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's six (2017: six) reporting components, we subjected two (2017: two) to full scope audits for group purposes and two (2017: one) to specified risk-focused audit procedures. The latter were 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.

<i>The components within the scope of our work accounted for the following percentages of the group's results:</i>				
	Number of components	Group revenue	Total profits and losses that made up Group loss/profit before tax	Group total assets
Audits for group reporting purposes	2	99%	93%	98%
Specified risk-focused audit procedures	2	0%	6%	1%
Total	4	99%	99%	99%
<i>Total (2017)</i>	<i>3</i>	<i>99%</i>	<i>99%</i>	<i>99%</i>

For the residual two 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 £4.8m to £7.6m, 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

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model, including the impact of Brexit, and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources over this period were:

- adverse insurance reserves development; and
- a deterioration in claims experience.

As these were risks that could potentially cast significant doubt on the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Company's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit and the impact on the economic environment, which could result in a rapid reduction in available financial resources.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant

doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5 We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report 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 those reports;
- in our opinion the information given in the strategic report and the directors' report 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.

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 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.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 31, 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

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the group's regulatory and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the group's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, 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. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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

4 April 2019

Consolidated statement of comprehensive income

	Notes	Year ended 31 Dec 2018 £m	Year ended 31 Dec 2017 £m
Gross written premiums	5	862.2	820.2
Gross earned premiums	5	856.8	734.0
Earned premiums, ceded to reinsurers	5	(79.7)	(56.2)
Earned premiums, net of reinsurance	5	777.1	677.8
Investment return and instalment interest	6	68.4	61.5
Other income	7	48.0	42.0
Total income		893.5	781.3
Claims incurred and claims handling expenses	18	(756.8)	(592.5)
Claims incurred recoverable from reinsurers	18	45.2	77.8
Claims incurred, net of reinsurance		(711.6)	(514.7)
Insurance expenses	10	(157.5)	(140.5)
Other operating expenses	10	(31.1)	(18.8)
Total expenses		(900.2)	(674.0)
Finance costs	12	(8.7)	(8.7)
(Loss)/profit before tax		(15.4)	98.6
Taxation credit/(expense)	13	3.9	(18.2)
(Loss)/profit attributable to the owners of the parent		(11.5)	80.4
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Revaluation of land and buildings	24	0.1	0.8
Tax relating to items that will not be reclassified	24	0.0	0.0
		0.1	0.8
Items that are or may be reclassified to profit or loss:			
Available-for-sale financial assets - change in fair value	24	1.4	1.5
Tax relating to items that are reclassified	24	0.8	(0.1)
		2.2	1.4
Total comprehensive (charge)/income for the period attributable to owners of the parent		(9.2)	82.6

The notes on pages 42 to 81 form part of these financial statements.

Consolidated statement of financial position

	Notes	As at 31 Dec 2018 £m	As at 31 Dec 2017 £m
Assets			
Goodwill and intangible assets	15	30.9	16.6
Deferred acquisition costs	20	46.6	44.9
Property, plant and equipment	16	26.6	29.3
Financial investments	17	983.7	929.3
Reinsurance assets	18	395.5	370.2
Deferred tax assets	23	0.2	-
Insurance and other receivables	19	341.9	307.0
Current tax assets		12.0	-
Cash and cash equivalents	17, 21	50.8	46.6
Total assets		1,888.2	1,743.9
Equity and liabilities			
Share capital	24	0.4	0.3
Share premium account	24	48.2	45.8
Capital redemption reserve	24	44.9	44.9
Other reserves	24	7.4	5.1
Retained earnings		153.7	201.9
Total equity		254.6	298.0
Liabilities			
Insurance contract liabilities	18	1,382.5	1,214.5
Borrowings	17	123.3	123.1
Insurance and other payables	22	126.2	96.7
Deferred tax liabilities	23	-	0.9
Derivative financial liabilities	17	1.6	0.2
Current tax liabilities		-	10.5
Total liabilities		1,633.6	1,445.9
Total equity and liabilities		1,888.2	1,743.9

The notes on pages 42 to 81 form part of these financial statements.

The financial statements were approved by the Board and authorised for issue on 4 April 2019 and signed on its behalf.



D Ogden
Director

Registered number: 07064312

Consolidated statement of changes in equity

		Share capital	Share premium	Capital redemption reserve	Other reserves	Retained earnings	Total equity
	Notes	£m	£m	£m	£m	£m	£m
Year ended 31 December 2017							
At 1 January 2017	24	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	24	0.0	0.4	-	-	-	0.4
Share-based payments	25	-	-	-	-	3.5	3.5
Deferred tax on share-based payments		-	-	-	-	1.0	1.0
Dividends	14	-	-	-	-	(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
Year ended 31 December 2018							
At 1 January 2018	24	0.3	45.8	44.9	5.1	201.9	298.0
Loss for the year		-	-	-	-	(11.5)	(11.5)
Other comprehensive income		-	-	-	2.3	-	2.3
Total comprehensive charge		-	-	-	2.3	(11.5)	(9.2)
Transactions with owners							
Issue of share capital	24	0.1	2.4	-	-	-	2.5
Share-based payments	25	-	-	-	-	3.8	3.8
Deferred tax on share-based payments		-	-	-	-	(1.1)	(1.1)
Dividends	14	-	-	-	-	(39.4)	(39.4)
Total transactions with owners		0.1	2.4	-	-	(36.7)	(34.2)
At 31 December 2018		0.4	48.2	44.9	7.4	153.7	254.6

The notes on pages 42 to 81 form part of these financial statements.

Consolidated statement of cash flows

		Year ended 31 Dec 2018	Year ended 31 Dec 2017
	Notes	£m	£m
Cash flows from operating activities			
(Loss)/profit after tax for the period		(11.5)	80.4
Adjustments to reconcile profit after tax to net cash flows:			
- Finance costs	12	8.7	8.7
- Depreciation and revaluation of property, plant and equipment	16	5.1	4.8
- Amortisation of intangible assets	15	5.5	4.6
- Share-based payments	25	3.8	3.5
- Taxation (credit)/expense	13	(3.9)	18.2
- Total investment return	6	(12.2)	(13.0)
- Instalment interest	6	(56.2)	(48.5)
- Loss on the sale of property, plant and equipment	15, 16	0.4	0.2
Operating cash flows before movements in working capital, tax and interest paid		(60.3)	58.9
Sales of financial investments		848.0	707.4
Purchase of financial investments		(903.2)	(792.7)
Interest, rent and dividends received less investment management expenses on financial investments		14.2	7.9
Instalment interest received		56.0	53.3
Changes in working capital:			
- Increase in insurance liabilities including reinsurance assets, unearned premium reserves and deferred acquisition costs		141.0	126.6
- Increase in insurance and other receivables		(32.5)	(61.9)
- Increase in trade and other payables including insurance payables		28.9	15.3
Taxation paid		(19.9)	(15.3)
Net cash generated in operating activities		72.2	99.5
Cash flows used in investing activities			
Purchase of property, plant and equipment, and software	15, 16	(22.5)	(9.4)
Net cash used in investing activities		(22.5)	(9.4)
Cash flows used in financing activities			
Proceeds on issue of ordinary shares	24	2.4	0.4
Interest paid on loans	17	(8.5)	(8.4)
Dividends paid	14	(39.4)	(61.0)
Net cash used in financing activities		(45.5)	(69.0)
Net increase in cash and cash equivalents		4.2	21.1
Cash and cash equivalents at the beginning of the year	21	46.6	25.5
Cash and cash equivalents at the end of the year	21	50.8	46.6

The notes on pages 42 to 81 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2018

1 . General information

esure Group plc is a company incorporated in England and Wales. Its registered office is The Observatory, Castlefield Road, 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., 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 2018, 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 ('IFRS's) as adopted by the European Union.

These consolidated financial statements have been prepared on a going concern basis. As detailed in the Directors' Report on page 27, the Directors have assessed the Group's prospects for the three year period to 31 December 2021. 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

The Company has adopted the following interpretation, with a date of initial application of 1 January 2018:

IFRS 9 - Financial Instruments

The Group has not previously applied any version of IFRS 9 and its predominant activity is issuing contracts within the scope of IFRS 4. It is therefore eligible to and will be applying the temporary exemption from applying IFRS 9.

The Group has determined that its activities are predominantly connected with insurance as:

- the carrying amount of its liabilities arising from contracts within the scope of IFRS 4 is significant compared to the total carrying amount of all its liabilities; and
- the percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities is greater than 90%.

