Company No: 07064312

esure Group plc

Annual Report and Accounts

for the year ended 31 December 2019

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Overview

I am delighted to present my first report as CEO of esure Group plc after joining the business in July.

2019 was a year of delivery and change for esure and it is pleasing to see the business making positive progress after a challenging 2018. Trading Profit of £68.0m and in-force policies of 2.38 million are good performances with positive underlying momentum as we move into 2020. A significant proportion of this profit was reinvested in the development of our strategy and initiatives delivering improved performance. The Solvency Coverage Ratio is robust at 149% and gives us opportunities to invest in the strategy and pursue our profitable growth ambitions.

Strategy

Since joining in July, we have kicked off two important pieces of work. Firstly, 'Brilliant Basics', a programme dedicated to building world-class insurance fundamentals across Pricing & Underwriting, Claims and Customer Service, underpinned by Data & Analytics – the DNA of insurance. Secondly, 'Strategy & Technology Blueprint', focused on esure's medium- to long-term ambitions to disrupt and transform the market through technology. We have made good progress to date across both streams however there remains much more to do in this space throughout 2020.

Management Team

Our evolving vision for the business is to build a world class digital insurer. To support this, we are building a diverse team with strong insurance DNA but who also have clear competency in Digital and Analytics from other industries.

I am delighted that we have managed to make some key appointments to strengthen the management team. Peter Bole joins as Chief Financial Officer from Virgin Money, Roy Jubraj joins us as Chief Strategy & Transformation Officer, having led Accenture's UK and Ireland insurance strategy practice. Caroline Smith joins us as Chief People Officer from Lloyds, Kirsty Whitehead is our General Counsel and joins us from Worldpay UK.

Darren Ogden, Interim Chief Executive Officer, and Steve Long, Interim Chief Finance Officer, stepped down from the Board in September 2019 and March 2020, respectively. I'd like to thank them both for their dedication and contribution to the business and wish Darren well for the future and look forward to working alongside Steve in his new role.

Board

Sir Peter Wood stepped down as Chairman on 27 March 2020. Sir Peter founded the business in February 2000 and has been instrumental in the success of the business over the years. I am delighted that he will remain with the business in an advisory role. Andy Haste succeeds Sir Peter Wood as Chairman of the Group, bringing a wealth of Financial Services experience from previous and current roles in Insurance and Banking.

Shirley Garrood, Non-Executive Director, stepped down from the business in November 2019 after six years with the Group and has been replaced by Andrew Birrell, who joined the Board as Non-Executive Director in December 2019. Andrew will Chair the Audit Committee and is a member of the Risk and Remuneration Committees.

Outlook

2020 promises to be another busy and rewarding year for the Group. We are committed to investing behind the Group's ambitions, with the support of Bain Capital, to deliver profitable growth and an improved customer proposition.

Like the rest of the world, we are currently responding to the challenges of a global pandemic. The welfare and protection of our customers and colleagues remains the Group's priority and we have put in place a stringent set of plans to protect them and our service during this uncertain time.

Finally, a thank you to all my colleagues at esure. It has been a busy year with lots of change and not without challenge, but your commitment to our customers and the business is something I am extremely grateful for.

David McMillan
Chief Executive Officer

Strategic Report

Business Model

The Group is a provider of market-leading personal lines Motor and Home insurance through its two prominent brands: esure and Sheilas' Wheels.

The Group's strategy is to provide more customers with excellent service and great-value products. 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	**2019**	2018
In-force policies (millions)	**2.380**	2.449
Combined Operating Ratio (%)	**106.3**	111.8
Profit/(loss) before tax (£m)	**3.3**	(15.4)
Trading profit (£m)	**68.0**	7.8
Net promoter score (sales & service)	**47**	46
Complaints (%)	**1.1**	0.6
Retention (%)	**72**	73
Solvency coverage (%)	**149**	108

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

Financial Review

Group

	2019	2018
Gross written premiums (£m)	**834.5**	862.2
In-force policies (millions)	**2.380**	2.449
Trading profit (£m)	**68.0**	7.8
Profit/(loss) before tax (£m)	**3.3**	(15.4)
Combined Operating Ratio (%)	**106.3**	111.8
Net Loss Ratio (%)	80.2	87.8
Net Expense Ratio (%)	26.1	24.0
Solvency coverage (%)	**149**	108

Gross written premiums decreased 3.2% to £834.5m (2018: £862.2m) representing a disciplined trading strategy as the wider market failed to increase prices at a rate that matched inflation on claims costs. The Group's profit before tax of £3.3m (2018: loss before tax of £15.4m)) reflects the costs of the new reinsurance arrangements and has benefitted from the improved trading profit which has, in turn, been invested in the Brilliant Basics Programme.

Trading profit is management's measure of the overall profitability of the Group's underlying operating activities. The Group's reportable segments are Motor and Home and these delivered a Trading Profit of £68.0m (2018:

£7.8m), reflecting a return to underlying profitability after the severe weather and developments in small and medium-sized bodily injury claims experienced in 2018.

The Combined Operating ratio has improved to 106.3% (2018: 111.8%), primarily due to an improvement in the Net Loss Ratio as claims have returned to historical levels after a challenging year in 2018.

Profit before tax was £3.3m, an improvement of £18.7m on 2018. Non-trading items are set out below and further detail is provided on page 7.

In 2019 the Group introduced new reinsurance arrangements to enhance capital availability. The new reinsurance arrangements include a Loss Portfolio Transfer combined with Adverse Development Cover (the "LPT") and a Quota Share.

The LPT relates to a number of accident years, and the IFRS accounting treatment materially reduces both net earned premiums and net incurred claims reported for 2019, distorting the reported performance of the Group. As it is expected to be a non-recurring transaction, the LPT is not considered to be part of the trading activities of the Group.

The Group's segmental reporting of the income statement includes the LPT as a single line item within non trading costs (note 5 to the Financial Statements) and includes a reconciliation between the statutory income statement and segmental reporting.

To ensure that the KPIs provide a meaningful reflection of underlying performance and to improve the comparison of performance to the prior year, the Group has adjusted the reported Combined Operating Ratio, Net Loss Ratio and Net Expense Ratio to remove the impact of the LPT, consistent with the segmental reporting of the income statement.

Motor

The Motor account generated a trading profit of £63.5m (2018: £15.2m), a return towards its historical performance levels. Gross written premiums decreased 4.5% to £736.4m (2018: £771.4m) reflecting a reduction in in-force policies of 5.9% to 1.823 million (2018: 1.937 million).

The improvement in underwriting loss to £35.3m (2018: £74.5m loss) was driven by the improved current year net loss ratio and a stable position on prior year reserves. This was achieved despite elevated claims inflation and lower premiums across the market. Contribution from additional services revenues of £79.1m (2018: £78.4m) was largely flat.

The Motor account benefited from an investment return of £19.7m (2018: £11.3m) reflecting strong financial markets performance.

The Combined Operating Ratio is 105.8% (2018: 110.7%), comprised of a Net Loss Ratio of 82.2% (2018: 88.5%) and a Net Expense Ratio of 23.6% (2018: 22.2%).

The 2019 accident year Net Loss Ratio was 84.0% (2018: 84.1%). Favourable development of prior accident year reserves of £11.1m equated to 1.8% of net earned premiums (2018: £30.7m adverse; 4.4% adverse). The Group has continued to hold reserves in excess of the actuarial best estimate.

	2019	2018
Reported Net Loss Ratio (%)	**82.2**	88.5
Prior year reserves release/(strengthening) (%)	**1.8**	(4.4)
Current accident year Net Loss Ratio (%)	**84.0**	84.1

Home

The Home account generated a trading profit of £4.5m (2018: £7.4m loss) with an improved performance in benign weather conditions. Gross written premiums increased 8.0% to £98.1m (2018: £90.8m) aided by in-force policy growth of 9.0% to 557,000 (2018: 511,000).

The underwriting loss of £8.2m (2018: £17.5m) reflected an on-going competitive market. Additional services revenues of £10.4m (2018: £9.2m) are higher due to in-force policy growth. The investment return was £2.3m (2018: £0.9m).

The Combined Operating Ratio of 110.6% (2018: 121.7%) is comprised of a Net Loss Ratio of 64.9% (2018: 82.1%) and a Net Expense Ratio of 45.7% (2018: 39.6%).

The 2019 accident year Loss Ratio was 68.8% (2018: 85.7%). Favourable development of prior accident year reserves of £3.1m equated to 3.9% of net earned premiums (2018: favourable £2.9m; 3.6%). The Group has continued to hold reserves in excess of the actuarial best estimate.

	2019	2018
Reported Net Loss Ratio (%)	**64.9**	82.1
Prior year reserves release (%)	**3.9**	3.6
Current accident year Net Loss Ratio (%)	**68.8**	85.7

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

	2019	2018
	£m	£m
Trading profit	**68.0**	**7.8**
Non-trading costs	(53.9)	(13.3)
Finance costs	(9.8)	(8.7)
Amortisation of acquired intangible assets	(1.0)	(1.2)
Profit/(loss) before tax	**3.3**	**(15.4)**

During the year, the Group incurred non-trading costs of £53.9m. This expenditure related to investment in the Brilliant Basics Programme, development of the Group's Strategy and Technology Blueprint and the net cost of LPT reinsurance.

The Group incurred £9.8m in finance costs, of which £8.8m (2018: £8.7m) related to the £125.0m 6.75% ten-year tier two Subordinated Notes issued on 19 December 2014 ("the Notes") and £1.0m (2018: £nil) was interest chargeable on lease liabilities.

Solvency

The Group's solvency coverage was 149% at 31 December 2019 (2018: 108%). The Group's Eligible Own Funds at 31 December 2019 were £360.7m (2018: £356.7m). The increase is largely driven by profits in the period. The Solvency Capital Requirement has decreased to £242.2m (2018: £330.3m), due to the Group's new reinsurance arrangements, which have led to a decrease in the underwriting risk.

The Group's capital position is outlined below:

	2019	2018
	£m	£m
Own Funds	**360.7**	356.7
Tier 1	239.6	238.8
Tier 2	121.1	117.9
Solvency Capital Requirement	**242.2**	330.3
Coverage Ratio	**149%**	108%

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 2020. The Group will continue to invest in Brilliant Basics while pursuing profitable growth opportunities and developing a Strategy & Technology Blueprint for the medium to long term.

The coronavirus pandemic has disrupted the activity in the UK general insurance market and adversely impacted the broader economic environment.

In response to the changing UK environment, including recent government advice to avoid all but essential travel and maintain social distancing, the Group has implemented operational contingency plans to protect the health and wellbeing of its colleagues whilst protecting service for customers. These plans include transitioning the majority of staff to home working and closure of the Group's office locations to all but essential activities.

An assessment of the potential range of impacts has been undertaken including consideration of new business sales, customer service and retention, frequency and severity of claims and the exposure to the broader economic environment through the Group's investment portfolio.

It is not practicable to quantify the ultimate financial effect of the outbreak on the Group at this stage. The Group has experienced some initial impact on its activities including lower levels of claims notifications, a reduction in quotes for new business and movements in the value of its investment portfolio. There is also early indication of an increase in the proportion of customers renewing their policies with the Group. The trends continue to evolve, remain immature and are difficult to forecast, both in terms of the degree to which performance is affected and in relation to the period that the impact may last. In addition to the sensitivities provided in Notes 18 and 19 the following information, based on the Group's position at the signing date, is provided to support an assessment of the potential impact arising from the coronavirus pandemic:

In-force policies

- A reduction in new business sales volumes of 10 percent for 1 month would reduce in-force policies by less than 1% and result in a modest improvement to solvency coverage.

Claims frequency

- A reduction in claims frequency of 40 percent for 1 month would reduce the combined operating ratio by 2 percentage points, increase profit commission from reinsurers by £5m and improve solvency coverage by approximately 9 percentage points.

Market Risk

- The fair value of the Group's investment portfolio is exposed to changes in the level of credit spreads. Since 31 December 2019, credit spreads for investment grade corporate bonds have widened. In the event that credit spreads for investment grade corporate bonds widen by 100 basis points, the estimated reduction in the valuation of the Group's investment grade bond portfolio would be approximately £12m.
- The Group's investment portfolio also includes unquoted Infrastructure and Direct Lending funds. A 10 percent reduction in the valuation inputs of these funds would reduce their fair value by approximately

£15m. The combined impact of the market risk sensitivities on the Group's solvency coverage would be a reduction in the region of 12 percentage points.

Solvency coverage

- The sensitivity of Group's solvency coverage has been noted above with respect to the target operating range.
- As part of Management's capital management activities, a range of contingent actions have been identified that could be used to help mitigate the financial impact of the outbreak.

The Group continues to monitor closely the development of the coronavirus pandemic.

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. The Board is responsible for agreeing the strategic risk statements and setting the Risk Appetite for the business. It ensures that an appropriate framework of identification, measurement, control and acceptance of risks is in place.

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.

1st Line of Defence - 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 and Compliance function

- Provides oversight and challenge to business areas and management.
- Coordinates risk and compliance activities and reporting, including ensuring an effective risk framework is embedded within the 1st line of defence.

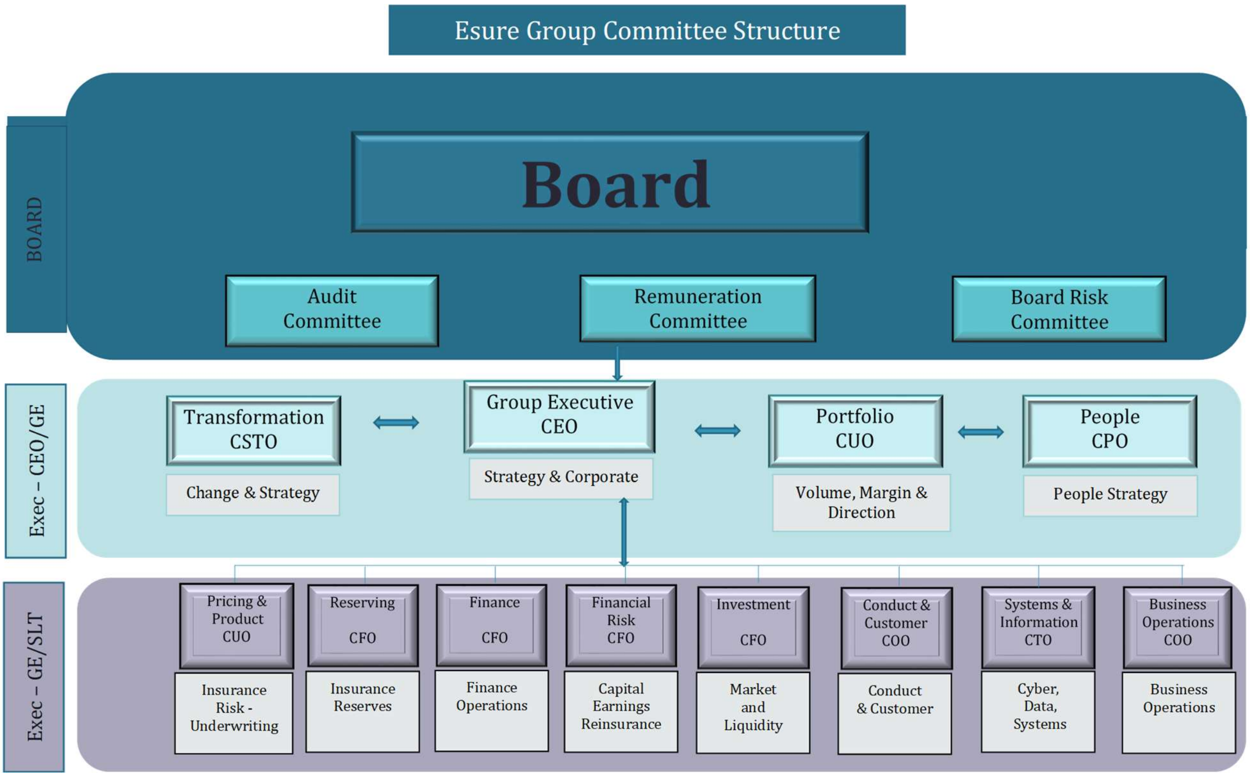
3rd Line of Defence – Internal Audit function

- 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.