The Group has also applied the following standards and amendments for the first time for its annual reporting period commencing 1 January 2018:

- IFRS 15 - *Revenue from Contracts with Customers*
- Annual Improvements to IFRS Standards 2014–2016 Cycle
- IFRIC 21 - *Foreign Currency Transactions and Advance Consideration*
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)
- Transfers of Investment Property (Amendments to IAS 40)

The adoption of these standards and 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 on or after 31 December 2018 and are expected to have an impact on the Group financial statements.

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 to the current standard which differentiates between operating and finance leases. The Group has evaluated the impact of the new standard and this will increase both fixed assets and leasing liabilities but will not have a material impact on its income statement.

IFRS 17 - Insurance Contracts

The new standard is effective for periods beginning on or after 1 January 2022. 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.

Notes to the Financial Statements

For the year ended 31 December 2018

2 . Accounting policies (continued)

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.

Notes to the Financial Statements

For the year ended 31 December 2018

2 . Accounting policies (continued)

Revenue

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

For the year ended 31 December 2018

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

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 income statement 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. 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	five to six years, based on the pattern of consumption of the benefits
Insurer brands	eight to ten 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 probable 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 three and eight 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 income statement in the year in which the asset is derecognised.

Notes to the Financial Statements

For the year ended 31 December 2018

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.

Financial assets

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.

Notes to the Financial Statements

For the year ended 31 December 2018

2 . Accounting policies (continued)

Financial assets (continued)

Available-for-sale financial assets

Impairment losses on AFS financial assets are recognised by reclassifying the losses accumulated in the AFS reserve 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 the AFS reserve.

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 income statement 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 income statement.

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 income statement.

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 income statement over the term of the contract in accordance with the pattern of insurance service provided under the contract.

Notes to the Financial Statements

For the year ended 31 December 2018

2 . Accounting policies (continued)

Insurance contract liabilities (continued)

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 income statement 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.

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 income statement 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 income statement.

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 income statement.

Derivatives

Derivatives are measured at fair value both initially and subsequent to initial recognition. All changes in fair value are recognised in the income statement. 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 income statement 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.

Notes to the Financial Statements

For the year ended 31 December 2018

2 . Accounting policies (continued)

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 income statement on a straight-line basis over the lease term. Contingent rentals are recognised as an expense in the period in which they are incurred.

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 income statement.

Where equity-settled share-based payments are modified, any incremental fair value is expensed on a straight-line basis over the revised vesting period.

All share-based payments schemes vested and were fully exercised on 19 December 2018.

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.

Notes to the Financial Statements

For the year ended 31 December 2018

3 . Critical accounting judgements and estimates (continued)

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 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 18 for additional details.

4 . Segmental information

The Group makes decisions on customer acquisition and retention based on Contribution. In addition to the underwriting return from Motor and Home, a diversified suite of additional insurance products and services provide opportunities to deliver enhanced Contribution.

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 Executive.

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 products and 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 products and services. Investment income is allocated to the segment on the basis of premium income.

Notes to the Financial Statements

For the year ended 31 December 2018

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 2018

	Motor	Home	Total
	£m	£m	£m
Gross written premiums	771.4	90.8	862.2
Earned premiums, net of reinsurance	696.8	80.3	777.1
Investment income	11.3	0.9	12.2
Instalment interest income	50.9	5.3	56.2
Other income	43.1	4.9	48.0
Total income	802.1	91.4	893.5
Net incurred claims	(616.8)	(66.0)	(682.8)
Claims handling costs	(25.6)	(3.2)	(28.8)
Insurance expenses	(128.9)	(28.6)	(157.5)
Other operating expenses	(15.6)	(1.0)	(16.6)
Total expenses	(786.9)	(98.8)	(885.7)
Trading profit/(loss)	15.2	(7.4)	7.8
Amortisation of acquired intangibles			(1.2)
Non-trading costs			(13.3)
Finance costs			(8.7)
Loss before taxation			(15.4)
Tax credit			3.9
Loss after taxation			(11.5)
Net expense ratio	22.2%	39.6%	24.0%
Net loss ratio	88.5%	82.1%	87.8%
Combined operating ratio	110.7%	121.7%	111.8%

The average number of in-force policies during the year ended 31 December 2018 was 2.44 million.

Notes to the Financial Statements

For the year ended 31 December 2018

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	Home	Total
	£m	£m	£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			98.6
Tax expense			(18.2)
Profit after taxation			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.

There are no other material components of income and expense or non-cash items.

Trading profit, 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 £7.8m (2017: £111.3m).

The Group incurred non-trading costs of £13.3m in 2018 of which £12.2m related to costs associated with the Acquisition and £1.1m related to costs associated with the former Chief Executive Officer stepping down. 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 awards disclosed in note 25.

Notes to the Financial Statements

For the year ended 31 December 2018

4 . Segmental information (continued)

Segmental profit drivers

Motor

Gross written premiums increased 5.1% to £771.4m (2017: £734.3m) aided by in-force policy growth of 2.2% to 1.937 million (2017: 1.895 million).

The Motor account generated a trading profit of £15.2m (2017: £102.7m) which comprised an underwriting loss, additional services revenues and an investment return.

The underwriting loss of £74.5m (2017: £24.9m profit) was driven by a period of elevated accidental damage and third-party damage claims inflation, adverse development on prior year reserves and lower premiums across the market. In addition, the exceptional weather conditions seen in the first half of the year impacted the account by £7.0m (2017: nil).

Prior year reserves have been strengthened in response to developments in small and medium-sized bodily injury claims.

The combined operating ratio of 110.7% (2017: 95.8%) is comprised of a loss ratio of 88.5% (2017: 73.2%) and an expense ratio of 22.2% (2017: 22.6%). The 2018 accident year loss ratio was 84.1% (2017: 76.9%). Adverse development of prior accident year reserves of £30.7m equated to 4.4% of net earned premiums (2017: £22.0m favourable; 3.7% favourable). The Group has continued to hold reserves in excess of the actuarial best estimate.

Additional services revenues of £78.4m (2017: £65.8m) benefitted from an increase in in-force policies. The investment return was £11.3m (2017: £12.0m).

Home

Gross written premiums increased 5.7% to £90.8m (2017: £85.9m) aided by in-force policy growth of 6.9% to 511,000 (2017: 478,000).

The Home account generated a trading loss of £7.4m (2017: £8.6m profit) which comprised an underwriting loss, additional services revenues and an investment return.

The underwriting loss of £17.5m (2017: £2.3m loss) was largely impacted by weather-related claims costs in the first half of the year and subsidence claims in the second half of the year. The exceptional weather-related costs were £13.0m (2017: nil).

The combined operating ratio of 121.7% (2017: 102.8%) is comprised of a loss ratio of 82.1% (2017: 65.6%) and an expense ratio of 39.6% (2017: 37.2%). The 2018 accident year loss ratio was 85.7% (2017: 71.4%). Favourable development of prior accident year reserves of £2.9m equated to 3.6% of net earned premiums (2017: £4.7m; 5.8%).

Additional services revenues of £9.2m (2017: £9.9m) are lower due to the Group's pricing strategy for its additional products. The investment return was £0.9m (2017: £1.0m).

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 39.

Notes to the Financial Statements

For the year ended 31 December 2018

5 . Earned premiums, net of reinsurance

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
	£m	£m
Gross written premiums	862.2	820.2
Change in unearned premium provision	(5.4)	(86.2)
Gross earned premiums	856.8	734.0
Written premiums, ceded to reinsurers	(82.0)	(69.0)
Change in unearned premium provision	2.3	12.8
Earned premiums, ceded to reinsurers	(79.7)	(56.2)
Earned premiums, net of reinsurance	777.1	677.8

6 . Investment return and instalment interest

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
	£m	£m
Interest income on financial investments	11.7	11.8
Interest income on cash deposits	0.1	0.1
Investment expenses	(5.1)	(4.1)
Dividend income on financial instruments	9.0	3.9
Net fair value (losses)/gains on derivative financial instruments	(9.2)	7.3
Net gains/(losses) on financial instruments at FVTPL	1.4	(10.2)
Net gains on AFS financial instruments in the SOCI	2.1	1.1
Net gains on AFS financial instruments recognised in OCI	1.3	2.0
Net gains on AFS financial instruments reclassified from equity to income statement	0.7	0.8
Rental income	0.2	0.3
Total investment return	12.2	13.0
Instalment interest	56.2	48.5
Total investment return and instalment interest	68.4	61.5

Total interest income calculated using the effective interest rate method comprises interest income on cash deposits and AFS debt securities and instalment interest.

7 . Other income

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
	£m	£m
Brokerage and commission income	13.9	13.1
Claims and related income	9.7	7.8
	23.6	20.9
Policy administration fees and other income	24.4	21.1
Total other income	48.0	42.0

Notes to the Financial Statements

For the year ended 31 December 2018

8 . Employee benefit expense

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
	£m	£m
Wages and salaries	63.7	55.0
Social security costs	6.7	6.8
Pension costs (defined contribution schemes)	3.3	2.6
Equity-settled share-based payment expenses (note 25)	2.2	1.6
Total employee benefit expense	75.9	66.0

The average number of employees, including Directors, during each period was:

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Operations	1,488	1,264
Support	501	425
Total average number of employees	1,989	1,689

9 . Directors' remuneration

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
	£m	£m
Emoluments	2.0	2.8
Contributions to defined contribution pension scheme	0.1	0.1
Total Directors' remuneration	2.1	2.9

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
	£m	£m
Remuneration of the highest paid Director		
Emoluments	0.7	0.9
Contributions to defined contribution pension scheme	-	0.1
Total remuneration of the highest paid Director	0.7	1.0

During the year, one Director (2017: two Directors) participated in share award schemes (see note 25).

Retirement benefits were accruing to two Directors (2017: two Directors) in respect of defined contribution pension schemes.

10 . Insurance and other operating expenses

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
	£m	£m
Acquisition of insurance contracts	94.7	88.7
Change in deferred acquisition costs	(1.7)	(7.1)
Administration	64.5	58.9
Insurance expenses	157.5	140.5
Other operating expenses	31.1	18.8

During the year ended 31 December 2018, a reclassification of £0.1m is included within other operating expenses in relation to a revaluation of the Group's land and buildings (2017: £0.1m credit).

Notes to the Financial Statements

For the year ended 31 December 2018

11 . (Loss)/profit after tax

(Loss)/profit after tax is stated after charging/(crediting):

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
	£m	£m
Employee benefit expense (note 8)	75.9	66.0
Depreciation and revaluation of property, plant and equipment (note 16)	5.0	4.0
Amortisation of intangible assets (note 15)	5.5	4.6
Operating lease payments	3.4	2.9
Government grant income	(0.1)	(0.1)
Auditor's remuneration:		
<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
Total non-audit fees	0.1	0.1
Total Group auditor remuneration	0.5	0.5

Amortisation arises on software, acquired brands and customer relationships. Amortisation charged is recorded within insurance expenses and other operating expenses.

12 . Finance costs

Finance costs in each period represents the total interest expense calculated using the effective interest rate method.

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
	£m	£m
Interest expense on 10 year Subordinated Notes (see note 17)	8.7	8.7
Total finance costs	8.7	8.7

Notes to the Financial Statements

For the year ended 31 December 2018

13 . Taxation

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
	£m	£m
Current tax (credit)/expense on income for the reporting period	(1.4)	19.6
Tax adjustment relating to income for prior periods	(1.2)	-
Total current tax (credit)/expense	(2.6)	19.6
Origination and reversal of temporary differences	(1.3)	(1.5)
Effect of change in tax rate	-	0.1
Total deferred tax credit	(1.3)	(1.4)
Taxation (credit)/expense	(3.9)	18.2

The tax rate used for the calculations is the Corporation Tax rate of 19.00% (2017: 19.25%) payable by the corporate entities in the UK on taxable profits under tax law in that jurisdiction.

The tax (credit)/expense for the year can be reconciled to the (loss)/profit before tax per the consolidated statement of comprehensive income as follows:

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
	£m	£m
(Loss)/profit before taxation	(15.4)	98.6
Taxation (credit)/expense calculated at 19.00% (2017: 19.25%)	(2.9)	19.0
Effect of expenses that are not deductible	1.9	0.0
Adjustments in relation to the current tax of prior years	(1.2)	-
Non-taxable income	(1.7)	(0.8)
Change in tax rate	-	0.0
Taxation (credit)/expense	(3.9)	18.2

Tax recognised directly in equity

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
	£m	£m
Deferred tax (credit)/expense recognised directly in equity	(0.2)	0.9
Total tax recognised directly in equity	(0.2)	0.9

The deferred tax recognised directly in equity relates to deferred tax arising on share-based payments where the amount of the 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 expense 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.

14 . Dividends

No interim dividend or final dividend was declared for 2018 (2017: interim dividend per share of 4.1p, £17.1m; final dividend per share of 9.4p, £39.4m).

Notes to the Financial Statements

For the year ended 31 December 2018

15 . Goodwill and intangible assets

	Software £m	Acquired brands £m	Customer relationships £m	Total £m
Cost				
As at 1 January 2017	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
Additions in the year	20.2	-	-	20.2
Disposals in the year	(0.4)	-	-	(0.4)
As at 31 December 2018	41.6	24.2	11.3	77.1
Accumulated amortisation and impairment				
As at 1 January 2017	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
Amortisation for the year	4.3	1.2	-	5.5
As at 31 December 2018	11.9	23.0	11.3	46.2
Net book value				
As at 31 December 2017	14.2	2.4	-	16.6
As at 31 December 2018	29.7	1.2	-	30.9

Included in software as at 31 December 2018 is £6.3m relating to software assets that are not yet available for use in the manner intended by management (31 December 2017: £5.3m). 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 2019, after which the assets are expected to have a useful economic life of two to seven years. See note 26 for details of commitments at year end.

The 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 were 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. No impairments were noted.

Notes to the Financial Statements

For the year ended 31 December 2018

16 . Property, plant and equipment

	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
Cost			
As at 1 January 2017	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
Additions in the year	-	2.3	2.3
Revaluation of land and buildings	0.0	-	0.0
As at 31 December 2018	13.6	30.4	44.0
Accumulated depreciation			
As at 1 January 2017	-	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
Depreciation for the year	0.1	5.0	5.1
Revaluation of land and buildings	(0.1)	-	(0.1)
As at 31 December 2018	-	17.4	17.4
Carrying amount			
As at 31 December 2017	13.6	15.7	29.3
As at 31 December 2018	13.6	13.0	26.6

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 2018 and 31 December 2017. 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 2018 of £11.6m (31 December 2017: £11.7m).

Notes to the financial statements

For the year ended 31 December 2018

17 . Financial assets and liabilities

17.1. Financial assets

	As at 31 Dec 2018 £m	As at 31 Dec 2017 £m
Financial investments designated at FVTPL:		
Shares and other variable yield securities and units in unit trusts	65.6	49.8
Debt securities and other fixed income securities	123.4	160.2
Deposits with credit institutions	292.5	372.1
Financial investments held for trading:		
Derivative financial instruments	0.1	1.1
Financial investments at FVTPL	481.6	583.2
AFS financial assets:		
Debt securities and other fixed income securities	492.2	342.0
Shares in unquoted equity investments	9.9	4.1
Total financial investments	983.7	929.3
Loans and receivables:		
Insurance and other receivables (note 19)	271.0	252.3
Cash and cash equivalents (note 21)	50.8	46.6
Total financial assets	1,305.5	1,228.2

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

The Group continues to designate some financial assets acquired during the year as available for sale as part of its asset and liability matching for capital management.

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 17.3(a).

17.2. Financial liabilities

	As at 31 Dec 2018 £m	As at 31 Dec 2017 £m
Financial liabilities held for trading:		
Derivative financial instruments	1.6	0.2
Other financial liabilities:		
Borrowings (see below)	123.3	123.1
Insurance and other payables (note 22)	37.9	26.0
Total financial liabilities	162.8	149.3
Borrowings		
10 year Subordinated Notes	123.3	123.1
Total borrowings	123.3	123.1

Derivative financial instruments are due within one year.

Notes to the financial statements

For the year ended 31 December 2018

17 . Financial assets and liabilities (continued)

17.2. Financial liabilities (continued)

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
	£m	£m
The movement in Group borrowings in the year is attributable to:		
As at 1 January	123.1	122.8
Cash outflow	(8.5)	(8.4)
Non-cash movement: interest accrued	8.7	8.7
As at 31 December	123.3	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 carrying amount of the 10 year Subordinated Notes at 31 December 2018 was £126.4m.