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 following diagram.



The Own Risk & Solvency Assessment ('ORSA') Process

The ORSA policy outlines the Group's approach to the management 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 the solvency position
- Own assessment of solvency based on the Group's capital model
- Assessment of the appropriateness of standard formula for regulatory capital setting
- Risk appetite process
- Material and emerging risk process
- Incident management process
- Reviews conducted by the Risk, Compliance and Internal Audit functions.

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.

Strategic Risk Statements

Strategy and Change: We execute and manage change risk within the business with a focus on digital innovation and customer needs.

Earnings (Insurance, Credit and Investment risk): We manage profitable growth and volatility within a cyclical market through targeted growth opportunities, continuous adaptation in our underwriting, pricing and claims, along with a focus on expense management and a balanced risk profile.

Capital and Liquidity: We ensure there are appropriate financial resources in place to deliver our corporate objectives and policyholder obligations.

Conduct Risk and Customer: We deliver fair outcomes for our customers and meet regulatory requirements by having focused strategy, culture, product design and service delivery.

Business and System Operations: We prevent material data loss or significant disruption to our business through a proportionate system of control, monitoring and effective incident response.

Data & Cyber: We prevent material data loss or significant disruption to our business through a proportionate system of control, monitoring and effective incident response.

People: We invest in our people ensuring that we have the right skills, experience and engagement to support our strategic goals.

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 and ensuring that we receive an appropriate return for the risks we take running the business.

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

Principal Risks

RISK	KEY ELEMENTS	MITIGATION
UNDERWRITING RISK **Definition** Underwriting Risk is the most material risk for the Group. It represents the uncertainty in the profitability of the business written due to variability in the value and timing of claims and premium rates – this can arise through historic (reserve risk) as well as future exposures (pricing and catastrophe). **Current risk profile** The business manages to a prudent Underwriting Risk appetite but faces into a number of material risks including a highly competitive pricing environment, elevated claims inflation, uncertain legal environment (with the Civil Liability Bill), market-wide regulatory uncertainty, the potential supply chain impacts as a result of the Coronavirus Pandemic, and the uncertainty after the Brexit transition period - all heighten the current Underwriting Risk profile.	• Pricing Risk • Reserving Risk • Catastrophe Risk	• There is regular monitoring in place of the external environment, to understand and react to the changing market, ensuring that the Group is well placed to benefit from any developments. • The claims management processes ensure that there is strong customer service, management of claims costs and management information to understand claims trends. • 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** 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. The Group policy concerning Market Risk aligns and ensures compliance with Solvency II 'Prudent Person Principle' requirements. **Current risk profile** In 2019, the Group reduced its investment risk profile including tightening Asset/Liability Matching. There continues to be a potential	• Interest rate Risk • Equity Risk • Spread Risk • Concentration Risk	• 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. • The Group manages the level of investment counterparty credit risk it accepts by placing limits on its exposure to counterparties, and, geographical segments and business sectors.

for volatility in UK-based assets due to uncertainty after the Brexit transition period and in general market conditions due to COVID-19.		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. **Current risk profile** The Group is exposed to Credit Risk through its reinsurance counterparties and its investments in Direct Lending funds.	• Reinsurance Counterparty Risk • Supplier Debtor Risk • Investment Counterparty 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. • The Group manages its exposure to Credit Risk in investments in Direct Lending funds as part of its wider investment strategy, as discussed above under Market Risk.
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. **Current risk profile** The Group's risk appetite is aligned to a 1-in-200-year liquidity stress.	• 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.
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 high number of cyber threats globally that could impact the business and the threat is increasing.	• 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	• 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 in 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

The business faces into a number of material risks during the Coronavirus Pandemic, which is testing the robustness of the operational resilience and business continuity plans and which are proving to be working well. Other risks include significant transformational change, operational resilience and the ability to attract people with the right skills	• Outsourcing Risk • Distribution Risk	closely with the first-line business and specialist functions.
CONDUCT RISK **Definition** Conduct Risk is the risk of failing to deliver the appropriate treatment or meet the needs of our customers throughout our customer journey, product design and service delivery. **Current risk profile** There is a significant level of change required as a result of new regulation including in relation to vulnerable customers, a market-wide study of general insurance pricing, the Insurance Distribution Directive and the extension of the Senior Managers' Regime, together with an increasing level of regulatory scrutiny.	• 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 customers and their fair treatment is paramount together with compliance with the letter and spirit of the law. • The Group has a strong governance framework and the Conduct Risk and Customer Committee reviews all aspects of customer service. • Board oversight is ensured by upward reporting of the risk profile against the Customer and Conduct Risk appetite statements to the Risk Committee; issues are reported by exception to the Board. • The Group continues to monitor legal and regulatory developments in the UK and Europe, through its close relationship with the Financial Conduct Authority ('FCA') and Prudential Regulation Authority ('PRA') and other official bodies, using proactive management 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, fostering a working environment that is supportive and cultivates opportunity. The Group employs 1,835 people across three offices.

Nurturing a positive working culture is fundamental to the Group's success and goes hand in hand with delivering outstanding customer service. The Groups' efforts were again recognised externally in 2019 after receiving several awards including the Insurance Post Fraud Intelligence Team of the Year and Customer Contact Innovation award for Planning and Wellbeing.

From a People perspective, the welfare of our colleagues remains the Group's priority and we continue to follow the latest government advice in response to the Coronavirus (Covid-19) outbreak. We have put in place a stringent set of plans to protect our employees and customers during this uncertain time.

Engagement
Engaging our colleagues in the right way is important to the success of our business. During 2019, the Group implemented several key initiatives following feedback from colleagues. This included changing our dress code and investing in our wellbeing provision and support for mental health. This resulted in all managers attending a half-day mental health workshop and over 300 colleagues to date attending a wellbeing workshop which allowed colleagues to explore mental wellbeing on an individual level.

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, educate and support colleagues: including onsite cooking lessons, health-check kiosks, 'save a life' sessions, award nights, competitions, sport-based events, wellbeing events, 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 2019, esure continued to invest in its Talent programmes. 'Future Leaders', developing the pipeline for Senior Management roles; 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 addition, the investment of a new globally recognised Learning Management System has enabled the Group to introduce an extensive selection of relevant online learning for colleagues' ongoing development. The system provides colleagues with flexible access to learning including CII (Chartered Institute of Insurance) accredited content.

The Group continued to extend its Apprenticeship programme, giving more colleagues the opportunity to gain experience and broaden their knowledge within the Insurance Industry. In 2019, the Group had 92 apprentices (compared to 30 in 2018) who are undertaking a wide range of Industry-related qualifications.

Charity and Community
The Group is a proud supporter of several charities whose work directly impacts the broader Insurance Industry. This includes AutoRaise, a charity that helps develop talent and reverse the skills shortage within the vehicle repair industry, and Safe Driver Stay Alive, a road safety initiative that aims to empower young drivers to make safe driving choices through a series of theatre productions.

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 2019 they raised a fantastic £40,000, as well as supporting broader appeals such as 'Bags 4 School', Children in Need and the Christmas Bauble appeal, providing Christmas gifts to local people.

Corporate Governance

Board of Directors

Andy Haste
Chairman

Background and experience
Andy Haste joined esure in March 2020. Andy is an experienced Director with a wealth of experience in board leadership, executing change, delivering profitable growth and increasing shareholder value. Andy currently serves as the Senior Independent Deputy Chairman of Lloyd's of London where he chairs its Remuneration Committee, Investment Committee, Technology and Transformation Committee and Capacity Transfer Panel. He is also a member of Lloyd's Nominations and Governance Committee.

Andy has over 35 years' experience in financial services. He is a highly regarded director holding several non-executive roles serving as a Chairman, Deputy Chair, Board level Committee Chair and Senior Independent Director at a range of high-profile and regulated organisations.

Prior appointments
Andy has held previous roles including Chairman of Wonga Group, Senior Independent director of ITV PLC, Group Chief Executive of RSA Insurance Group PLC, Chief Executive of AXA Sun Life PLC and Executive Director AXA UK PLC. Andy was also a Member of the Board of the Association of British Insurers from 2003 to 2011 and a Visiting Fellow at the Oxford University Centre for Corporate Reputation between 2008 and 2019.

Committee membership
None.

David McMillan
Chief Executive Officer

Background and experience
David McMillan joined esure as CEO in July 2019. During his career, David has been responsible for leading different businesses through start-up, high-growth, restructuring and turnaround phases. David holds a BA in Finance and Computer-Science from Heriot-Watt University, an executive MBA from the University of Chicago and is a Fellow of the Institute of Management Accountants.
David is a non-executive director for Scottish Rugby Union plc.

Prior appointments
Prior to joining esure, David was Group Chief Operating Officer of QBE, one of the world's top 20 insurance and reinsurance companies and was responsible for Strategy, Transformation, Digital, Technology and Operations. Before QBE, he was Chief Executive Officer Europe and India and Chairman of Global Health Insurance for Aviva plc. Earlier in his career at Aviva, David was Chief Executive Officer of UK General Insurance & Group Transformation Officer. David joined Aviva in 2002 following almost 10 years with the management consulting arm of PricewaterhouseCoopers.

Committee membership
David chairs the Group Executive Committee.

Peter Bole
Chief Financial Officer

Background and experience
Peter joined the business in January 2020 and became Chief Financial Officer in March 2020. He is accountable for the leadership of the finance function, ensuring the effective delivery of all aspects of financial management of the business.

Prior Appointments

Peter has over 25 years' experience in Finance leadership roles across several strong consumer businesses within the Banking and Insurance sectors. Recently he was Chief Financial Officer of Virgin Money having moved there from Tesco Bank where he was also the Chief Financial Officer. Earlier in his career Peter held senior financial roles at Direct Line Group, Standard Life and Deloitte.

Andrew Birrell

Independent Non-Executive Director

Background and experience

Andrew Birrell was appointed to the Board as a Non-Executive Director and a Chair of the Audit Committee in December 2019. Andrew is an Executive Director and founder of Universal Partners Limited and an independent non-executive director of Sun Life Financial of Canada (UK), Sanlam Group and Sanlam Life. Andrew has spent most of his career in financial services, including general, life and health insurance, investment management and Banking, primarily as CFO of fast growing, entrepreneurial insurance businesses and has managed large investment portfolios and delivered operational and strategic change. Andrew trained as an Actuary and is a Fellow of the Institute and Faculty of Actuaries.

Prior appointments

Previously, Andrew held roles as Chief Financial Officer of the closed fund life assurance consolidation group, Guardian Financial Services Ltd and prior to that was the Group CRO and Chief Actuary of Old Mutual Plc. He also formerly held the role of Chief Operating Officer and Chief Financial Officer at Investec Securities Ltd, South Africa. Andrew also recently held roles as non-executive director then Chairman of Assupol Holdings and Assupol Life Limited and as a non-executive director of Investec Life.

Committee membership

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

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 Non-executive Director of the National House-Building Council and the British Coal Staff Superannuation Scheme Trustees Ltd and Chairman of their investment sub-committee. He is also Chair of the Pembroke Heritage Fund.

Prior appointments

Alan 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. Alan 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 chairs the Remuneration Committee and 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
Peter 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 and Remuneration Committees.

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 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, Luca 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

Luca is a member of the Remuneration Committee.

Group Executive Committee

David McMillan chairs the Group Executive Committee which comprises the Chief Financial Officer, Chief Risk Officer, Chief Technology Officer, Chief Operating Officer, Chief Underwriting Officer, Chief Strategy and Transformation Officer, Chief People Officer, Interim Chief Data Officer and the General Counsel and Company Secretary.

Board membership changes during the year 1 January 2019 to 31 December 2019

Directors

Sir Peter Wood	(stepped down as Chairman and from the Board on 27 March 2020)
Andy Haste	(appointed as Chairman and to the Board on 24 March 2020)
Matthew Bryant	(stepped down as a Non-executive Director and from the Board on 3 April 2019)
David McMillan	(appointed as Chief Executive Officer and to the Board on 15 July 2019)
Darren Ogden	(stepped down as Interim Chief Executive Officer and from the Board on 30 September 2019)
Shirley Garrood	(stepped down as Senior Independent Director and from the Board on 26 November 2019)
Alan Rubenstein	
Peter Shaw	
Andrew Birrell	(appointed to the Board as an independent Non-executive Director on 17 December 2019)
Luca Bassi	
Philip Loughlin	
Robin Marshall	
Steve Long	(stepped down as Interim Chief Finance Officer and from the Board on 18 March 2020)
Peter Bole	(appointed as Chief Financial Officer and to the Board on 18 March 2020)
James Stevens	(appointed to the Board as a Non-executive Director on 1 April 2020)

Secretary

Alice Rivers	(stepped down as Company Secretary on 30 September 2019)
Kirsty Whitehead	(appointed as Company Secretary on 27 January 2020)

Corporate Governance Principles

The Group is firmly committed to high standards of corporate governance and maintaining a sound framework for the control and management of the business. The Board recognises that effective governance is key to the implementation of strategy for our shareholder and wider stakeholders. The Group has applied the Wates Corporate Governance Principles for Large Private Companies in respect of its financial year commencing on 1 January 2019.