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.

17.3. 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.

(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 around 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. In response, we have reduced our investment risk including tightening our Asset Liability Matching.

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.
- 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.
- 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.

Notes to the financial statements

For the year ended 31 December 2018

17 . Financial assets and liabilities (continued)

17.3. Financial risk management objectives (continued)

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 loss before tax for the period would increase by £1.4m (2017: profit before tax would decrease by £4.5m), reflecting the reduction in fair value on assets designated as FVTPL and equity would decrease by £14.2m (2017: £19.4m). For a decrease of 50 basis points in the Bank of England base rate the loss before tax for the period would decrease by £0.7m (2017: profit before tax would increase by £2.3m), reflecting the increase in fair value on assets designated as FVTPL and equity would increase by £7.1m (2017: £9.7m).

Equity risk

If equity market indices had increased/decreased by 10%, the (loss)/profit before tax for the year would increase/decrease by £6.6m (2017: £5.0m).

Currency risk

At the reporting date, the Group has direct exposure to both US Dollars and Euros with a value of £2.3m (2017: £3.2m). If the Sterling rates with either of these foreign currencies had strengthened/weakened by 10%, the loss before tax for the year would increase/decrease by £0.2m (2017: profit before tax would decrease/increase by £0.3m).

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 2018 £m	As at 31 Dec 2017 £m
Derivative financial instruments	0.1	1.1
Debt securities	615.6	502.2
Deposits with credit institutions	292.5	372.1
Cash at bank and in hand	50.8	46.6
Investments bearing credit risk and cash and cash equivalents	959.0	922.0
AAA	352.9	427.7
AA	207.6	194.5
A	182.6	195.8
BBB	135.1	100.4
Below BBB or not rated	80.8	3.6
Investments bearing credit risk and cash and cash equivalents	959.0	922.0

For a widening of 100 basis points in credit spreads across the entire credit quality curve the loss before tax for the period would increase by £1.8m (2017: profit before tax would decrease by £5.0m), reflecting the reduction in fair value on assets designated as FVTPL and the impact on equity would be a decrease by £11.1m (2017: £12.6m).

Shares and other variable yield securities and units in unit trusts do not bear credit risk. Cash and cash equivalents are "A" rated.

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.

Notes to the financial statements

For the year ended 31 December 2018

17 . Financial assets and liabilities (continued)

17.3. Financial risk management objectives (continued)

(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.

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 2018					
Derivative financial instruments	0.1	-	-	0.1	0.1
Debt securities and other fixed income securities	124.2	460.5	108.3	693.0	615.6
Deposits with credit institutions	292.5	-	-	292.5	292.5
Cash at bank and in hand	50.8	-	-	50.8	50.8
Loans and receivables including salvage and subrogation assets	321.5	10.8	-	332.3	332.3
Total excluding reinsurers' share of outstanding claims	789.1	471.3	108.3	1,368.7	1,291.3
Reinsurers' share of outstanding claims	36.7	193.8	129.3	359.8	359.8
Total	825.8	665.1	237.6	1,728.5	1,651.1
Financial and insurance liabilities					
At 31 December 2018					
Borrowings	8.4	42.2	129.2	179.8	123.3
Derivative financial instruments	1.6	-	-	1.6	1.6
Insurance and other payables and social security and other taxes	69.5	-	-	69.5	69.5
Financial and tax liabilities	79.5	42.2	129.2	250.9	194.4
Claims outstanding	378.0	442.7	140.8	961.5	961.5
Unearned premium reserve	271.9	106.5	6.9	385.3	385.3
Financial and insurance liabilities	729.4	591.4	276.9	1,597.7	1,541.2

Notes to the financial statements

For the year ended 31 December 2018

17 . Financial assets and liabilities (continued)

17.3. Financial risk management objectives (continued)

	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

(d) Capital management and regulation

The Board considers the Group's capital requirements and prospective premium growth expectations over a three-year planning horizon.

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.

The Board has considered the risk appetite of the Group as part of the ORSA process under Solvency II. Following their review of the ORSA, the Board has increased the solvency normal operating range to 140-160%.

At 31 December 2018, the Group's capital coverage was 108% (31 December 2017: 156%). This follows higher than expected claims costs, against a backdrop of lower premiums across the market. The Group is taking action to improve its solvency capital coverage ratio and no dividend has been declared with respect to the financial year ended 31 December 2018.

The below analysis shows the Group's sensitivity to certain events. Were these events to occur, the Group has sufficient contingent management actions to maintain solvency in line with regulatory requirements.

	Impact on coverage
Motor loss ratio 5ppts worse	-13ppts
Yield curve 50bps lower	0ppts
Equities fall 25%	0ppts
Credit spreads widen 50bps	-2ppts
1987 Hurricane	-4ppts
Ogden Discount Rate of +0.5%	0ppts

(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:

Notes to the financial statements

For the year ended 31 December 2018

17 . Financial assets and liabilities (continued)

17.3. Financial risk management objectives (continued)

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 markets;
- 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, 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.

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 £9.9m as at 31 December 2018 (2017: £4.1m).

An investment in an unquoted equity investment has been valued using a discounted cash flow valuation model.

Private fund investments, consisting of Direct Lending and Infrastructure Equity, are valued based on valuation reports received from fund managers which are adjusted for liquidity. These funds have been classified as Level 3 because these valuation reports are deemed to be based on unobservable inputs such as discounted cash flows, price/earnings multiples and comparable market transactions. The net asset values provided by the Fund Managers are subject to external audit.

Valuation policies and procedures are approved by the management Investment and Finance Committees, chaired by the Chief Finance Officer. The Group monitors movements in fair value and this analysis is regularly reviewed by the Investment Committee.

Under IFRS 13, land and buildings with a carrying value of £13.6m (2017: £13.6m) 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:

At 31 December 2018	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets				
Derivative financial instruments	-	0.1	-	0.1
Equity securities	0.7	-	64.9	65.6
Debt securities	-	49.6	73.8	123.4
Deposits with credit institutions	292.5	-	-	292.5
Total financial assets at fair value through profit or loss	293.2	49.7	138.7	481.6
Debt securities	155.5	336.7	-	492.2
Unquoted equity securities	-	-	9.9	9.9
Total AFS financial assets	155.5	336.7	9.9	502.1
Land and buildings	-	-	13.6	13.6
Financial liabilities				
Derivative financial instruments	-	1.6	-	1.6
Total financial liabilities reported at fair value	-	1.6	-	1.6

Notes to the financial statements

For the year ended 31 December 2018

17 . Financial assets and liabilities (continued)

17.3. Financial risk management objectives (continued)

At 31 December 2017	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
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

The following table represents the movements in those assets classified as Level 3:

	Available for Sale investments (including land and buildings) £m	Fair Value through Profit and Loss investments £m
Balance at 1 January 2017	16.1	-
Purchases	-	-
Sales	-	-
Total net gains/(losses) recognised in the income statement	-	-
Total net gains/(losses) recognised in the statement of comprehensive income	1.6	-
Balance at 1 January 2018	17.7	-
Purchases	-	197.7
Sales	-	(63.6)
Total net gains/(losses) recognised in the income statement	-	4.6
Total net gains/(losses) recognised in the statement of comprehensive income	5.8	-
Balance at 31 December 2018	23.5	138.7

Within AFS investments (including land and buildings) there were no foreign exchange rate movements in 2018 recognised in the statement of comprehensive income (2017: £nil). Within fair value through profit and loss investments there were foreign exchange gains of £3.5m in 2018 recognised in the statement of comprehensive income (2017: £nil).

Net gains/(losses) on Level 3 assets attributable to foreign exchange movements had a corresponding offsetting movement within the Group's FX forward positions.

No transfers were made in the period between Level 2 and Level 3.

Total net gains attributable to the change in unrealised gains and losses on Level 3 assets recognised in the income statement in the period ended 31 December 2018 in respect of Level 3 assets measured at fair value was £1.1m (31 December 2017: £nil). In addition, there were £3.5m of foreign exchange related gains in respect of Level 3 assets measured at fair value during the period (31 December 2017: £nil) these gains saw a corresponding offsetting movement within the Group's foreign exchange forward positions. Please refer to Note 2 for further details on the Group's approach to the accounting for financial assets.

The sensitivity in the valuation of the Level 3 financial assets to changes in the unobservable inputs is not significant and no sensitivity disclosures have therefore been made.

Notes to the financial statements

For the year ended 31 December 2018

18 . Reinsurance assets and insurance contract liabilities

18.1. Insurance Risk

Insurance risk arises from the inherent uncertainties as to the occurrence, amount and timing of insured events including significant weather related events and personal injury claims. The Board is responsible for setting the overall underwriting strategy and defining the Risk Appetite.

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 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;
- the Group manages a network of motor repairers and we have dedicated teams responding to our customers to deliver a high-level of customer satisfaction. Over 90% of accidental damage claims are settled through the repair network. Our claims teams effectively control third party claims costs through proactive management of credit hire, personal injury, costs and legal fees; and
- comprehensive anti-fraud processes 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 reinsurance treaties are in place covering all years in which the Group has underwritten Motor policies.

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 17.3 (b) for more detail.

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. The Group also uses an independent, external actuarial firm to carry out an independent review of claims provisions.

In addition to historical analyses 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.

Notes to the financial statements

For the year ended 31 December 2018

18 . Reinsurance assets and insurance contract liabilities (continued)

18.1. Insurance Risk (continued)

Reserving risk (continued)

Claims subject to periodic payment orders ('PPOs') are an area of uncertainty relating to the claims provision at 31 December 2018. 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 2018. 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 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.

18.2. Analysis of recognised amounts

	As at 31 Dec 2018 £m	As at 31 Dec 2017 £m
Gross		
Claims outstanding (before deduction of salvage and subrogation recoveries) and claims handling expenses	961.5	798.9
Unearned premiums	421.0	415.6
Total insurance liabilities, gross	1,382.5	1,214.5
Recoverable from reinsurers		
Claims outstanding	359.8	336.8
Unearned premiums	35.7	33.4
Total reinsurers' share of insurance liabilities	395.5	370.2
Net		
Claims outstanding (before deduction of salvage and subrogation recoveries) and claims handling expenses	601.7	462.1
Unearned premiums	385.3	382.2
Total insurance liabilities, net	987.0	844.3
Due within one year (gross)	652.2	590.8
Due in more than one year (gross)	730.3	623.7
	As at 31 Dec 2018 £m	As at 31 Dec 2017 £m
Reinsurance Assets		
Reinsurers' share of insurance liabilities	395.5	370.2
Total assets arising from reinsurance contracts	395.5	370.2
Expected to be recovered within one year	39.0	67.1
Expected to be recovered in more than one year	356.5	303.1

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 19). No reinsurance assets have been impaired.

The timing of future reinsurance recovery cashflows has been reassessed leading to a reallocation of amounts expected to be recovered between one year and in more than one year.

Notes to the financial statements

For the year ended 31 December 2018

18 . Reinsurance assets and insurance contract liabilities (continued)

18.2. Analysis of recognised amounts (continued)

Claims outstanding and claims handling expenses are shown before deducting amounts in respect of salvage and subrogation.

	As at 31 Dec 2018 £m	As at 31 Dec 2017 £m
Net claims outstanding (before deduction of salvage and subrogation recoveries) and claims handling	601.7	462.1
Salvage and subrogation recoveries	(61.3)	(47.7)
Net claims outstanding and claims handling expenses	540.4	414.4

18.3. 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 shareholder's equity after tax as at 31 December 2018:

	Accident year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net loss ratio	95%	79%	61%	67%	70%	81%	81%	80%	77%	84%
Impact of 1% variation (£m)	4.2	3.7	3.7	3.9	4.0	4.0	4.0	4.5	5.5	6.3

The impact is stated net of reinsurance and tax at the current rate.

Notes to the financial statements

For the year ended 31 December 2018

18 . Reinsurance assets and insurance contract liabilities (continued)

18.4. 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

Accident year	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	Total £m
Ultimate gross earned premium	544.3	479.1	488.7	511.7	526.1	528.7	532.4	598.0	734.0	856.8	5,799.8
Estimate of ultimate gross claims costs:											
- At end of reporting year	540.2	475.3	392.7	442.0	439.5	456.1	457.2	534.6	640.4	764.6	
- One year later	535.3	416.8	355.7	399.8	386.9	442.4	446.1	481.5	600.9		
- Two years later	536.6	399.0	331.5	369.2	374.6	440.2	425.4	489.9			
- Three years later	549.8	380.6	309.7	355.8	368.9	439.4	434.0				
- Four years later	534.0	371.8	304.9	347.6	363.0	440.9					
- Five years later	534.1	369.9	294.4	354.1	358.5						
- Six years later	523.8	369.3	292.6	350.3							
- Seven years later	523.4	369.3	293.8								
- Eight years later	520.8	369.0									
- Nine years later	520.4										
Current estimate of cumulative claims	520.4	369.0	293.8	350.3	358.5	440.9	434.0	489.9	600.9	764.6	4,622.3
Cumulative payments to date	(512.6)	(368.5)	(293.3)	(334.5)	(340.1)	(389.6)	(365.8)	(384.0)	(412.0)	(362.5)	(3,762.9)
Liability recognised in the consolidated statement of financial position											859.4
Reserve in respect of prior periods											28.6
Provision for claims handling costs											12.2
Salvage and subrogation											61.3
Total reserve included in the consolidated statement of financial position											961.5

Notes to the financial statements

For the year ended 31 December 2018

18 . Reinsurance assets and insurance contract liabilities (continued)

18.4. Claims development tables (continued)

(b) Insurance claims - net ultimate claims

Accident year	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	Total £m
Ultimate net earned premium	514.9	452.1	459.7	480.2	489.2	490.8	495.6	554.9	677.8	777.1	5,392.3
Estimate of ultimate net claims costs:											
- At end of reporting year	510.3	446.8	360.1	401.0	404.7	423.8	423.1	450.8	516.8	655.0	
- One year later	495.0	392.5	317.3	356.7	357.9	394.8	396.3	435.2	519.7		
- Two years later	495.0	374.6	296.4	331.9	345.9	391.4	389.8	444.6			
- Three years later	495.1	363.9	285.0	326.3	340.4	390.0	401.4				
- Four years later	494.5	360.9	284.5	325.6	339.8	395.2					
- Five years later	492.7	358.6	281.8	324.8	340.5						
- Six years later	489.5	358.6	281.6	323.3							
- Seven years later	489.4	358.3	281.9								
- Eight years later	489.2	357.8									
- Nine years later	489.0										
Current estimate of cumulative claims	489.0	357.8	281.9	323.3	340.5	395.2	401.4	444.6	519.7	655.0	4,208.4
Cumulative payments to date	(487.7)	(357.3)	(281.9)	(321.3)	(335.7)	(377.3)	(361.3)	(383.7)	(411.5)	(364.8)	(3,682.5)
Liability recognised in the consolidated statement of financial position											525.9
Reserve in respect of prior periods											2.3
Provision for claims handling costs											12.2
Salvage and subrogation											61.3
Total net reserve included in the consolidated statement of financial position											601.7

Notes to the financial statements

For the year ended 31 December 2018

18 . Reinsurance assets and insurance contract liabilities (continued)

18.4. Claims development tables (continued)

(c) Insurance claims - net loss ratio development

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Estimate of ultimate loss ratio:										
- At end of reporting year	99%	99%	78%	84%	83%	86%	85%	81%	76%	84%
- One year later	96%	87%	69%	74%	73%	80%	80%	78%	77%	
- Two years later	96%	83%	64%	69%	71%	80%	79%	80%		
- Three years later	96%	80%	62%	68%	70%	79%	81%			
- Four years later	96%	80%	62%	68%	69%	81%				
- Five years later	96%	79%	61%	68%	70%					
- Six years later	95%	79%	61%	67%						
- Seven years later	95%	79%	61%							
- Eight years later	95%									
- Nine years later	95%									

Notes to the financial statements

For the year ended 31 December 2018

18 . Reinsurance assets and insurance contract liabilities (continued)

18.5. 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:

	2018			2017		
	Gross	Reinsurers share	Net	Gross	Reinsurers share	Net
	£m	£m	£m	£m	£m	£m
At 1 January	739.6	(336.8)	402.8	619.9	(271.1)	348.8
Cash paid for claims settled in year	(579.5)	22.2	(557.3)	(448.1)	12.2	(435.9)
Change arising from:						
Current year claims	764.6	(109.6)	655.0	640.4	(123.6)	516.8
Prior year claims	(36.7)	64.4	27.7	(72.6)	45.7	(26.9)
Total at end of year	888.0	(359.8)	528.2	739.6	(336.8)	402.8
Provision for claims handling costs	12.2	-	12.2	11.6	-	11.6
Salvage and subrogation	61.3	-	61.3	47.7	-	47.7
Total reserve per statement of financial position	961.5	(359.8)	601.7	798.9	(336.8)	462.1