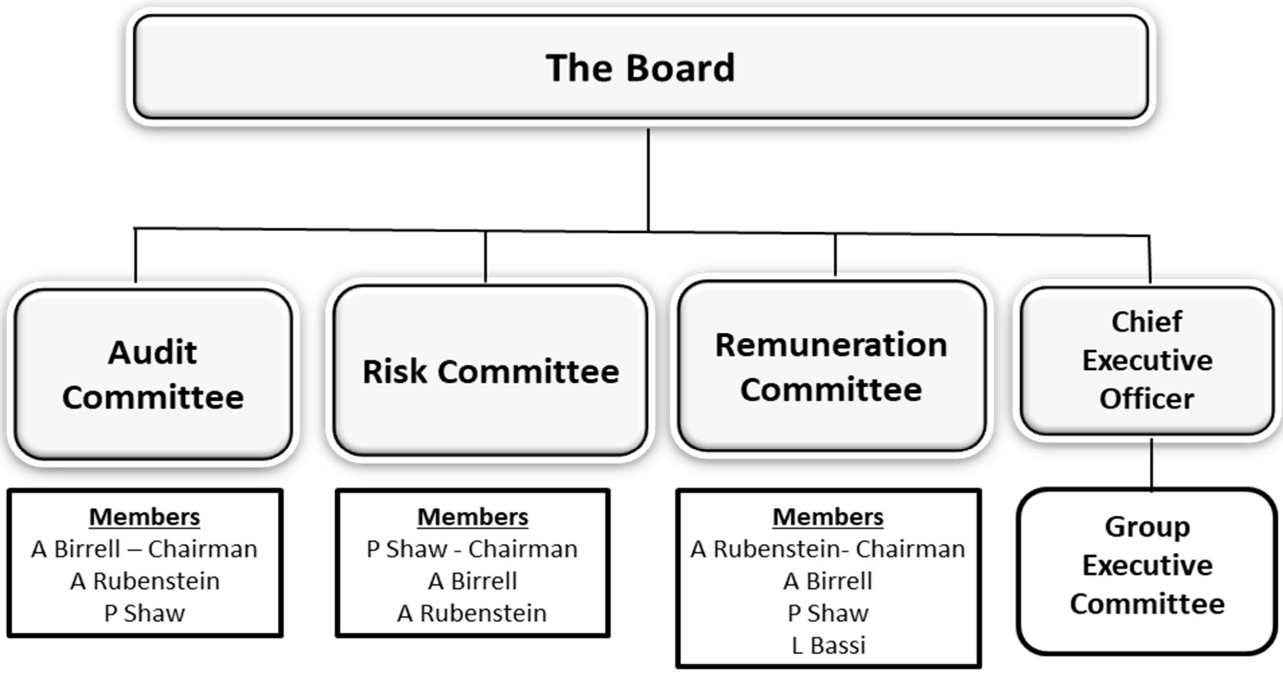
As a major UK general insurer, the Group is familiar and comfortable with the corporate governance practices expected of an unlisted company with listed debt and the legislation applicable to Public Interest Entities. The Group also complies fully with the corporate governance requirements of the Companies Act 2006, the Companies Miscellaneous Reporting (Regulations) 2018 and Financial Services and Markets Act 2000 (and regulations made thereunder) applicable to it as a result of its insurance and insurance mediation businesses.

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.

Corporate Governance Structure
The Board has delegated a number of its responsibilities to Board Committees. This assists the Board in carrying out its functions and to ensure there is independent oversight of internal control and risk management. These Committees are comprised of independent Non-Executive Directors 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 Chairman of each Board Committee reports verbally to the Board on its proceedings after each Committee meeting and Board Committee papers and minutes are made available, in a timely manner, to the whole Board through a secure online system. Each Board Committee has agreed Terms of Reference which is approved by the Board on an annual basis.



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, Risk and Remuneration
- Executive business oversight committees
- Senior Management apportionment of responsibilities
- A 'Three Lines of Defence' operating model with independent reporting lines
- Regular and transparent conversations with regulators.

Environmental, Social and Governance factors
The Board is mindful of the Company's impact on stakeholders, the environment and society. Environmental, Social and Governance ('ESG') factors can affect physical risks, transition risks, expose investment risks and provide an indication of management culture and leadership. The Board will continue to evaluate climate-related risks and opportunities.

Group Executive Committee
The Chief Executive Officer and Chief Financial 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.

Chief Executive Officer
The Chief Executive Officer is responsible for the performance and management of the Group's business. From 19 January 2018 until 30 September 2019 an Interim Chief Executive Officer was in place whilst the process of selecting a new Chief Executive Officer was completed. A successful handover was undertaken to the new Chief Executive Officer who was appointed in July 2019. 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.

Independent Non-Executive Directors
The Independent 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. The Independent Non-Executive Directors support the Chairman in his role and are also available as an additional point of contact for stakeholders. The Shareholder has appointed representatives on the Board who are known as Non-Executive Directors.

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
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. A balanced board promotes effective decision-

making and supports the delivery of a company's strategy. The Board will review its Diversity Policy and consider what reasonable steps it needs to take to establish an appropriate balance of expertise, diversity and objectivity. All aspects of diversity, including age, gender, race, educational and professional backgrounds, are considered at every level of recruitment.

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 in 2018 and the changes to the Board during 2019, the scheduled external Board evaluation was not carried out in 2018 nor an internal evaluation in 2019. Going forward the Group intends to comply with the Wates Principle that the Board is committed to the ongoing professional development of their board and partaking in regular evaluations to enable individual directors to contribute effectively and to highlight the strengths and weaknesses of the board as a whole.

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.

Corporate Governance

AUDIT COMMITTEE REPORT

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

The Committee has, this year, focused on outstanding claims reserves, financial reporting, including the new reinsurance arrangements, the effectiveness of internal controls and challenged the work of both internal and external audit.

AUDIT COMMITTEE COMPOSITION AND MEETINGS

I was delighted to be appointed as Chair of the Audit Committee in December 2019 following Shirley Garrood stepping down from the Board in November 2019. I would like to thank Shirley for her exceptional service to the Committee during her tenure as Chairman. During the year, Peter Shaw was appointed to replace Martin Pike who stepped down from the Board in December 2018, joining Alan Rubenstein who is also a member of the Committee.

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

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

RESPONSIBILITIES

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

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

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

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

KEY AREAS OF FOCUS

Financial Reporting
The Committee, taking account of input from the external auditor, has challenged and reviewed the financial reporting for the Group, including the Annual Report and Accounts and Solvency II reporting.

As part of these reviews, the Committee has assessed whether suitable accounting policies have been adopted, whether management has made appropriate estimates and judgements and whether disclosures in this Annual Report and Accounts are fair, balanced and comprehensive and in line with the Wates Corporate governance code which the Group has adopted this year.

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

Outstanding Claims Reserves

Outstanding Claims Reserves continue to be the most significant financial judgement relating to the Group's Financial Statements. As part of its consideration of this, the Committee received reports throughout the year from the external auditor, the internal actuary, the external actuary (Willis Towers Watson) and the independent Risk function. These reports considered the projected ultimate claims costs, inherent uncertainties, range of potential outcomes and the impact of the new reinsurance arrangements.

In addition, the Board has sought additional third-party assurance in relation to the claim's reserves, focussing on the, controls, process, governance and actions taken in response to the adverse claims experience in 2018.

The Committee, after challenging and debating the process, key judgements and assumptions and noting the inherent uncertainties associated with reserving for claims, is satisfied that Outstanding Claims Reserves included in these Financial Statements provide an appropriate margin over projected ultimate claims costs.

New reinsurance arrangements

The Committee considered and challenged accounting and disclosure for the new Quota Share and LPT reinsurance arrangements entered during 2019. It was agreed that presenting Trading Profit, the Combined Operating ratio, Net Loss Ratio and Net Expense Ratio before the impact of the LPT provides a more meaningful reflection of underlying performance and improves the comparison of performance to the prior year than the statutory measure.

Other matters

The Committee also considered several other matters, including:

- New accounting standards which may impact the Group in the next few years including IFRS 9, IFRS 16, and IFRS 17.
- The requirement for the Group to publish its Tax Strategy.

Internal Audit

The Group has outsourced its Internal Audit function to Mazars LLP since 2010. During the year, the Committee reviewed a recommendation from management to move to an internal audit co-source arrangement with Mazars LLP, previously the Group's internal audit outsource provider. After careful consideration it was agreed that a co-source arrangement would enhance the overall effectiveness of the function while maintaining an appropriate level of specialist skills, experience and expertise. A new Chief Audit Officer was appointed during H2 2019 and the transition to a co-source arrangement will be completed during H1 2020.

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 Committee concluded that it was satisfied with the plans and that they were addressing the key risks.

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. The Committee considered these, alongside updates from management, to satisfy itself that appropriate actions or mitigating controls are in place in response to any findings.

The Committee has performed its annual review of the Internal Auditor and, having also considered management's opinion, the Committee was satisfied that the Internal Audit function remains independent, effective and fit for purpose.

External Audit

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

The Group's policy on non-audit work is updated annually and was last updated on 26 November 2019. This policy ensures that external auditor independence and objectivity is preserved and sets out when it may be appropriate for the external auditor to provide other services and the governance and safeguards in place around such appointments.

The Committee has reviewed the effectiveness of the external auditor, including consideration of the quality of the external auditor's report to the Committee, the interaction of the audit partner with the Committee and the findings of the AQR review of KPMG as a firm for 2018, and is satisfied with the performance and effectiveness of KPMG and has concluded that KPMG continues to display the necessary attributes of independence and objectivity. The Committee therefore has not considered it necessary to require the audit to be put out to tender this year.

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

Philip Smart, the current external audit engagement partner, being appointed to lead the audit in 2015 will rotate off after the 2019 audit. Caroline Gilbertson has been appointed to succeed Phil and will lead the 2020 audit.

Details of fees paid to KPMG in 2019 are included in Note 12 in the Financial Statements.

The Committee also carried out a review of its own Terms of Reference during 2019.

Conclusion

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

Andrew Birrell
Chair of the Audit Committee

Corporate Governance

RISK COMMITTEE REPORT

The Committee is comprised of Independent Non-Executive Directors. Peter Shaw was appointed as a member of the Committee on 8 March 2017, and as Chair with effect 17 May 2017. The other members of the Committee are Alan Rubenstein (appointed January 2019) and Andrew Birrell (appointed 17 December 2019). Shirley Garrood was a member of the Committee from January 2019 until she stepped down from the Board on 26 November 2019.

The Committee's key role is to provide oversight of and advice to the Board on the current risk exposures and future risk strategy of the Group, including the development and implementation of the Group's Risk Management Framework, and for ensuring compliance with the Group's approved risk appetite.

The Committee continued to have an open and transparent relationship with our regulators and during the year, considered feedback in respect of the ongoing suite of regulatory reviews and activity, both specific to the Group and industry-wide.

Areas of focus
Key matters discussed by the Committee during the year are set out below:

- Oversight of the ORSA (Own Risk and Solvency Assessment) process and reporting including assessment of the overarching risks within the business
- Oversight of the risk appetite
- Reporting and debate into material risk areas including Pricing, Reserving, Capital, Investment, Conduct and Cyber risk
- Assessment and debate regarding Risk Culture within the business
- Recommendation for the Board on reinsurance structuring.

In addition, pages 13 to 15 provide a summary of the principal risks faced by the Group and key mitigating actions and an overview of emerging risks, along with recent and anticipated future developments. Further information on the Group's approach to risk, including the associated governance framework for managing risk, stress testing and a full analysis of the principal risks, are set out in the risk management section on pages 10 to 12.

Remuneration matters
The Committee has a duty to advise the Remuneration Committee regarding both the design of senior executive short-term and long-term incentive plans, to ensure that management are not being incentivised to take undue risks; and any risk management and control issues that have arisen that it believes should be taken into account when determining executive remuneration payments under the aforementioned plans.

Following the establishment of the Remuneration Committee in December 2019, the Committee will review regular reports from the Chief Risk Officer in relation to these matters going forward.

Risk management function
The Committee reviewed the remit and performance of the Group's risk management functions to confirm that these functions have the requisite skills, experience and resources, along with unrestricted access to information, to discharge their responsibility effectively, in accordance with the relevant professional standards and ensuring also that the functions have adequate independence.

Risk Committee Terms of Reference
The Committee carried out a review of its own Terms of Reference during 2019.

Peter Shaw
Chair of the Risk Committee

Corporate Governance

REMUNERATION COMMITTEE REPORT

The Remuneration Committee was re-established effective 3 December 2019. The Committee is comprised of Independent Non-executive Directors and a representative Director of the Shareholder. Alan Rubenstein was appointed as the Chair of the Committee effective 3 December 2019. The other members of the Committee are Peter Shaw (appointed 3 December 2019), Andrew Birrell (appointed 17 December 2019) and Luca Bassi (appointed 3 December 2019.)

The Committee's key role is to make decisions on behalf of the Board on the terms and conditions of employment, remuneration and benefits of each of the Chairman, Executive Directors and the Group Executive, (together 'Executives') together with those members of staff identified as 'Material Risk Takers' ('MRTs') due to their ability to materially impact on the Company's risk profile and compliance with legal and regulatory requirements.

This report presents an overview of the remuneration of our Executive Directors, Chairman and independent Non-Executive Directors and aggregate remuneration for our senior management team, together with a summary of our Executive and MRT Remuneration Policy ('the Executive Remuneration Policy').

In setting Directors' Remuneration Policy and individuals' remuneration, the Remuneration Committee is committed to ensuring a consistent philosophy for remuneration on offer to the wider employee population within esure. The Remuneration Committee and the Board as a whole, takes a keen interest in esure's Gender Pay Gap reporting, our progress against the HM Treasury Women in Finance Charter and our approach to equality and diversity more generally.

Remuneration received by the Directors for the year ended 31 December 2019 is shown below:

Directors' Remuneration

All Directors	Year ended 31 December 2019	Year ended 31 December 2018
Directors emoluments	£3,735,750	£1,989,391
Payments in respect of pension	£117,936	£78,765
Long-term Incentive schemes	£nil	£1,571,203
Total	**£3,853,686**	**£3,639,359**

Highest Paid Director	Year ended 31 December 2019	Year ended 31 December 2018
Directors emoluments	£1,872,409	£647,894
Payments in respect of pension	£41,613	£74,626
Long-term Incentive schemes	£nil	£1,571,203
Total	**£1,914,022**	**£2,293,723**

Remuneration for other members of the senior management team
The principles and remuneration structures described within the Executive and MRT Remuneration Policy below apply throughout the whole senior management team, with slight differences for employees within key control functions (risk, compliance and internal audit).

Remuneration for wider employees
The Group seeks to pay all of its staff competitively and fairly for the roles they undertake. esure applies similar principles for remuneration across the workforce to those which apply to our Executive Directors. All permanent employees are eligible to receive a bonus on a discretionary basis, subject to company and individual performance.

We reported our Gender pay gap in 2017 and 2018. Due to Covid-19 there is no longer a requirement to publish the 2019 report – we have completed the report for internal use. We are working to implement measures to reduce our gender pay gap over time.

Executive and MRT Remuneration Policy

Population

In setting the Executive and MRT Remuneration Policy and individuals' remuneration, the Remuneration Committee is mindful of the remuneration on offer to the wider employee population within the Group. The Executive and MRT Remuneration Policy applies to the Chairman, Executive Directors, the Group Executive (together "the Executive"), together with other Material Risk Takers of esure Group plc ("the Company") as reviewed and agreed annually by the Remuneration Committee. The Material Risk Takers ("MRTs") encompass all the individuals aligned to the Senior Managers and Certification Regime in force from time to time.

Key Elements and Principles

The Policy sets out several key elements, including the key principles underpinning the Remuneration Policy; the regulatory framework within which policy sits and the roles and responsibilities of the Remuneration Committee and the Chief Executive Officer in applying the policy.

The policy supports the Group's strategy and is based on the following key principles:

- Aligned to creating long-term sustainable success for the Company
- Competitive within the markets in which it operates (but not excessive) and supports the Group ability to attract and retain talent
- Balanced appropriately between fixed and variable elements of remuneration in a way that rewards performance; encourages the right behaviours and eliminates undue behavioural and reputational risk and risk on the Group's capital base
- Simple and transparent in its design.

Regulatory Framework

As an Insurance Company, esure Group plc is subject to the Solvency II Directive regulations. The Group's size, as a Category 3 Insurer, allows some disapplication of certain aspects of the regulations where these are not appropriate for the Company. It also complies with the Companies Act 2006, the Large and Medium Size Companies and Group (Accounts and Reports) amendment) Regulations 2013, alongside the application of the Wates Corporate Governance Principles which came into force on 1 January 2019. Other regulation that affects the Group includes but is not limited to: Guidelines published by the Investment Association and the Pensions and Lifetime Savings Association, Financial Conduct Authority's Remuneration Code, albeit recognising that esure is not bound by this.

This Remuneration Policy will be kept under review in line with development in best practice, new regulation and legislation and in the best interests of the Group.

Roles & Responsibilities

The role of the Remuneration Committee is to oversee remuneration arrangements and make decisions on behalf of the Board for Executive and MRT remuneration to ensure they are aligned with the agreed Remuneration Policy.

In fulfilling their role, the Remuneration Committee are advised by the Chief Executive Officer ("CEO"), Chief People Officer ("CPO"), General Counsel ("GC"), Chief Risk Officer ("CRO") and Chief Financial Officer ("CFO"). The Remuneration Committee may select, appoint, retain and terminate any remuneration consultants; and obtain, at the Company's expense, independent legal or other professional advice on any matters within its Terms of Reference.

The roles and responsibilities of the Remuneration Committee, Chief Executive Officer and their advisors will apply in practice as follows:

1. Appointment /Termination of individual Executives
2. Pay review for individual Executives
3. Short-term incentive/ Bonus payments for Executives
4. Long-term Incentive award allocations/ grants for individual Executives
5. Short-term incentive/ Bonus plan design (and annual targets for bonus purposes)
6. Long-term Incentive plan design
7. Benefits Plan Design
8. Population covered by Remuneration Policy
9. Remuneration Policy to recommend to the Board for approval
10. Expenses
11. Retirement
12. Contractual terms

Types of Remuneration

Executives and MRTs

The remuneration for our Executives and MRTs is set at a level that maintains an appropriate balance between fixed base pay, variable pay and benefits including:

Base Pay: To provide a fair level of fixed base pay to individual Executives and MRTs which reflects the individual's experience, role and contribution based on Individual/ Personal objectives set on an annual basis.
Pension: To enable the Executive and MRTs to build long-term savings for retirement in a tax efficient way; This includes Participation in a Group pension scheme.
Short-term Incentive Plan (STIP) / Bonus Plan; To motivate and incentivise the Executive and MRTs to deliver company performance in line with Annual plan expectations.
Long-term Incentive Plan (LTIP): To motivate the incentivise Executive and MRTs to create a more valuable company over the long term to deliver long term business plans, sustainable long term growth and group strategic priorities.
Other Benefits: To provide additional core benefits to Executives and MRTs that are market competitive. This can include a range of benefits provided such as Death in Service cover; Medical Insurance cover; and additional benefits as considered appropriate.

Chairman and Independent Non-executive Directors Remuneration Policy

Remuneration for the Chairman and independent Non-executive Directors (excluding the Chair of the Remuneration Committee) is determined by the Shareholder and Chair of the Remuneration Committee. The remuneration for the Chair of the Remuneration Committee is set by the Shareholder. No individual is involved in decision making related to their own remuneration. The structure of remuneration for our Chairman and Non-Executive Directors is through payment of fees to enable the Company to recruit and retain, at an appropriate cost, Non-executive Directors with the necessary skills and experience to maintain appropriate governance and oversight. Fees are reviewed annually, considering time commitments and equivalent benchmarks for equivalent Non-executive Director roles.

Chief Executive Officer

The Chief Executive does not participate in the Remuneration Committees' discussion on their pay review and performance award. The Remuneration Committee consults the Chairman on the Chief Executive's performance. No individual is involved in decision making related to their own remuneration.

Remuneration and Risk Management

Identification of Solvency II staff
The Group is required to identify the Solvency II staff who have a material impact on the risk profile of the organisation and who have specific remuneration arrangements in place. The remuneration policy identifies where the remuneration arrangements for Solvency II staff differ from the arrangements for the wider workforce. Employees have been notified if they are Solvency II staff and asked to confirm they understand the implications of this classification. The group of Solvency II staff, and the methodology used to determine them, are reviewed annually by the Remuneration Committee.

Variable remuneration – Short-term incentive/ bonus
Solvency II Key Control Functions (Risk & Compliance, Internal Audit and Actuarial) are funded from an independent Group annual bonus pool with no link to financial performance having their bonus entirely based upon personal performance.

The Group maintains the discretion to make annual bonus payments to these individuals in years where no bonus pool is generated in the wider Group pool due to poor business performance. The impact of any payments on the Group's Solvency II position will be considered before individuals are notified of any entitlement to an annual bonus for the year. Variable remuneration for control functions staff will be independent of the performance of those functions they oversee and hold account

Risk adjustment will be used through arrangements to permit a reduction in the value of variable remuneration where appropriate.

Variable remuneration – Long-term incentive
The Group considers that long-term incentives are an important tool to aid the retention of key employees. Senior individuals performing control functions may therefore be invited to participate in the Group Plans on the same basis as other senior employees.

The Group ensures that metrics to determine allocation account for the long-term nature of insurance undertakings and consider Solvency II capital generation.

Malus and clawback
The Group has malus and clawback procedures in place which cover all variable remuneration paid to Solvency II staff. The scenarios in which malus and clawback may be triggered include misconduct on the part of the individual and all material failures of risk management.

Risk Adjustment Process

The Group has established a Risk Adjustment Process to determine whether annual bonus payments and/ or long-term incentive vesting appropriately reflect the Group's exposure to risk and compliance with our risk policies and procedures during the year. Following the year end, the Chief Risk Officer ("CRO") is asked to report on the following key areas of risk and compliance:

- **Adherence to risk profile:** has all business been carried out within the Group's approved risk appetite and not at the expense of deviating from the risk framework approved by the Board at the start of the year.
- **Assessment of risk culture and conduct:** have individuals followed the Group's risk policies and procedures, completed any relevant risk training and appropriately escalated any risk breaches within specified timeframes.

Following a discussion of any issues raised during this process, the Remuneration Committee, in consultation with the Chief Risk Officer, will make appropriate adjustments to payments or levels of vesting.

Loss of Office

To avoid actual or perceived reward for failure, the Group has a policy framework for termination payments made to Executive Directors and MRTs based on voluntary resignation or termination for cause; severance terms agreed for an individual and death, ill health, disability, injury, or where the individuals employing company or business leaves the Group.

Alan Rubenstein
Chair of the Remuneration Committee

Directors' Report

The Directors present their Report together with the audited accounts for the year ended 31 December 2019.

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

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

CEO's Report – pages 3-4.
Strategic Report – pages 3-5.
Risk Management – pages 10-12.
Corporate Governance Report – pages 18–24.

Corporate Governance Statement

For the year ended 31 December 2019, under The Companies (Miscellaneous Reporting) Regulations 2018, the Company has applied the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council ('FRC') in December 2018 and available on the FRC website). These new corporate governance reporting requirements apply to Company reporting for financial years starting on or after 1 January 2019. We have adopted the Wates principles as an appropriate framework when making disclosures regarding corporate governance arrangements which are, and will be, applied throughout the Group's ongoing work.

s172(1) Companies Act 2006

The Wates Corporate Governance Principles for Large Private Companies provide a framework for the Group to not only demonstrate how the Board makes decisions for the long term success of the Company and its stakeholders, but also having regard to how the Board ensures the Group complies with the requirements of Section 172 (1) of the Companies Act 2006. During 2019, the Directors believe that they acted in the way they considered, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. Further details of which can be found in the Strategic Report CEO's statement on pages 3-4 and People on pages 16-17 and within the Corporate Governance Report starting at page 18.

Throughout 2020, the Board will continue to review and challenge how the Group can improve engagement with its employees and stakeholders.

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 2019 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 2019 (2018: nil).

Post-balance sheet events

There were no significant post-balance sheet events requiring an adjustment to the Group financial position since 31 December 2019. However, the Group's activities have been impacted by the outbreak of COVID-19. Further information is provided in the Financial Review on pages 8-9.

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 2019 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, 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 and Employee Engagement

As at 31 December 2019, the Group employed 1,835 people of which 909 are women (49.54%) and 926 are men (50.46%).

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 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 and department forums. 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.

External 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 2020 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. Further information can be found in the Audit Committee Report on pages 25 to 27. The registered office details are: KPMG LLP – Chartered Accountants and Statutory Auditor, 15 Canada Square, London E14 5GL. Tel: +44(0)20 7311 1000

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 and has taken into account the potential impacts arising from the coronavirus pandemic. The Directors have a reasonable expectation that the Group has adequate resources to continue in operation for at least the next 12 months.

Significant Contracts

A number of agreements entered into by the Group or its subsidiaries may take effect, alter or terminate upon the change of control of the Group or its subsidiaries. None are considered to be significant in terms of their potential impact on the business of the Group as a whole.

Research and Development

While the company does not actively undertake pure research and development activities there is ongoing activity to improve the products and services provided to our customers.

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.

Financial Risk Management, including the possible impacts of Brexit, is discussed in the Risk Management Section on page 10 to 12.

The Committees continue to evaluate climate-related risks and opportunities.

To support Group policies and to facilitate raising concerns about any possible improprieties, the Group provides a 24 hour, 7 days a week confidential telephone hotline, so that colleagues or third parties may report anonymously any perceived inaccurate or unethical working practices.

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

Internal Audit
The activities and effectiveness of Internal Audit are monitored and reviewed by the Audit Committee. Further information can be found in the Audit Committee report on pages 26 to 27.

Corporate Information
Registered office: The Observatory, Castlefield Road, Reigate, Surrey RH2 0SG. Tel +44 (0)1737 222 222
Registered No. 7064312
Legal entity identifier: LEI 213800KOI3F5LM54PT80
Website: www.esuregroup.com

This section, together with the reports set out on pages 3 to 33, are approved by order of the Board.

Kirsty Whitehead
Company Secretary
8 April 2020

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, 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 Parent Company Financial Statements.
- Assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern.
- 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.

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

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

David McMillan
Chief Executive Officer
8 April 2020

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 2019 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 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

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

We were first appointed as auditor by the directors for the financial year ended 31 December 2000. The period of total uninterrupted engagement is for the 20 financial years ended 31 December 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: including 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 (unchanged from 2018), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

i. The impact of uncertainties consequent upon the UK's departure from the European Union on our audit
Refer to page 13 (principal risks) and page 48 (accounting policy).

<u>The risk</u>

Extreme levels of uncertainty
The UK left the European Union (EU) on 31 January 2020 and entered an implementation period which is due to operate until 31 December 2020. At that point current trade agreements with the European Union terminate. The UK is entering negotiations over future trading relationships with the EU and a number of other countries. Where new trade agreements are not in place World Trade Organisation (WTO) arrangements will be in force, meaning among other things import and export tariffs, quotas and border inspections, which may cause delivery delays. Different potential outcomes of these trade negotiations could have wide ranging impacts on the Company's operations and the future economic environment in the UK and EU.

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 (see below). All of these depend on assessments of the future economic environment and the Company's future prospects and performance.

The uncertainty over the UK's future trading relationships with the rest of the world and related economic effects give rise to extreme levels of uncertainty, with the full range of possible effects currently unknown.

<u>Our response</u>

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

- Our knowledge of the business– We considered the directors’ assessment of risks arising from different outcomes to the trade negotiations for the Company’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 these uncertainties 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 disclosures concerning uncertainties related to the UK’s future trading relationships 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 the impact of the UK’s departure from the EU.

ii. Valuation of claims outstanding

(£998.0m; 2018: £961.5m)
Refer to page 53 (accounting policy) and page 72 (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 are also required to determine the best estimate of reported claims and the IBNR and losses arising from large bodily injury claims for motor insurance, some of which involve periodic payment orders (“PPOs”).

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 including those for the recognition of large losses, allowance for changes in risk mix, and net costs per policy, as well as any PPO related assumptions (propensities, discount rates and longevity). Our work will be performed on booked liabilities.

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 Company.

Our response:

With assistance of our own actuarial specialist, our procedures included:

- Control operation: We met with the Company’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 Company’s internal actuaries and external actuaries used by the Company 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 Company’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 Company’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 PPO Uplift) in the context of significant historical volatility in the book;
- Independent re-performance: Independent re-projection of selected cohorts of claims outstanding using our own models for large 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 Company'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 (2018: acceptable).

iii. Parent company investment in subsidiaries

(£234.6m; 2018: £234.6m)
Refer to page 89 (accounting policy) and page 90 (financial disclosures).

The risk:

Low risk high value assets:
The carrying amount of the parent company's investments in subsidiaries represents 99.2% (2018: 96.9%) of the parent company's total assets. While recoverability is not at a high risk of significant misstatement or subject to significant judgement, this is considered to be the area that had the greatest effect on our overall parent company audit due to their materiality in the context of parent company financials.

Our response:

Our procedures included:

- Compare 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
- Assess 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 (2018: 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 £6.7m (2018: £8.2m), determined with reference to a benchmark of total Group revenue of £893.5m (of which it represents 0.75% (2018: 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 £2.4m (2018: £2.3m), determined with reference to a benchmark of company total assets, of which it represents 1% (2018: 1%).

Esure Services Limited is part of a group headed by esure Holdings Limited. Materiality of £2.7m, as communicated by the group audit team, has been applied to the audit of the Company. This is lower than the materiality we would otherwise have determined by reference to total expenses and represents 1.29% of the Company's total expenses.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £335k, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's seven (2018: six) reporting components, we subjected three (2018: two) to full scope audits for group purposes and one (2018: two) to audit of one account balance (2018: specified risk-focused audit procedures). The latter was not individually financially significant enough to require a full scope audit for group purposes but did present specific individual risks that needed to be addressed.