Claims incurred and claims handling expenses as disclosed in the consolidated statement of comprehensive income comprise:

	Year ended 31 Dec 2018			Year ended 31 Dec 2017		
	Gross	Reinsurers share	Net	Gross	Reinsurers share	Net
	£m	£m	£m	£m	£m	£m
Claims incurred	728.0	(45.2)	682.8	567.8	(77.8)	490.0
Claims handling expenses	28.8	-	28.8	24.7	-	24.7
Claims incurred and claims handling expenses	756.8	(45.2)	711.6	592.5	(77.8)	514.7

(b) Provisions for unearned premiums

The movements for the year, both gross and net of reinsurance, are summarised below:

	2018			2017		
	Gross	Reinsurers share	Net	Gross	Reinsurers share	Net
	£m	£m	£m	£m	£m	£m
Unearned premium provision						
At beginning of the year	415.6	(33.4)	382.2	329.4	(20.6)	308.8
Premiums written in the year	862.2	(82.0)	780.2	820.2	(69.0)	751.2
Premiums earned in the year	(856.8)	79.7	(777.1)	(734.0)	56.2	(677.8)
At end of year	421.0	(35.7)	385.3	415.6	(33.4)	382.2

Notes to the financial statements

For the year ended 31 December 2018

19 . Insurance and other receivables

	As at 31 Dec 2018	As at 31 Dec 2017
	£m	£m
Insurance receivables	256.3	245.6
Prepayments and accrued income	9.6	7.0
Other debtors	14.7	6.7
Salvage and subrogation assets	61.3	47.7
Total insurance and other receivables	341.9	307.0

Insurance receivables and other debtors are financial assets classified as loans and receivables. For more details see note 17, 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 £10.8m of salvage and subrogation assets which are expected to be recovered in more than one year (2017: £8.5m).

20 . Deferred acquisition costs

Movement in the deferred acquisition costs asset are as follows:

	As at 31 Dec 2018	As at 31 Dec 2017
	£m	£m
Deferred Acquisition Costs		
At 1 January	44.9	37.8
Movement during the period	1.7	7.1
At 31 December	46.6	44.9

21 . Cash and cash equivalents

	As at 31 Dec 2018	As at 31 Dec 2017
	£m	£m
Cash at bank and in hand	50.8	46.6
Total	50.8	46.6

22 . Insurance and other payables

	As at 31 Dec 2018	As at 31 Dec 2017
	£m	£m
Insurance payables	37.9	26.0
Accrued expenses	37.4	19.3
Social security and other taxes	31.6	32.5
Deferred income	19.3	18.9
Total insurance and other payables	126.2	96.7

Insurance payables and accrued expenses principally comprise amounts outstanding for suppliers and ongoing costs. The average credit period taken for invoiced trade purchases is 8.5 days (2017: 21.0 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 (2017: £0.1m). 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.

Notes to the financial statements

For the year ended 31 December 2018

23 . 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 2018	As at 31 Dec 2017
	£m	£m
Deferred tax assets	2.4	2.1
Deferred tax liabilities	(2.2)	(3.0)
Net deferred tax assets/(liabilities)	0.2	(0.9)

The net movement on the deferred tax account is as follows:

	As at 31 Dec 2018	As at 31 Dec 2017
	£m	£m
At 1 January	(0.9)	(3.2)
Income statement expense (note 13)	1.3	1.5
Effect of change in tax rate	-	(0.1)
Deferred tax recognised directly in equity	(0.2)	0.9
At 31 December	0.2	(0.9)

The deferred tax rate used is 20.55% (2017: 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:

	Losses carried forward	Share-based payments	Total
	£m	£m	£m
Deferred tax assets			
Brought forward as at 1 January 2017	-	0.4	0.4
Credited to the income statement	-	0.7	0.7
Deferred tax recognised directly in equity	-	1.0	1.0
At 31 December 2017	-	2.1	2.1
Brought forward as at 1 January 2018	-	2.1	2.1
(Charged)/credited to the income statement	2.4	(1.1)	1.3
Deferred tax recognised directly in equity	-	(1.0)	(1.0)
At 31 December 2018	2.4	-	2.4

There is an unrecognised deferred tax asset on land and buildings of £2.0m at 31 December 2018 (2017: £2.0m) for which there is insufficient likelihood that future taxable gains will be available against which the asset can be utilised.

Notes to the financial statements

For the year ended 31 December 2018

23 . Deferred tax assets and liabilities (continued)

	Deferred acquisition costs	Accelerated capital allowances	Intangible assets	Claims equalisation reserve	AFS reserve	Total
	£m	£m	£m	£m	£m	£m
Deferred tax liabilities						
Brought forward as at 1 January 2017	(0.3)	0.7	1.1	1.8	0.3	3.6
Charged/(credited) to the income statement	0.5	(0.3)	(0.7)	(0.3)	0.0	(0.8)
Effect of change in tax rate	-	0.1	(0.0)	(0.0)	-	0.1
Deferred tax recognised directly in equity	-	-	-	-	0.1	0.1
At 31 December 2017	0.2	0.5	0.4	1.5	0.4	3.0
Brought forward as at 1 January 2018	0.2	0.5	0.4	1.5	0.4	3.0
Charged/(credited) to the income statement	0.1	0.6	(0.2)	(0.5)	-	0.0
Deferred tax recognised directly in equity	-	-	-	-	(0.8)	(0.8)
At 31 December 2018	0.3	1.1	0.2	1.0	(0.4)	2.2

24 . Share capital and other reserves

	Ordinary Shares	Share Premium	Capital Redemption Reserve	Other reserves	Total
	£m	£m	£m	£m	£m
At 1 January 2017	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
Issue of share capital	0.1	2.4	-	-	2.5
Fair value movements on AFS assets	-	-	-	1.4	1.4
Tax relating to fair value movements on AFS assets	-	-	-	0.8	0.8
Fair value movements on land and buildings	-	-	-	0.1	0.1
Tax relating to fair value movements on land and buildings	-	-	-	0.0	0.0
At 31 December 2018	0.4	48.2	44.9	7.4	100.9

Blue (BC) Bidco Limited acquired 100% of the share capital of esure Group plc on 19 December 2018 (see note 29).

During the year ended 31 December 2018, 8,157,741 Ordinary Shares of 1/12 pence were issued by the Group for £2.5m (31 December 2017: 226,724 Ordinary Shares of 1/12 pence were issued by the Group for £0.4m). The authorised, allotted, called up and fully paid share capital of esure Group plc as at 31 December 2018 was 426,301,337 Ordinary Shares of 1/12 pence each (31 December 2017: 418,143,596 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 no Ordinary Shares as at 31 December 2018 (31 December 2017: 25,000) and the Trustees waived their rights to dividend payments.

During the year ended 31 December 2018, £1.4m was credited to other comprehensive income in respect of fair value movements on an AFS financial asset (31 December 2017: £1.5m).

During the year ended 31 December 2018, £0.1m was credited to other comprehensive income in respect of fair value movements on land and buildings (31 December 2017: £0.8m).

The capital redemption reserve was created during the year ended 31 December 2013 for a £44.9m share repurchase.

Notes to the financial statements

For the year ended 31 December 2018

25 . Share-based payments

The Group had a number of equity-settled, share-based compensation plans. As part of the acquisition of the Group by Bain Capital all share option schemes vested and were exercised in line with the terms of each plan. Therefore the Group has no outstanding share options as at 31 December 2018 including in respect of all the schemes below.

Holders of these awards (other than the three-year and five-year Save as You Earn ('SAYE') schemes) received dividend equivalents in respect of the dividends that would have been paid between grant date and vesting date for Ordinary Shares which vested under their awards, calculated on a basis and paid in a manner determined by the Remuneration Committee before the awards vested. Details of the share-based compensation plans and their financial effect are set out below.

(a) Performance Share Plan and Strategic Leadership Plan

The Performance Share Plan ('PSP') and the Strategic Leadership Plan ('SLP') were discretionary share plans for the Group's Executive and Senior Management (together the 'Schemes').

Under the 2015 PSP scheme, the shares vested at the end of a three-year period dependent upon continued employment by the Group and achieving pre-defined performance conditions associated with the Group's earning per share ('EPS') and total shareholder return ('TSR'). For the Executive Directors and Group Executive's scheme, two-thirds of each award was based on EPS performance and one-third on TSR performance (with the two measures applying independently to different parts of each award). For the Senior Management scheme, 50% of the awards were subject to the EPS and TSR performance conditions (i.e. one-third and one-sixth respectively) and 50% of the awards were subject only to continued employment until vesting. This scheme vested in March 2018.

Under the 2016, 2017 and 2018 SLP schemes, the shares would have vested at the end of a three-year period dependent upon continued employment by the Group and achieving pre-defined performance conditions associated with the Group's TSR. For the 2016, 2017 and 2018 Schemes, 75% of the Awards were subject to an absolute TSR performance condition with the remaining 25% of the Awards subject to a relative TSR performance condition. All these schemes vested as a result of the acquisition of the Group by Bain Capital.

Valuation of PSP and SLP 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:

	2018 SLP awards
Share price at grant	£2.23
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)	25.4%
Dividend yield % p.a.	0%
Risk-free rate %	0.93%
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 £0.9m (2017 SLP awards: £2.9m; 2016 SLP awards: £1.8m; 2015 PSP awards: £3.8m). Please refer to the Group's 2017, 2016 and 2015 Annual Reports for the inputs to the models associated with the 2017, 2016 and 2015 awards.

Restructuring Award Plan ('RAP')

RAP awards were made to Executive 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 of Gocompare.com as a result of any reduced market value of an esure share and the reduced size of the esure 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 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.

(b) Deferred Bonus Plan ('DBP')

At least 30% of the annual bonus awarded to Directors was deferred into an award of shares under the DBP, and the deferred portion would have vested in equal thirds over a three-year period. All DBP awards vested as a result of the acquisition of the Group by Bain Capital.

Notes to the financial statements

For the year ended 31 December 2018

25 . Share-based payments (continued)

(c) Save As You Earn ("SAYE") schemes

The Group had a three-year SAYE scheme and a five-year SAYE scheme. Under the schemes esure employees were offered the opportunity to save 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.

There was no 2018 SAYE scheme. 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). Please refer to the Group's 2017, 2016, 2015, 2014 and 2013 annual reports for the inputs to the models associated with the 2017, 2016, 2015, 2014 and 2013 awards.

The details of the Schemes are set out below:

Scheme	Grant date	Originally granted	Exercise price	Outstanding at 1 Jan 2018	Granted in the year	Dividend equivalents	Vested and exercised in the year	Lapsed in the year	Outstanding at 31 Dec 2018
PSP 2015	25 March 2015/date employee joined	2,036,537	£nil	1,568,789	-	106,866	(801,579)	(874,076)	-
SLP 2016	14 June 2016/date employee joined	2,213,351	£nil	1,920,607	-	149,798	(1,623,786)	(446,619)	-
SLP 2017	20 March 2017/date employee joined	2,358,571	£nil	2,315,346	-	116,027	(1,390,540)	(1,040,833)	-
SLP 2018	20 March 2018/date employee joined	2,499,159	£nil	-	2,499,159	13,496	(465,218)	(2,047,437)	-
RAP	10 November 2016	2,073,395	£nil	2,073,395	-	-	(2,073,395)	-	-
DBP 2017	20 March 2017	222,280	£nil	222,280	-	17,752	(240,032)	-	-
DBP 2018	20 March 2018	200,296	£nil	-	200,296	7,782	(208,078)	-	-
SAYE 2013 5 Year	6 September 2013	176,260	£1.940	69,576	-	-	(59,682)	(9,894)	-
SAYE 2014 3 Year	3 September 2014	527,607	£2.080	17,733	-	-	(15,917)	(1,816)	-
SAYE 2014 5 Year	3 September 2014	67,144	£2.080	22,866	-	-	(16,461)	(6,405)	-
SAYE 2015 3 Year	9 September 2015	706,966	£1.912	205,012	-	-	(188,706)	(16,306)	-
SAYE 2015 5 Year	9 September 2015	101,823	£1.912	19,768	-	-	(10,531)	(9,237)	-
SAYE 2016 3 Year	29 December 2016	1,568,640	£1.5972	1,420,800	-	-	(854,646)	(566,154)	-
SAYE 2016 5 Year	29 December 2016	142,889	£1.5972	141,800	-	-	(48,600)	(93,200)	-
SAYE 2017 3 Year	1 September 2017	465,832	£2.270	453,866	-	-	(147,596)	(306,270)	-
SAYE 2017 5 Year	1 September 2017	65,135	£2.270	64,871	-	-	(12,974)	(51,897)	-

(d) Financial effect of share-based payments made

The total expense recognised for the year arising from the share-based payments above was £3.8m (2017: £3.5m). All share-based payment transactions were accounted for as equity-settled.

Notes to the financial statements

For the year ended 31 December 2018

26 . Commitments

(a) Pension capital commitments

The Group contributes to a Group Personal Pension defined contribution scheme available to all staff of which 1,775 employees participated in the scheme at 31 December 2018 (2017: 1,466).

The pension cost charge for the period represents contributions payable by the Group to the scheme and amounted to £3.3m (2017: £2.6m). 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 2018 £m	As at 31 Dec 2017 £m
Fixed asset acquisitions contracted for but not provided in these consolidated financial statements	1.0	0.3
Investment commitments	50.5	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 2018 £m	As at 31 Dec 2017 £m
Not later than 1 year	3.8	2.4
Later than 1 year and no later than 5 years	15.0	15.0
Later than 5 years	22.5	26.3
Total minimum lease payments payable	41.3	43.7

(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 2018 £m	As at 31 Dec 2017 £m
Not later than 1 year	0.2	0.2
Later than 1 year and no later than 5 years	0.1	0.3
Total minimum lease payments receivable	0.3	0.5

Notes to the financial statements

For the year ended 31 December 2018

27 . Group subsidiary companies

esure Group plc has the following subsidiaries as at 31 December 2018:

	Country of incorporation	Class of shares held	Principal activity	Held directly or indirectly	Percentage held
esure broker Limited	England and Wales	Ordinary	Insurance intermediary	Indirect	100%
esure Finance Limited	England and Wales	Ordinary	Holding company	Direct	100%
esure Holdings Limited	England and Wales	Ordinary	Holding company	Indirect	100%
esure Insurance Limited	England and Wales	Ordinary	General insurance	Indirect	100%
esure Property Limited	England and Wales	Ordinary	Property investment	Indirect	100%
esure Property Management Limited	England and Wales	Ordinary	Dormant	Indirect	100%
esure Services Limited	England and Wales	Ordinary	Administration and management	Indirect	100%
esure S.L.	Spain	Ordinary	Non-trading	Indirect	100%

The registered office of all of the subsidiaries above, apart from esure S.L., is The Observatory, Castlefield Road, Reigate, Surrey, RH2 0SG. The registered office of esure S.L. is Ronda Sant Pere 17, 2^a 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. are dormant and are exempt from the requirements of the Companies Act 2006 to prepare annual financial statements.

28 . 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:

- In 2017 one of the Directors had 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.
- During 2018 four (2017: eight) of the Directors held shares in Gocompare.com (post the demerger in 2016) which pays commissions and charges fees for introducing insurance business.
- In 2017 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.

As a result of the acquisition of the Group by Bain Capital on 19 December 2018 the following existing business relationships are now classed as related party transactions:

- The Group uses a Company which is controlled by Bain Capital to provide business continuity services.
- The Group uses a Company which is controlled by Bain Capital to provide recruitment-related services.

	Year ended 31 Dec 2018 £m	Year ended 31 Dec 2017 £m
Value of income/(expense) for the year:		
Lease of office space net of travel expenses charged	-	0.1
Net fees charged by Gocompare Ltd	(8.7)	(10.2)
Restaurants	-	(0.0)
Business continuity services	(0.0)	-
Recruitment services	(0.0)	-
Total expense for the year	(8.7)	(10.1)
Amount payable at the year end:		
Net fees payable to Gocompare Ltd	(0.4)	(0.4)
Total amount payable at the year end	(0.4)	(0.4)

b) Compensation of key management personnel

The key management personnel are considered to be the Directors. Please refer to Note 9 for more details.