For the residual three 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 approved the component materiality, which ranged from £2.7m to £6.6m (2018: £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 and 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 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 Group’s and 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 Group’s and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group’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 of available financial resources.

Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors’ statement in Note 2 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company’s use of that basis for a period of at least twelve months 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 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 38, 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 legal correspondence 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

Philip Smart (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
8 April 2020

Consolidated statement of comprehensive income

	Notes	Year ended 31 Dec 2019 £m	Year ended 31 Dec 2018 £m
Gross written premiums	6	**834.5**	862.2
Gross earned premiums	6	**839.8**	856.8
Earned premiums, ceded to reinsurers		**(642.0)**	(79.7)
Earned premiums, net of reinsurance	6	**197.8**	777.1
Investment return and instalment interest	7	**78.1**	68.4
Other income	8	**49.8**	48.0
Total income		**325.7**	893.5
Claims incurred and claims handling expenses	19	**(650.0)**	(756.8)
Claims incurred recoverable from reinsurers	19	**540.9**	45.2
Claims incurred, net of reinsurance		**(109.1)**	(711.6)
Insurance expenses	11	**(147.4)**	(157.5)
Other operating expenses	11	**(53.1)**	(31.1)
Total expenses		**(309.6)**	(900.2)
Finance costs	13	**(12.8)**	(8.7)
Profit/(loss) before tax		**3.3**	(15.4)
Taxation credit	14	**2.3**	3.9
Profit/(loss) attributable to the owners of the parent		**5.6**	(11.5)
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Revaluation of land and buildings	25	**0.0**	0.1
		0.0	0.1
Items that are or may be reclassified to profit or loss:			
Available-for-sale financial assets - change in fair value	25	**7.1**	1.4
Tax relating to items that are reclassified	25	**(1.6)**	0.8
		5.5	2.2
Total comprehensive income/(loss) for the period attributable to owners of the parent		**11.1**	(9.2)

The notes on pages 48 to 85 form part of these Financial Statements.

Consolidated statement of financial position

	Notes	As at 31 Dec 2019 £m	As at 31 Dec 2018 £m
Assets			
Goodwill and intangible assets	16	**33.1**	30.9
Deferred acquisition costs	21	**48.9**	46.6
Property, plant and equipment	17	**43.2**	26.6
Financial investments	18	**1,059.0**	983.7
Reinsurance assets	19	**726.9**	395.5
Deferred tax assets	24	**0.6**	0.2
Insurance and other receivables	20	**329.0**	341.9
Current tax assets		**3.5**	12.0
Cash and cash equivalents	18, 22	**24.4**	50.8
Total assets		**2,268.6**	1,888.2
Equity and liabilities			
Share capital	25	**0.4**	0.4
Share premium account	25	**48.2**	48.2
Capital redemption reserve	25	**44.9**	44.9
Other reserves	25	**12.9**	7.4
Retained earnings		**157.6**	153.7
Total equity		**264.0**	254.6
Liabilities			
Insurance contract liabilities	19	**1,413.7**	1,382.5
Borrowings	18	**123.6**	123.3
Insurance and other payables	23	**467.0**	126.2
Derivative financial liabilities	18	**0.3**	1.6
Total liabilities		**2,004.6**	1,633.6
Total equity and liabilities		**2,268.6**	1,888.2

The notes on pages 48 to 85 form part of these Financial Statements.

The Financial Statements were approved by the Board and authorised for issue on 8 April 2020 and signed on its behalf.

Peter Bole
Director

Registered number: 07064312

Consolidated statement of changes in equity

	Notes	Share capital £m	Share premium £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
Year ended 31 December 2018							
At 1 January 2018	25	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	25	0.1	2.4	-	-	-	2.5
Share-based payments	26	-	-	-	-	3.8	3.8
Deferred tax on share-based payments		-	-	-	-	(1.1)	(1.1)
Dividends	15	-	-	-	-	(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
Year ended 31 December 2019							
At 1 January 2019 as previously reported	25	**0.4**	**48.2**	**44.9**	**7.4**	**153.7**	**254.6**
Implementation of IFRS 16	4	**-**	**-**	**-**	**-**	**(1.7)**	**(1.7)**
At 1 January 2019 restated		**0.4**	**48.2**	**44.9**	**7.4**	**152.0**	**252.9**
Profit for the year		**-**	**-**	**-**	**-**	**5.6**	**5.6**
Other comprehensive income		**-**	**-**	**-**	**5.5**	**-**	**5.5**
Total comprehensive income		**-**	**-**	**-**	**5.5**	**5.6**	**11.1**
Transactions with owners							
Total transactions with owners		**-**	**-**	**-**	**-**	**-**	**-**
At 31 December 2019		**0.4**	**48.2**	**44.9**	**12.9**	**157.6**	**264.0**

The notes on pages 48 to 85 form part of these Financial Statements.

Consolidated statement of cash flows

Cash flows from operating activities	Notes	Year ended 31 Dec 2019 £m	Year ended 31 Dec 2018 £m
Profit/(loss) after tax for the period		**5.6**	(11.5)
Adjustments to reconcile profit after tax to net cash flows:			
- Finance costs	13	**12.8**	8.7
- Depreciation and revaluation of property, plant and equipment	17	**6.9**	5.1
- Amortisation of intangible assets	16	**10.5**	5.5
- Share-based payments	26	**-**	3.8
- Taxation credit	14	**(2.3)**	(3.9)
- Total investment return	7	**(22.0)**	(12.2)
- Instalment interest	7	**(56.1)**	(56.2)
- Loss on the disposal of property, plant and equipment	16, 17	**1.6**	0.4
Operating cash flows before movements in working capital, tax and interest paid		**(43.0)**	(60.3)
Sales of financial investments		**558.2**	848.0
Purchase of financial investments		**(622.2)**	(903.2)
Interest, rent and dividends received less investment management expenses on financial investments		**18.6**	14.2
Instalment interest received		**56.6**	56.0
Changes in working capital:			
- Increase in insurance liabilities including reinsurance assets, unearned premium reserves and deferred acquisition costs		**17.4**	141.0
- Decrease / (increase) in insurance and other receivables		**10.2**	(32.5)
- (Decrease) / increase in trade and other payables including insurance payables		**(4.7)**	28.9
Taxation recovered/(paid)		**9.2**	(19.9)
Net cash generated in operating activities		**0.3**	72.2
Cash flows used in investing activities			
Purchase of property, plant and equipment, and software	16, 17	**(15.1)**	(22.5)
Net cash used in investing activities		**(15.1)**	(22.5)
Cash flows used in financing activities			
Proceeds on issue of ordinary shares	25	**-**	2.4
Interest paid on loans	18	**(8.5)**	(8.5)
Repayment of lease liabilities		**(3.1)**	-
Dividends paid	15	**-**	(39.4)
Net cash used in financing activities		**(11.6)**	(45.5)
Net (decrease)/increase in cash and cash equivalents		**(26.4)**	4.2
Cash and cash equivalents at the beginning of the year	22	**50.8**	46.6
Cash and cash equivalents at the end of the year	22	**24.4**	50.8

The notes on pages 48 to 85 form part of these Financial Statements.

Notes to the Financial Statements
For the year ended 31 December 2019

1 . General information

esure Group plc is a company incorporated in England and Wales. Its registered office is The Observatory, Reigate, Surrey, RH2 0SG.

The nature of the Group's operations is the writing of general insurance for private cars and homes. The Company's principal activity is that of a holding company.

All of the Company's subsidiaries are located in the United Kingdom, except for esure S.L.U., which is incorporated in Spain.

2 . Accounting policies

Basis of preparation

These Financial Statements present the esure Group plc group Financial Statements for the year ended 31 December 2019, 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. The Board has reviewed the Group's projections for the next 12 months and beyond, including cash flow forecasts and regulatory capital surpluses and has taken into account the potential impacts arising from the coronavirus pandemic. Based on this 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.

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 during the period, with a date of initial application of 1 January 2019:

IFRS 16 - Leases

The Group has applied IFRS 16 from 1 January 2019. Details of the Group's approach and the effect of initial application are provided in note 4.

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 2019 and are expected to have an impact on the Group Financial Statements.

IFRS 17 – *Insurance Contracts*

The new standard is effective for periods beginning on or after 1 January 2022, although a delay to 1 January 2023 has been proposed. 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 our results.

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

The following of the Group's subsidiaries adopted IFRS 9 from 1 January 2018: esure Services Limited, esure broker Limited, esure Holdings Limited and esure Finance Limited.

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.

2 . Accounting policies (continued)

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 on 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. 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.

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.

2 . Accounting policies (continued)

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.

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.

2 . Accounting policies (continued)

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.

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.

2 . Accounting policies (continued)

Financial assets

Classification

Financial assets falling within the scope of IAS 39 - *Financial Instruments: Recognition and Measurement* are designated/classified as 'at fair value through profit or loss' ('FVTPL'), 'loans and receivables', 'available-for-sale' ('AFS') or 'held for trading'. The Group determines the classification of its financial assets at initial recognition. The Group does not classify any financial assets as held to maturity financial assets.

The Group's financial assets include cash and cash equivalents, other debtors and quoted and unquoted financial investments including derivatives. Insurance receivables are also presented as financial assets.

Initial recognition of financial assets

The Group designates on initial recognition its financial assets held for investment purposes at FVTPL or AFS with the exception of derivatives, which are classified as held for trading. All other financial assets are classified as loans and receivables. For those financial investments designated at FVTPL or AFS, this is in accordance with the Group's documented investment strategy. Information relating to these investments is provided internally to the Group's Directors and key managers on a fair value basis.

The Group's financial assets are initially recognised at fair value, plus any directly attributable transaction costs, with the exception of financial assets at FVTPL for which directly attributable transaction costs are expensed as incurred. If the Group determines that the fair value of a financial asset on initial recognition differs from its transaction price, but the fair value measurement is not evidenced by a valuation technique that uses only data from observable markets, then this difference is deferred and is subsequently recognised as investment income only to the extent that there is a change in factor (including time) that would result in a market participant taking the data into account when setting a price for the financial asset.

Purchases and sales of financial assets are accounted for at the trade date.

Subsequent measurement

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised through profit or loss in the statement of comprehensive income. AFS financial assets are stated at fair value, with any resultant gain or loss (other than impairments and foreign currency movements) recognised through other comprehensive income and accumulated in other reserves. Interest income is recognised as investment income through the statement of comprehensive income and is calculated based on amortised cost using the effective interest rate. When AFS financial assets are derecognised, the gain or loss accumulated in other reserves is reclassified to profit or loss in the statement of comprehensive income.

Loans and receivables are measured at amortised cost less accumulated impairment losses using the effective interest rate method.

Impairment of financial assets

Objective evidence of impairment may include default on cash flows from the asset or reported financial difficulty of the issuer or counterparty.

Financial assets measured at amortised cost

The Group assesses at each reporting date whether any financial assets held at amortised cost are impaired. Financial assets are impaired where there is evidence that one or more events occurring after the initial recognition of the asset may lead to a reduction in the estimated future cash flows arising from the asset. Impairment losses on financial assets classified as loans and receivables are calculated as the difference between the carrying value and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses and any reversals of impairments are recognised through the income statement.

Available-for-sale financial assets

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

2 . Accounting policies (continued)

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.

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.

2 . Accounting policies (continued)

Financial liabilities (continued)

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, this 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.

Leases under IAS 17: accounting policy for year ended 31 December 2018

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.

Leases under IFRS 16: accounting policy for year ended 31 December 2019

Group as a lessor

The Group leases out own property. The Group has classified these leases as operating leases.

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as lessor. 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).

2 . Accounting policies (continued)

Leases under IFRS 16: accounting policy for year ended 31 December 2019 (continued)

Group as a lessee - operating leases

As a lessee, the Group leases some property assets and low value IT assets. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for all leases. On initial recognition, lease liabilities are measured at the present value of the future lease payments, discounted at the Group's incremental borrowing rate at that date. The right-of-use asset is equal to the lease liability and is then depreciated on a straight-line basis over the lifetime of the lease.

<u>Leases classified as operating leases under IAS 17</u>

Previously, the Group classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group’s incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Group’s incremental borrowing rate at the date of initial application.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- Did not recognise right-of-use assets and liabilities for leases of low value IT equipment.
- Excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.

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, including but not limited to, business transformation costs, non-recurring transactions such as the LPT reinsurance and amortisation of acquired intangible assets.

3 . Critical accounting judgements and estimates

The preparation of these consolidated Financial Statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates; however the consolidated Financial Statements presented are based on conditions that existed at the balance sheet date.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty and critical judgements in applying the Group's accounting policies

Insurance contract liabilities

Estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not reported ('IBNR') at the reporting date. It can take a significant period of time before ultimate claims cost can be established with certainty for some types of claims.

The ultimate cost of outstanding claims is estimated by carrying out standard actuarial projections in line with the Institute and Faculty of Actuaries Technical Actuarial Standards. These techniques use past claims information and development patterns of these claims to project the expected future claims cost both for notified and non-notified claims.

Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium and hence whether there is a requirement for an unexpired risk provision.

Please refer to note 19 for additional details.

4 IFRS 16 *Leases* Implementation

Changes in significant accounting policies: IFRS 16 *Leases*

The Group has applied IFRS 16 Leases from its effective date of 1 January 2019.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information as permitted by IFRS 16.

See note 2 for details of the accounting policies under IAS 17 and IFRS 16.

Impact on Financial Statements

Impact on transition

On transition to IFRS 16, the Group recognised additional property right-of-use assets, and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

	As at 1 Jan 2019 £m
Right-of-use assets – property	22.7
Lease liabilities	(27.9)
Release of property accruals held at 31 December 2018	3.1
Tax impact	0.4
Retained earnings (decrease)	(1.7)

For the impact of IFRS 16 on profit or loss for the year, see notes 13 and 17.

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019.

	As at 1 Jan 2019 £m
Operating lease commitments at 31 Dec 2018 as disclosed under IAS 17 in the Group's consolidated Financial Statements	41.3
Impact of discounting using the incremental borrowing rate at 1 January 2019	(13.4)
Lease liabilities recognised at 1 January 2019	27.9

5 Segmental information

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

Operating segments

The Group has two operating segments as described below. These segments are also the Group's reportable segments and represent the manner in which the business is regularly reported to the Group's executive and Board of Directors.

Motor

This segment incorporates the revenues and expenses directly attributable to the Group's Motor insurance underwriting activities inclusive of additional insurance products underwritten by the Group and related non-underwritten additional services. Investment income is allocated to the segment on the basis of premium income.

Home

This segment incorporates the revenues and expenses directly attributable to the Group's Home insurance underwriting activities and related non-underwritten additional services. Investment income is allocated to the segment on the basis of premium income.