Notes to the financial statements

For the year ended 31 December 2018

29 . Parent company

Blue (BC) Bidco Limited acquired 100% of the share capital of esure Group plc on 19 December 2018 and therefore became the immediate parent of esure Group plc. Blue (BC) Bidco Limited is a company registered Jersey and its ultimate parent is Blue (BC) Holdings LP, a limited partnership registered in Jersey. Blue (BC) Topco Limited is the largest and smallest group into which these accounts are consolidated. Until the purchase on 19 December 2018 by Blue (BC) Bidco Limited the Group had no controlling shareholder.

On 19 December 2018 esure Group plc delisted from the London Stock Exchange.

Parent Company statement of financial position

	Notes	As at 31 Dec 2018 £m	As at 31 Dec 2017 £m
Fixed assets			
Investments	4	234.6	232.5
Current assets			
Investments: call deposits		6.5	0.0
Debtors	5	0.8	1.3
Cash at bank		0.3	0.1
		7.6	1.4
Creditors: amounts falling due within one year	6	(13.9)	(10.3)
Net current liabilities		(6.3)	(8.9)
Total assets less current liabilities		228.3	223.6
Creditors: amounts falling due after more than one year	6	(123.0)	(122.8)
Net assets		105.3	100.8
Capital and reserves			
Share capital	7	0.4	0.3
Share premium account	7	48.2	45.8
Capital redemption reserve	7	44.9	44.9
Profit and loss account		11.8	9.8
Shareholder's funds - all equity		105.3	100.8

The notes on pages 85 to 87 form part of these financial statements.

These financial statements were approved by the Board on 4 April 2019 and signed on its behalf.



Darren Ogden
Director

Registration Number: 07064312

Parent Company statement of cash flows

		Year ended 31 Dec 2018	Year ended 31 Dec 2017
	Notes	£m	£m
Cash flows from operating activities			
Profit after tax for the year		39.3	2.2
Adjustments to reconcile profit after tax to net cash flows:			
- Finance costs		8.7	8.7
- Taxation credit	3	(1.6)	(1.7)
- Dividends received from subsidiary undertakings		(58.0)	(9.1)
- Total investment return		(0.1)	(0.1)
Operating cash flows before movements in working capital, tax and interest paid		(11.7)	0.0
Purchase of financial investments (investments: call deposits)		(71.3)	-
Sale of financial investments (investments: call deposits)		64.8	58.9
Interest received on financial investments		0.1	0.1
Changes in working capital:			
- (Increase)/decrease in debtors		(0.0)	0.0
- Increase/(decrease) in payables		3.6	(0.3)
Taxation received		2.1	1.3
Net cash (used)/generated in operating activities		(12.4)	60.0
Cash flows from investing activities			
Dividends received from subsidiary undertakings		58.0	9.1
Net cash generated in investing activities		58.0	9.1
Cash flows used in financing activities			
Proceeds on issue of ordinary shares		2.5	0.4
Interest paid on loans		(8.5)	(8.4)
Dividends paid		(39.4)	(61.0)
Net cash used in financing activities		(45.4)	(69.0)
Net increase in cash and cash equivalents		0.2	0.1
Cash and cash equivalents at the beginning of the year		0.1	0.0
Cash and cash equivalents at the end of the year		0.3	0.1

The notes on pages 85 to 87 form part of these financial statements.

Parent Company statement of changes in equity

	Share capital	Share premium	Capital redemption	Profit and loss account	Total equity
	£m	£m	£m	£m	£m
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
Year ended 31 December 2018					
At 1 January 2018	0.3	45.8	44.9	9.8	100.8
Profit for the year	-	-	-	39.3	39.3
Total comprehensive income	-	-	-	39.3	39.3
Transactions with owners:					
Issue of share capital	0.1	2.4	-	-	2.5
Share-based payments	-	-	-	2.1	2.1
Dividends	-	-	-	(39.4)	(39.4)
Total transactions with owners	0.1	2.4	-	(37.3)	(34.8)
At 31 December 2018	0.4	48.2	44.9	11.8	105.3

The notes on pages 85 to 87 form part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2018

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 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 25 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 88.

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 2018 or the year ended 31 December 2017.

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 2018 and 31 December 2017 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.

Notes to the financial statements

For the year ended 31 December 2018

2 . Parent Company accounting policies (continued)

Financial liabilities

The Company's financial liabilities as at 31 December 2018 and 31 December 2017 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.

3 . Taxation

The tax rate used for the calculations is the Corporation Tax rate of 19.00% (2017: 19.25%) payable by the corporate entities in the UK on taxable profits under tax law in that jurisdiction.

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
	£m	£m
Profit before taxation	37.7	0.5
Taxation calculated at 19.00% (2017: 19.25%)	7.2	0.1
Effects of:		
Non taxable income	(8.8)	(1.8)
Taxation credit	(1.6)	(1.7)

4 . Investments

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
	£m	£m
As at 1 January	232.5	229.0
Additions: share-based payments	2.1	3.5
As at 31 December	234.6	232.5

There are no provisions for impairment. Included in the cost of investments in Group undertakings is £14.5m (2017: £12.4m) 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 25).

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, Castlefield Road, Reigate, Surrey, RH2 0SG

5 . Debtors

	As at 31 Dec 2018	As at 31 Dec 2017
	£m	£m
Due within one year		
Amounts owed by Group undertakings	0.0	0.0
Accrued interest	0.0	0.0
Current tax	0.8	1.3
Total debtors due within one year	0.8	1.3

Notes to the financial statements

For the year ended 31 December 2018

6 . Creditors and other payables

Amounts falling due within one year

	As at 31 Dec 2018	As at 31 Dec 2017
	£m	£m
Amounts owed to Group undertakings	6.8	9.9
Accrued expenses	6.8	0.1
Accrued interest on 10 year Subordinated Notes	0.3	0.3
Total creditors due within one year	13.9	10.3

Amounts falling due after more than one year

	As at 31 Dec 2018	As at 31 Dec 2017
	£m	£m
Borrowings: 10 year Subordinated Notes	123.0	122.8
Total creditors due after more than one year	123.0	122.8

Full details of the Company's 10 year Subordinated Notes are included in the consolidated financial statements of esure Group plc above at note 17.2.

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 24. Full details of dividends declared during the year are included in the consolidated financial statements of esure Group plc above at note 14.

Glossary of terms

The definitions set out below apply throughout this document, unless the context requires otherwise.

‘Acquisition’	relates to the acquisition of esure Group plc by Blue (BC) Bidco Limited, a wholly-owned subsidiary of funds advised by Bain Capital Private Equity, LP and its affiliates.
‘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.
‘Bain Capital’	includes Blue (BC) BidCo Ltd, a wholly owned subsidiary of funds advised by Bain Capital Private Equity, LP, and acquisition vehicle for the purchaser of the entire issued share capital of esure Group plc. Bain Capital Private Equity, LP is a limited partnership formed under the laws of Delaware with its registered office at Maples Fiduciary Services (Delaware) Inc. Suite 302, 4001 Kennett Pike Wilmington, Delaware 19807, United States of America and its affiliates.
‘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.
‘Complaints’	Number of complaints as a percentage of the Group’s core Motor and Home insurance products.
‘Demerger’	means the demerger of Gocompare.com. 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. Gocompare.com was then admitted to the London Stock Exchange.
‘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.
‘Ogden Discount 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 & 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.
‘Retention’	The percentage of customers who choose to renew their policy with the Group.
‘SFCR’	means Solvency and Financial Condition Report.
‘Shareholder’	Blue (BC) BidCo Ltd. This is the immediate parent company and 100% owner of esure Group plc. Blue (BC) Bidco Limited, is a company incorporated in Jersey (registered number 127053) and is intended to be managed and controlled from the UK, whose registered office is at 22 Grenville Street, St Helier, Jersey, JE4 8PX.
‘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.
‘Technical Provisions’	are a best estimate of future insurance cash flows and a risk margin under Solvency II.
‘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 the shareholder and other users of the Annual Report and financial statements to better understand the Group's performance.

Additional Services Revenue ('ASR')	means instalment income, brokerage and commission income, claims and related income and policy administration fees less the total associated expenses.
'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 profit/(loss) generated from underwriting, non-underwritten additional services revenues and investments.
'Expense ratio'	means net insurance expenses plus claims handling costs as a percentage of earned premiums, net of reinsurance.
'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.