Reconciliation to adjusted measures

In 2019 the Group introduced new reinsurance arrangements to enhance capital availability. The new reinsurance arrangements include a Loss Portfolio Transfer combined with Adverse Development Cover (the "LPT") and a Quota Share ("QS").

The LPT cover relates to a number of accident years, and the resulting IFRS accounting treatment materially reduces both net earned premiums and net incurred claims reported for 2019, distorting the reported operating performance of the Group. Given the non-recurring nature of the LPT transaction, and to ensure that the KPIs provide a meaningful reflection of underlying performance and to improve the comparison of performance to the prior year, the Group has adjusted the reported Combined Operating Ratio, Net Loss Ratio and Net Expense Ratio to remove the impact of the LPT reinsurance.

5 . Segmental information (continued)

	Income statement	Add back impact of LPT	Reclassifications	Segmental reporting
	£m	£m	£m	£m
Net earned premium	197.8	487.5	-	685.3
Investment income	22.0	-	-	22.0
Instalment interest income	56.1	-	-	56.1
Other income	49.8	-	-	49.8
Total income	**325.7**	**487.5**	-	**813.2**
Net incurred claims	(77.8)	(472.3)	-	(550.1)
Claims handling costs	(31.3)	-	-	(31.3)
Insurance expenses	(147.4)	-	-	(147.4)
Other operating expenses	(53.1)	-	36.7	(16.4)
Total expenses	**(309.6)**	**(472.3)**	**36.7**	**(745.2)**
Trading profit	**16.1**	**15.2**	**36.7**	**68.0**
Amortisation of acquired intangible assets	-	-	(1.0)	(1.0)
Non-trading costs	-	(18.2)	(35.7)	(53.9)
Finance costs	(12.8)	3.0	-	(9.8)
Profit before tax	**3.3**	-	-	**3.3**

Segmental revenues, expenses and other information

An analysis of the Group's results by reportable segment is shown below:

Year ended 31 December 2019	Motor	Home	Adjusted
	£m	£m	£m
Gross written premiums	**736.4**	**98.1**	**834.5**
Earned premiums, net of reinsurance	607.8	77.5	685.3
Investment income	19.7	2.3	22.0
Instalment interest income	50.7	5.4	56.1
Other income	43.7	6.1	49.8
Total income	**721.9**	**91.3**	**813.2**
Net incurred claims	(499.8)	(50.3)	(550.1)
Claims handling costs	(27.4)	(3.9)	(31.3)
Insurance expenses	(115.9)	(31.5)	(147.4)
Other operating expenses	(15.3)	(1.1)	(16.4)
Total expenses	**(658.4)**	**(86.8)**	**(745.2)**
Trading profit	**63.5**	**4.5**	**68.0**
Amortisation of acquired intangibles			(1.0)
Non-trading costs			(53.9)
Finance costs			(9.8)
Profit before taxation			**3.3**
Tax credit			2.3
Profit after taxation			**5.6**
Net expense ratio	23.6%	45.7%	26.1%
Net loss ratio	82.2%	64.9%	80.2%
Combined operating ratio	105.8%	110.6%	106.3%

The average number of in-force policies during the year ended 31 December 2019 was 2.39 million.

5 . 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 expense			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.

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

During 2019, the Group incurred non-trading costs of £53.9m (2018: £13.3m), of which £26.1m (2018: nil) related to business transformation costs, £18.2m (2018: nil) related to the LPT, £7.2m related to non-recurring staff costs (2018: £1.1m) and £2.4m (2018: £12.2m) related to other costs.

Notes to the Financial Statements
For the year ended 31 December 2019

6 . Earned premiums, net of reinsurance

	Year ended 31 Dec 2019 £m	Year ended 31 Dec 2018 £m
Gross written premiums	**834.5**	862.2
Change in unearned premium provision	**5.3**	(5.4)
Gross earned premiums	**839.8**	856.8
Written premiums, ceded to reinsurers other than LPT and QS	**(77.6)**	(82.0)
Written premiums, ceded to reinsurer under LPT and QS	**(563.1)**	-
Change in unearned premium provision	**(1.3)**	2.3
Earned premiums, ceded to reinsurers	**(642.0)**	(79.7)
Earned premiums, net of reinsurance	**197.8**	777.1

7 . Investment return and instalment interest

	Year ended 31 Dec 2019 £m	Year ended 31 Dec 2018 £m
Interest income on financial investments	**10.7**	11.7
Interest income on cash deposits	**0.3**	0.1
Investment expenses	**(6.1)**	(5.1)
Dividend income on financial instruments	**11.6**	9.0
Net fair value (losses)/gains on derivative financial instruments	**5.4**	(9.2)
Net fair value gains/(losses) on financial instruments at FVTPL	**0.5**	4.8
Net gains on AFS financial instruments reclassified from equity to P&L	**(0.6)**	0.7
Rental income	**0.2**	0.2
Total investment return	**22.0**	12.2
Instalment interest	**56.1**	56.2
Total investment return and instalment interest	**78.1**	68.4

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

8 . Other income

	Year ended 31 Dec 2019 £m	Year ended 31 Dec 2018 £m
Brokerage and commission income	**13.8**	13.9
Claims and related income	**9.2**	9.7
Profit commission from reinsurers	**1.2**	-
	24.2	23.6
Policy administration fees and other income	**25.6**	24.4
Total other income	**49.8**	48.0

Notes to the Financial Statements
For the year ended 31 December 2019

9 . Employee benefit expense

	Year ended 31 Dec 2019 £m	Year ended 31 Dec 2018 £m
Wages and salaries	**69.2**	63.7
Social security costs	**6.9**	6.7
Pension costs (defined contribution schemes)	**3.8**	3.3
Equity settled share-based payment expenses (note 26)	**-**	2.2
Total employee benefit expense	**79.9**	75.9

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

	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Operations	**1,425**	1,488
Support	**493**	501
Total average number of employees	**1,918**	1,989

10 . Directors' remuneration

	Year ended 31 Dec 2019 £m	Year ended 31 Dec 2018 £m
Emoluments	**3.7**	2.0
Contributions to defined contribution pension scheme	**0.1**	0.1
Total Directors' remuneration	**3.8**	2.1

	Year ended 31 Dec 2019 £m	Year ended 31 Dec 2018 £m
Remuneration of the highest paid Director		
Emoluments	**1.9**	0.7
Contributions to defined contribution pension scheme	**0.0**	-
Total remuneration of the highest paid Director	**1.9**	0.7

During the year no Directors (2018: one Director) participated in share award schemes.

Retirement benefits were accruing to three Directors (2018: two Directors) in respect of defined contribution pension schemes.

11 . Insurance and other operating expenses

	Year ended 31 Dec 2019 £m	Year ended 31 Dec 2018 £m
Acquisition of insurance contracts	**97.8**	94.7
Change in deferred acquisition costs	**(2.3)**	(1.7)
Administration	**51.9**	64.5
Insurance expenses	**147.4**	157.5
Other operating expenses	**53.1**	31.1

During the year ended 31 December 2019, a reclassification of £0.1m is included within other operating expenses in relation to a revaluation of the Group's land and buildings (2018: £0.1m credit).

12 . Profit/(loss) after tax

Profit/(loss) after tax is stated after charging / (crediting):

	Year ended 31 Dec 2019 £m	Year ended 31 Dec 2018 £m
Employee benefit expense (note 9)	**79.9**	75.9
Depreciation and revaluation of property, plant and equipment (note 17)	**6.9**	5.0
Amortisation of intangible assets (note 16)	**10.5**	5.5
Operating lease payments	**0.7**	3.4
Government grant income	**(0.1)**	(0.1)
Auditor's remuneration:		
Fees for audit services		
Audit of these Financial Statements	**0.1**	0.1
Audit of Financial Statements of subsidiaries of the company	**0.6**	0.3
Total audit fees	**0.7**	0.4
Fees for non-audit services		
Audit-related assurance services	**0.1**	0.1
Total non-audit fees	**0.1**	0.1
Total Group auditor remuneration	**0.8**	0.5

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

13 . Finance costs

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

	Year ended 31 Dec 2019 £m	Year ended 31 Dec 2018 £m
Interest expense on 10 year subordinated notes (see note 18)	**8.8**	8.7
Unwind of discount on long-term reinsurance liabilities	**3.0**	-
Interest expense on leasing liabilities	**1.0**	-
Total finance costs	**12.8**	8.7

14 . Taxation

	Year ended 31 Dec 2019 £m	Year ended 31 Dec 2018 £m
Current tax charge/(credit) on income for the reporting period	**(0.2)**	(1.4)
Tax adjustment relating to income for prior periods	**(0.5)**	(1.2)
Total current tax charge/(credit)	**(0.7)**	(2.6)
Origination and reversal of temporary differences	**(1.2)**	(1.3)
Tax adjustment relating to deferred tax for prior periods	**(0.4)**	-
Total deferred tax credit	**(1.6)**	(1.3)
Taxation credit	**(2.3)**	(3.9)

The tax rate used for the calculations is the Corporation Tax rate of 19.00% (2018: 19.00%) payable by the corporate entities in the UK on taxable profits under tax law in that jurisdiction.

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

	Year ended 31 Dec 2019 £m	Year ended 31 Dec 2018 £m
Profit/(loss) before taxation	**3.3**	(15.4)
Taxation charge/(credit) calculated at 19.00% (2018: 19.00%)	**0.6**	(2.9)
Effect of expenses that are not deductible	**0.0**	1.9
Adjustments in relation to the current tax of prior years	**(0.5)**	(1.2)
Adjustments in relation to the deferred tax of prior years	**(0.4)**	-
Non-taxable income	**(2.0)**	(1.7)
Taxation credit	**(2.3)**	(3.9)

Tax recognised directly in equity

	Year ended 31 Dec 2019 £m	Year ended 31 Dec 2018 £m
Deferred tax credit recognised directly in equity	**(1.2)**	(0.2)
Total tax recognised directly in equity	**(1.2)**	(0.2)

The deferred tax recognised directly in equity related to deferred tax arising on share-based payments where the amount of the tax deduction exceeded the amount of the related cumulative remuneration expense recognised.

There is also deferred tax recognised directly in other comprehensive income that relates to AFS investments.

Factors affecting the tax charge for future periods

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016, and the deferred tax asset as at 31 December 2019 has been calculated based on this rate. In the 11 March 2020 Budget it was announced that the UK tax rate will remain at the current 19% and not reduce to 17% from 1 April 2020. The impact would not be material.

15 . Dividends

No interim or final dividend was declared for 2019 (2018: no interim or final dividend).

16 . Goodwill and intangible assets

	Software £m	Acquired brands £m	Total £m
Cost			
As at 1 January 2018	21.8	24.2	46.0
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	65.8
Additions in the year	14.3	-	14.3
Disposals in the year	(2.5)	-	(2.5)
As at 31 December 2019	**53.4**	**24.2**	**77.6**
Accumulated amortisation and impairment			
As at 1 January 2018	7.6	21.8	29.4
Amortisation for the year	4.3	1.2	5.5
As at 31 December 2018	11.9	23.0	34.9
Amortisation for the year	9.5	1.0	10.5
Disposals in the year	(0.9)	-	(0.9)
As at 31 December 2019	**20.5**	**24.0**	**44.5**
Net book value			
As at 31 December 2018	29.7	1.2	30.9
As at 31 December 2019	**32.9**	**0.2**	**33.1**

Included in software as at 31 December 2019 is £3.5m relating to software assets that are not yet available for use in the manner intended by management (31 December 2018: £6.3m). 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 2020, after which the assets are expected to have a useful economic life of two to seven years. See note 27 for details of commitments at year end.

The acquired brands intangible asset represents the Sheilas' Wheels and esure brands acquired by the Group as part of the acquisition of esure Holdings Limited in February 2010. This asset was 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.

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.

17 . Property, plant and equipment

	Right of use assets - leasehold buildings £m	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
Cost				
As at 1 January 2018	-	13.6	28.1	41.7
Additions in the year	-	-	2.3	2.3
Disposals in the year	-	-	0.0	0.0
Revaluation of land and buildings	-	0.0	-	0.0
As at 31 December 2018	-	13.6	30.4	44.0
Implementation of IFRS 16 (see note 4)	22.7	-	-	22.7
Additions in the year	-	-	0.8	0.8
Revaluation of land and buildings	-	0.0	-	0.0
As at 31 December 2019	**22.7**	**13.6**	**31.2**	**67.5**
Accumulated depreciation				
As at 1 January 2018	-	-	12.4	12.4
Depreciation for the year	-	0.1	5.0	5.1
Disposals in the year	-	-	0.0	0.0
Revaluation of land and buildings	-	(0.1)	-	(0.1)
As at 31 December 2018	-	-	17.4	17.4
Depreciation for the year	2.1	0.1	4.8	7.0
Revaluation of land and buildings	-	(0.1)	-	(0.1)
As at 31 December 2019	**2.1**	**-**	**22.2**	**24.3**
Carrying amount				
As at 31 December 2018	-	13.6	13.0	26.6
As at 31 December 2019	**20.6**	**13.6**	**9.0**	**43.2**

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 2019 and 31 December 2018. 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 2019 of £11.5m (31 December 2018: £11.6m).

The Group has tested its right-of-use assets for impairment on the date of transition to IFRS 16 and at 31 December 2019 and has concluded that there is no indication that the right-of-use assets are impaired.

18 . Financial assets and liabilities

18.1. Financial assets

	As at 31 Dec 2019	As at 31 Dec 2018
Financial investments designated at FVTPL:	**£m**	**£m**
Shares and other variable yield securities and units in unit trusts	**70.4**	65.6
Debt securities and other fixed income securities	**143.7**	123.4
Deposits with credit institutions	**200.0**	292.5
Financial investments held for trading:		
Derivative financial instruments	**4.6**	0.1
Financial investments at FVTPL	**418.7**	481.6
AFS financial assets:		
Debt securities and other fixed income securities	**632.1**	492.2
Shares in unquoted equity investments	**8.2**	9.9
Total financial investments	**1,059.0**	983.7
Loans and receivables:		
Insurance and other receivables (note 20)	**265.5**	271.0
Cash and cash equivalents (note 22)	**24.4**	50.8
Total financial assets	**1,348.9**	1,305.5

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 18.3(a).

18.2. Financial liabilities

	As at 31 Dec 2019	As at 31 Dec 2018
Financial liabilities held for trading:	**£m**	**£m**
Derivative financial instruments	**0.3**	1.6
Other financial liabilities:		
Borrowings (see below)	**123.6**	123.3
Insurance and reinsurance payables (note 23)	**356.8**	37.9
Total financial liabilities	**480.7**	162.8

	As at 31 Dec 2019	As at 31 Dec 2018
Borrowings	**£m**	**£m**
10 year Subordinated Notes	**123.6**	123.3
Total borrowings	**123.6**	123.3

Derivative financial instruments are due within one year.

18 . Financial assets and liabilities (continued)

18.2. Financial liabilities (continued)

The movement in Group borrowings in the year is attributable to:	Year ended 31 Dec 2019 £m	Year ended 31 Dec 2018 £m
As at 1 January	**123.3**	123.1
Cash outflow	**(8.5)**	(8.5)
Non-cash movement: interest accrued	**8.8**	8.7
As at 31 December	**123.6**	123.3

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 2019 was £127.7m.

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 policy holders of the Group.

18.3. 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 Market 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.

In 2019, the Group reduced its investment risk profile including tightening Asset/Liability Matching. There continues to be a potential for volatility in UK-based assets due to uncertainty after the Brexit transition period and in general market conditions due to COVID-19.

Key elements

- Interest Rate Risk
- Equity Risk
- Spread Risk
- Concentration Risk

Mitigation

- The investment strategy is set with consideration to the overall Market Risk of the portfolio. Oversight of the Group's investment strategy is undertaken by the management Investment Committee and overall financial risks by the Financial Risk Committee both chaired by the Chief Financial Officer.
- Market Risk is managed through regular monitoring, including the drivers of investment return and value at risk measures, counterparty exposures and interest rate sensitivities of our assets and liabilities.
- Asset liability management is a key area of focus within the investment strategy, with continuous monitoring and actions taken against the risk appetites set.
- The Group manages the level of investment counterparty credit risk it accepts by placing limits on its exposure to counterparties, and, geographical segments and business 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.

18 . Financial assets and liabilities (continued)

18.3. 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 profit before tax for the period would decrease by £0.4m (2018: loss before tax would increase by £1.4m), reflecting the reduction in fair value on assets designated as FVTPL and equity would decrease by £17.1m (2018: £14.2m). For a decrease of 50 basis points in the Bank of England base rate the profit before tax for the period would increase by £0.2m (2018: loss before tax would decrease by £0.7m), reflecting the increase in fair value on assets designated as FVTPL and equity would increase by £8.6m (2018: £7.1m).

Equity Risk

The Group's equity investments relate to infrastructure equity funds. If the relevant valuation inputs had increased/decreased by 10%, the profit/(loss) before tax for the year would decrease/increase by £7.0m (2018: £6.6m).

Currency Risk

At the reporting date, the Group has direct exposure to both US Dollars and Euros with a value of £1.2m (2018: £2.3m). If the Sterling rates with either of these foreign currencies had strengthened/weakened by 10%, the profit before tax for the year would decrease/increase by £0.1m (2018: loss before tax would increase/decrease by £0.2m).

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.

The Group is exposed to Credit Risk through its reinsurance counterparties and its investments in Direct Lending funds.

Key elements

- Reinsurance Counterparty Risk
- Supplier Debtor Risk
- Investment Counterparty 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.
- The Group manages its exposure to Credit Risk in investments in Direct Lending funds as part of its wider investment strategy, as discussed above under Market Risk.

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 2019 £m	**As at 31 Dec 2018 £m**
Derivative financial instruments	**4.6**	0.1
Debt securities	**775.8**	615.6
Deposits with credit institutions	**200.0**	292.5
Cash at bank and in hand	**24.4**	50.8
Investments bearing credit risk and cash and cash equivalents	**1,004.8**	959.0
AAA	**293.9**	352.9
AA	**337.2**	207.6
A	**138.5**	182.6
BBB	**152.6**	135.1
Below BBB or not rated	**82.6**	80.8
Investments bearing credit risk and cash and cash equivalents	**1,004.8**	959.0
The Group has the following financial assets that would meet the solely payment of principal and interest ("SPPI") criteria under IFRS 9:		
AAA	**293.9**	352.8
AA	**337.2**	207.6
A	**138.5**	182.6
BBB	**120.6**	135.1
Financial assets which would meet SPPI criteria	**890.2**	878.1

The change in the fair value during the period for these financial assets was £3.9m (2018: £0.6m).

18 . Financial assets and liabilities (continued)

18.3. Financial risk management objectives (continued)

b) Credit Risk (continued)

For a widening of 100 basis points in credit spreads across the entire credit quality curve the profit before tax for the period would decrease by £0.4m (2018: loss before tax would increase by £1.8m), reflecting the reduction in fair value on assets designated as FVTPL and the impact on equity would be a decrease by £12.4m (2018: £11.1m).

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.

(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 2019					
Derivative financial instruments	**4.6**	**-**	**-**	**4.6**	**4.6**
Debt securities and other fixed income securities	**171.1**	**517.7**	**175.1**	**863.9**	**775.8**
Deposits with credit institutions	**200.0**	**-**	**-**	**200.0**	**200.0**
Cash at bank and in hand	**24.4**	**-**	**-**	**24.4**	**24.4**
Loans and receivables including salvage and subrogation assets	**309.0**	**8.9**	**1.2**	**319.1**	**319.1**
Total excluding reinsurers' share of outstanding claims	**709.1**	**526.6**	**176.3**	**1,412.0**	**1,323.9**
Reinsurers' share of outstanding claims	**188.2**	**363.5**	**140.8**	**692.5**	**692.5**
Total	**897.3**	**890.1**	**317.1**	**2,104.5**	**2,016.4**
Financial and insurance liabilities					
At 31 December 2019					
Borrowings	**8.4**	**42.2**	**129.2**	**179.8**	**123.6**
Derivative financial instruments	**0.3**	**-**	**-**	**0.3**	**0.3**
Insurance and other payables and social security and other taxes	**39.9**	**-**	**-**	**39.9**	**39.9**
Lease liabilities	**3.1**	**12.5**	**15.7**	**31.3**	**25.8**
Financial and tax liabilities	**51.7**	**54.7**	**144.9**	**251.3**	**189.6**
Claims outstanding	**366.5**	**478.0**	**153.5**	**998.0**	**998.0**
Unearned premium reserve	**264.8**	**105.1**	**11.4**	**381.3**	**381.3**
Financial and insurance liabilities	**683.0**	**637.8**	**309.8**	**1,630.6**	**1,568.9**

18 . Financial assets and liabilities (continued)

18.3. 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 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

(d) Capital management and regulation

The Group maintains a capital structure consistent with the Group's risk profile and the regulatory market requirements of its business. The Group's objectives in managing its capital are:

- To match the profile of its assets and liabilities, taking account of the risk inherent in the business.
- To satisfy the requirements of its policyholders and regulators.
- To maintain financial and capital strength to support growth.
- To retain financial flexibility by maintaining strong liquidity and access to a range of capital markets.

The esure Board has considered the risk appetite of the Group as part of the Own Risk and Solvency Assessment process under Solvency II. The capital surplus above the SCR provides sufficient headroom to absorb adverse capital events and should enable the Group to continue to meet its regulatory capital requirements.

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.

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.

Description	Impact on coverage
Motor Loss Ratio 5ppts worse	-16%
Yield curve 50bps worse	-1%
Infrastructure equities fall 10%	-2%
Credit Spreads widen 100bps	-5%
1987 Hurricane	-4%
Ogden discount rate of -0.5%	0%

(e) Fair value estimation

In accordance with IFRS 13 *Fair Value Measurement* financial instruments reported at fair value and revalued properties have been categorised into a fair value measurement hierarchy as follows:

Quoted prices (unadjusted) in active markets for identical assets or liabilities - (Level 1)

Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets. An active market is a market in which transactions for the asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

18 . Financial assets and liabilities (continued)

18.3. Financial risk management objectives (continued)

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.
- 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 £8.2m as at 31 December 2019 (2018: £9.9m)

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.

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 (2018: £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 2019	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
	£m	**£m**	**£m**	**£m**
Financial assets				
Derivative financial instruments	**-**	**4.6**	**-**	**4.6**
Equity securities	**-**	**-**	**70.4**	**70.4**
Debt securities	**-**	**33.6**	**110.1**	**143.7**
Deposits with credit institutions	**200.0**	**-**	**-**	**200.0**
Total financial assets at fair value through profit or loss	**200.0**	**38.2**	**180.5**	**418.7**
Debt securities	**237.9**	**394.2**	**-**	**632.1**
Unquoted equity securities	**-**	**-**	**8.2**	**8.2**
Total AFS financial assets	**237.9**	**394.2**	**8.2**	**640.3**
Land and buildings	**-**	**-**	**13.6**	**13.6**
Financial liabilities				
Derivative financial instruments	**-**	**0.3**	**-**	**0.3**
Total financial liabilities reported at fair value	**-**	**0.3**	**-**	**0.3**

18 . Financial assets and liabilities (continued)

18.3. Financial risk management objectives (continued)

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

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 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 1 January 2019	**23.5**	**138.7**
Purchases	**0.5**	**41.3**
Sales	**-**	**(5.4)**
Total net gains/(losses) recognised in the income statement	**-**	**5.9**
Total net gains/(losses) recognised in the statement of comprehensive income	**(2.2)**	**-**
Balance at 31 December 2019	**21.8**	**180.5**

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 2019 in respect of Level 3 assets measured at fair value was £8.4m (31 December 2018: £1.1m). In addition, there were £2.5m of foreign exchange related losses in respect of Level 3 assets measured at fair value during the period (31 December 2018: £3.5m) 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.

19 . Reinsurance assets and insurance contract liabilities

19.1. Insurance Risk

Insurance Risk arises from the inherent uncertainties as to the occurrence, amount and timing of insured events. These would include significant weather-related events and personal injury claims. The Board is responsible for setting the overall underwriting strategy and defining the Risk Appetite, with pricing a standing agenda item for the Risk Committee. The Group uses excess of loss reinsurance contracts to mitigate Insurance Risk, essentially by reducing exposure to large individual claims or aggregated losses from single events.

During the year the Group entered into two additional significant reinsurance agreements:

- An aggregate excess of loss agreement.
- A quota share agreement.

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 fraud risks.

The Group has systems and management information in place to continually monitor underwriting performance and pricing adequacy through the management Pricing Committee.

Claims Management Risk

The Group employs a variety of strategies to ensure the correct claims are paid in a timely manner. Reserve provisions are made on a case by case basis reflect the Group's future liabilities.

The operational strategies used in Claims Management include:

- UK based claims centres, with over 700 specialists; well-resourced and expertly trained staff benefit from image and workflow technology to control paper flow and procedures to enhance efficiency and effectiveness.
- Its own network of motor repairers and dedicated teams offering an extensive range of services directly to 'not at fault' third parties to efficiently control credit hire cost and legal fees.
- Comprehensive anti-fraud strategies are in place to check both fraudulent claims and new business applications.

Reinsurance

The Group purchases reinsurance as a risk transfer mechanism to mitigate risks that are outside the Group's appetite for individual claim or event exposure and to reduce the volatility caused by large individual and accumulation losses. By doing so the Group protects its capital and the underwriting result of each line of business.

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

During the year the Group entered into an aggregate excess of loss contract, protecting the Group from prior period deterioration on the covered claims. During the year the Group has also entered into a quota share agreement.

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 managing 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.

Reserving Risk

Reserving Risk is defined as the uncertainty regarding either the current level of reserves or the payment timing over their lifetime. The Group analyses and projects historical claims development data and uses a number of actuarial techniques to both test and forecast claims provisions. In addition the Group also provides data to external actuaries who assess the adequacy of the Group's claims provisions.

Apart from historical 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.

19 . Reinsurance assets and insurance contract liabilities (continued)

19.1. Insurance Risk (continued)

Reserving Risk (continued)

The ultimate costs and expenses of the claims for which these reserves are held are subject to a number of material uncertainties. As time passes between the reporting of a claim and the final settlement of the claim, circumstances can change that may require established reserves to be adjusted either upwards or downwards. Factors such as changes in the legal environment, results of litigation, propensity of personal injury claims, changes in medical and care costs, and costs of vehicle and home repairs can all substantially impact overall costs and expenses of claims, and cause a material divergence from the bases and assumptions on which the reserves were calculated.

Claims subject to periodic payment orders ('PPOs') are an area of uncertainty relating to the claims provision at 31 December 2019. 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 the value of net claims outstanding at 31 December 2019. In the context of the Group's approach to the mitigation and management of underwriting risk, its reinsurance programme (including its approach to mitigating counterparty Credit Risk) and the Group's prudent approach to reserving for potential PPOs, the risk of an adverse development of the Group's net reserves for PPO claims is not considered to be significant.

During 2019, the Group put in place adverse development cover up to 30 June 2019, which has reduced the Reserving Risk for these

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 and to pay these 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.

19.2. Analysis of recognised amounts

	As at 31 Dec 2019 £m	As at 31 Dec 2018 £m
Gross		
Claims outstanding (before deduction of salvage and subrogation recoveries) and Claims handling expenses	998.0	961.5
Unearned premiums	415.7	421.0
Total insurance liabilities, gross	1,413.7	1,382.5
Recoverable from reinsurers		
Claims outstanding (before deduction of salvage and subrogation recoveries)	692.5	359.8
Unearned premiums	34.4	35.7
Total reinsurers' share of insurance liabilities	726.9	395.5
Net		
Claims outstanding (before deduction of salvage and subrogation recoveries) and Claims handling expenses	305.5	601.7
Unearned premiums	381.3	385.3
Total insurance liabilities, net	686.8	987.0
Due within one year (gross)	789.7	652.2
Due in more than one year (gross)	624.0	730.3

Reinsurance Assets	As at 31 Dec 2019 £m	As at 31 Dec 2018 £m
Reinsurers' share of insurance liabilities	726.9	395.5
Total assets arising from reinsurance contracts	726.9	395.5
Expected to be recovered within one year	222.7	39.0
Expected to be recovered in more than one year	504.2	356.5

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 20). No reinsurance assets have been impaired.

19 . Reinsurance assets and insurance contract liabilities (continued)

19.2. 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 2019 £m	As at 31 Dec 2018 £m
Net claims outstanding (before deduction of salvage and subrogation recoveries) and claims handling	305.5	601.7
Salvage and subrogation recoveries	(52.4)	(61.3)
Net claims outstanding and claims handling expenses	253.1	540.4

19.3. Sensitivity of recognised amounts to changes in assumptions

The following table shows the impact of a 1% variation in the loss ratio on profit or loss and shareholders' equity after tax as at 31 December 2019:

	Accident year									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Net loss ratio	79%	61%	67%	69%	78%	75%	72%	65%	63%	222%
Impact of 1% variation (£m)	3.7	3.7	3.9	4.0	4.0	4.0	4.5	5.5	6.3	1.6

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

19 . Reinsurance assets and insurance contract liabilities (continued)

19.4. 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	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	Total £m
Ultimate gross earned premium	479.1	488.7	511.7	526.1	528.7	532.4	598.0	734.0	856.8	839.8	6,095.3
Estimate of ultimate gross claims costs:											
- At end of reporting year	475.3	392.7	442.0	439.5	456.1	457.2	534.6	640.4	764.5	735.4	
- One years later	416.8	355.7	399.8	386.9	442.4	446.1	481.5	600.9	703.5		
- Two years later	399.0	331.5	369.2	374.6	440.2	425.4	489.9	566.8			
- Three years later	380.6	309.7	355.8	368.9	439.4	434.0	485.2				
- Four years later	371.8	304.9	347.6	363.0	440.9	417.6					
- Five years later	369.9	294.4	354.1	358.5	440.5						
- Six years later	369.3	292.6	350.3	356.1							
- Seven years later	369.3	293.8	350.0								
- Eight years later	369.0	293.9									
- Nine years later	369.0										
Current estimate of cumulative claims	369.0	293.9	350.0	356.1	440.5	417.6	485.2	566.8	703.5	735.4	4,718.0
Cumulative payments to date	(368.6)	(293.5)	(338.2)	(344.2)	(402.6)	(384.6)	(406.4)	(446.6)	(492.0)	(343.8)	(3,820.5)
Liability recognised in the consolidated statement of financial position											897.5
Reserve in respect of prior periods											36.2
Provision for claims handling costs											11.9
Salvage and subrogation											52.4
Total reserve included in the consolidated statement of financial position											998.0

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19 . Reinsurance assets and insurance contract liabilities (continued)

19.4. Claims development tables (continued)

(b) Insurance claims - net ultimate claims

Accident year	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	Total £m
Ultimate net earned premium	452.1	459.7	480.2	489.2	490.8	495.6	554.9	677.8	777.1	197.8	5,075.2
Estimate of ultimate net claims costs:											
- At end of reporting year	446.8	360.1	401.0	404.7	423.8	423.1	450.8	516.8	655.0	438.6	
- One years later	392.5	317.3	356.7	357.9	394.8	396.3	435.2	519.7	488.7		
- Two years later	374.6	296.4	331.9	345.9	391.4	389.8	444.6	442.4			
- Three years later	363.9	285.0	326.3	340.4	390.0	401.4	400.0				
- Four years later	360.9	284.5	325.6	339.8	395.2	373.0					
- Five years later	358.6	281.8	324.8	340.5	382.3						
- Six years later	358.6	281.6	323.3	337.2							
- Seven years later	358.3	281.9	322.2								
- Eight years later	357.8	281.7									
- Nine years later	357.5										
Current estimate of cumulative claims	357.5	281.7	322.2	337.2	382.3	373.0	400.0	442.4	488.7	438.6	3,823.6
Cumulative payments to date	(357.4)	(281.6)	(321.9)	(336.6)	(380.5)	(368.6)	(391.9)	(427.3)	(453.0)	(238.8)	(3,557.6)
Liability recognised in the consolidated statement of financial position											266.0
Reserve in respect of prior periods											0.3
Provision for claims handling costs											11.9
Salvage and subrogation											25.0
Recoverables due to reinsurer											2.3
Total net reserve included in the consolidated statement of financial position											305.5

The claims development tables reflect the statutory statement of comprehensive income. As explained on page 6 of the Annual Report and Accounts, in 2019 the Group entered into the LPT. The LPT relates to a number of accident years, and the IFRS accounting treatment materially reduces net earned premiums in 2019, whereas net incurred claims are reduced across the accident years covered the by contract.

The analysis of the current year and prior contribution to the net loss ratio on pages 5 to 7 of the financials review has been adjusted to remove the impact of the LPT to provide a meaningful reflection of underlying performance and to improve the comparison of performance to the prior year.

19 . Reinsurance assets and insurance contract liabilities (continued)

19.4. Claims development tables (continued)

(c) Insurance claims - net loss ratio development

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Estimate of ultimate loss ratio:										
- At end of reporting year	99%	78%	84%	83%	86%	85%	81%	76%	84%	222%
- One year later	87%	69%	74%	73%	80%	80%	78%	77%	63%	
- Two years later	83%	64%	69%	71%	80%	79%	80%	65%		
- Three years later	80%	62%	68%	70%	79%	81%	72%			
- Four years later	80%	62%	68%	69%	81%	75%				
- Five years later	79%	61%	68%	70%	78%					
- Six years later	79%	61%	67%	69%						
- Seven years later	79%	61%	67%							
- Eight years later	79%	61%								
- Nine years later	79%									

The claims development tables reflect the statutory statement of comprehensive income. As explained on page 6 of the Annual Report and Accounts, in 2019 the Group entered into the LPT. The LPT relates to a number of accident years, and the IFRS accounting treatment materially reduces net earned premiums in 2019, whereas net incurred claims are reduced across the accident years covered the by contract.

The analysis of the current year and prior contribution to the net loss ratio on pages 6 and 7 of the financial review has been adjusted to remove the impact of the LPT to provide a meaningful reflection of underlying performance and to improve the comparison of performance to the prior year. The 2019 net loss ratio is 82.3% excluding the impact of the LPT.

19 . Reinsurance assets and insurance contract liabilities (continued)

19.5. 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:

	2019				2018		
	Gross	Reinsurers share		Net	Gross	Reinsurers share	Net
		LPT & QS	Other				
	£m	£m	£m	£m	£m	£m	£m
At 1 January	**888.0**	**-**	**(359.8)**	**528.2**	739.6	(336.8)	402.8
Cash paid for claims settled in year	**(571.9)**	**197.0**	**11.2**	**(363.7)**	(579.5)	22.2	(557.3)
Change arising from:							
Current year claims	**735.4**	**(193.5)**	**(103.3)**	**438.6**	764.6	(109.6)	655.0
Prior year claims	**(116.7)**	**(339.7)**	**95.6**	**(360.8)**	(36.7)	64.4	27.7
Total at 31 December	**934.8**	**(336.2)**	**(356.3)**	**242.3**	888.0	(359.8)	528.2
Accrued amounts	**(1.1)**	**-**	**-**	**(1.1)**	-	-	-
Provision for claims handling costs	**11.9**	**-**	**-**	**11.9**	12.2	-	12.2
Salvage and subrogation	**52.4**	**-**	**-**	**52.4**	61.3	-	61.3
Total reserve at 31 December	**998.0**	**(336.2)**	**(356.3)**	**305.5**	961.5	(359.8)	601.7

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

	Year ended 31 Dec 2019				Year ended 31 Dec 2018		
	Gross	Reinsurers share		Net	Gross	Reinsurers share	Net
		LPT & QS	Other				
	£m	£m	£m	£m	£m	£m	£m
Claims incurred	**618.7**	**(533.2)**	**(7.7)**	**77.8**	728.0	(45.2)	682.8
Claims handling expenses	**31.3**	**-**	**-**	**31.3**	28.8	-	28.8
Claims incurred and claims handling expenses	**650.0**	**(533.2)**	**(7.7)**	**109.1**	756.8	(45.2)	711.6

(b) Provisions for unearned premiums

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

	2019				2018		
	Gross	Reinsurers share		Net	Gross	Reinsurers share	Net
		LPT & QS	Other				
	£m	£m	£m	£m	£m	£m	£m
Unearned premium provision							
At beginning of the year	**421.0**	**-**	**(35.7)**	**385.3**	415.6	(33.4)	382.2
Premiums written in the year	**834.5**	**(563.1)**	**(77.6)**	**193.8**	862.2	(82.0)	780.2
Premiums earned in the year	**(839.8)**	**563.1**	**78.9**	**(197.8)**	(856.8)	79.7	(777.1)
At end of year	**415.7**	**-**	**(34.4)**	**381.3**	421.0	(35.7)	385.3

20 . Insurance and other receivables

	As at 31 Dec 2019 £m	As at 31 Dec 2018 £m
Insurance receivables	**251.1**	256.3
Prepayments and accrued income	**9.9**	9.6
Other debtors	**14.4**	14.7
Salvage and subrogation assets	**52.4**	61.3
Profit commission receivable	**1.2**	-
Total insurance and other receivables	**329.0**	341.9

Insurance receivables, other debtors and profit commission receivable are financial assets classified as loans and receivables. For more details see note 18, which includes the ageing of these loans and receivables.

The Directors believe the carrying value of these financial assets approximates their fair value.

All insurance receivables and other receivables are expected to be recovered within one year, aside from £8.9m of salvage and subrogation assets which are expected to be recovered in more than one year (2018: £10.8m) and £1.2m of profit commission receivable which is expected to be recovered in more than one year (2018: £nil).

21 . Deferred acquisition costs

Movement in the deferred acquisition costs asset are as follows:

Deferred Acquisition Costs	As at 31 Dec 2019 £m	As at 31 Dec 2018 £m
At 1 January	**46.6**	44.9
Movement during the period	**2.3**	1.7
At 31 December	**48.9**	46.6

22 . Cash and cash equivalents

	As at 31 Dec 2019 £m	As at 31 Dec 2018 £m
Cash at bank and in hand	**24.4**	50.8
Total	**24.4**	50.8

23 . Insurance and other payables

	As at 31 Dec 2019 £m	As at 31 Dec 2018 £m
Insurance payables	**7.8**	11.6
Reinsurance payable	**349.0**	26.3
Accrued expenses	**32.7**	37.4
Social security and other taxes	**32.1**	31.6
Deferred income	**19.6**	19.3
Lease liabilities	**25.8**	-
Total insurance and other payables	**467.0**	126.2

Insurance payables and accrued expenses principally comprise amounts outstanding for suppliers and ongoing costs. The average credit period taken for invoiced trade purchases is 9.8 days (2018: 8.5 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 lease liabilities.

Included within deferred income is £nil in Government grants (2018: £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 from 2014.

Of the lease liabilities, £23.7m is expected to be settled in more than one year (2018: £nil).

24 . 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 2019 £m	As at 31 Dec 2018 £m
Deferred tax assets	**2.7**	2.4
Deferred tax liabilities	**(2.1)**	(2.2)
Net deferred tax assets	**0.6**	0.2

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

	As at 31 Dec 2019 £m	As at 31 Dec 2018 £m
At 1 January	**0.2**	(0.9)
Income statement credit (note 14)	**1.2**	1.3
Tax adjustment relating to deferred tax for prior periods	**0.4**	-
Deferred tax recognised directly in equity	**(1.2)**	(0.2)
At 31 December	**0.6**	0.2

The deferred tax rate used is 29.16% (2018: 19.91%).

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets	Leases £m	Losses carried forward £m	Share-based payments £m	Total £m
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
Brought forward as at 1 January 2019	**-**	**2.4**	**-**	**2.4**
(Charged) / credited to the income statement	**-**	**(0.1)**	**-**	**(0.1)**
Deferred tax recognised directly in equity	**0.4**	**-**	**-**	**0.4**
At 31 December 2019	**0.4**	**2.3**	**-**	**2.7**

There is an unrecognised deferred tax asset on land and buildings of £2.0m at 31 December 2019 (2018: £2.0m) for which there is insufficient likelihood that future taxable gains will be available against which the asset can be utilised.

24 . Deferred tax assets and liabilities (continued)

Deferred tax liabilities	Deferred acquisition costs £m	Accelerated capital allowances £m	Intangible assets £m	Claims equalisation reserve £m	AFS reserve £m	Total £m
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
Brought forward as at 1 January 2019	**0.3**	**1.1**	**0.2**	**1.0**	**(0.4)**	**2.2**
Charged/(credited) to the income statement	**0.0**	**(1.2)**	**(0.2)**	**(0.3)**	**-**	**(1.7)**
Deferred tax recognised directly in equity	**-**	**-**	**-**	**-**	**1.6**	**1.6**
At 31 December 2019	**0.3**	**(0.1)**	**0.0**	**0.7**	**1.2**	**2.1**

25 . Share capital and other reserves

	Ordinary Shares £m	Share Premium £m	Capital Redemption Reserve £m	Other reserves £m	Total £m
At 1 January 2018	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
At 31 December 2018	0.4	48.2	44.9	7.4	100.9
Fair value movements on AFS assets	**-**	**-**	**-**	**7.1**	**7.1**
Tax relating to fair value movements on AFS assets	**-**	**-**	**-**	**(1.6)**	**(1.6)**
At 31 December 2019	**0.4**	**48.2**	**44.9**	**12.9**	**106.4**

During the year ended 31 December no Ordinary Shares were issued by the Group (31 December 2018: for 8,157,741 Ordinary Shares were issued by the Group for £2.5m). The authorised, allotted, called up and fully paid share capital of esure Group plc as at 31 December 2019 was 426,301,337 Ordinary Shares of 1/12 pence each (31 December 2018: 426,301,337 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 2019 (31 December 2018: nil).

During the year ended 31 December 2019, £7.1m was credited to other comprehensive income in respect of fair value movements on AFS financial assets (31 December 2018: £1.4m).

During the year ended 31 December 2019, £0.0m was credited to other comprehensive income in respect of fair value movements on land and buildings (31 December 2018: £0.1m).

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

26 . Share-based payments

The Group had a number of equity-settled, share-based compensation plans. As part of the change in control of the Group in 2018 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 2019 and 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 vest 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 Leadershop 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').

For conditions relating to these Schemes, please refer to the Group's 2018 annual report.

Valuation of PSP and SLP awards

The total estimated fair value of the 2018 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 2018, 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 Directors and senior management during 2016. Please refer to the Group's 2017 annual report for the inputs relating to this scheme. 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.

(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 offfered 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 2019 or 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). 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.

(d) Financial effect of share-based payments made

The total expense recognised for the year arising from the share-based payments above was £nil (2018: £3.8m). All share based payment transactions were accounted for as equity-settled.

Scheme Details

Please refer to the Group's 2018 annual report for details of the number of shares that were granted, vested and exercised, lapsed and the dividend equivalents granted in 2018.

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27 . Commitments

(a) Pension capital commitments
The Group contributes to a Group Personal Pension defined contribution scheme available to all staff of which 1,707 employees participated in the scheme at 31 December 2019 (2018: 1,775).

The pension cost charge for the period represents contributions payable by the Group to the scheme and amounted to £3.8m (2018: £3.3m). 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 2019 £m	As at 31 Dec 2018 £m
Fixed asset acquisitions contracted for but not provided in these consolidated Financial Statements	**0.1**	1.0
Investment Commitments	**14.9**	50.5

(c) Operating lease commitments - where the Group is a lessee. With the implementation of IFRS 16 these have been brought onto the balance sheet.
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 Dec 2019 £m	As at 31 Dec 2018 £m
Not later than 1 year	-	2.4
Later than 1 year and no later than 5 years	-	15.0
Later than 5 years	-	26.3
Total minimum lease payments payable	-	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 2019 £m	As at 31 Dec 2018 £m
Not later than 1 year	0.1	0.2
Later than 1 year and no later than 5 years	-	0.1
Total minimum lease payments receivable	**0.1**	0.3

28 . Group subsidiary companies

esure Group plc has the following subsidiaries as at 31 December 2019:

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

The registered office of all of the subsidiaries above, apart from esure S.L.U., is The Observatory, Reigate, Surrey, RH2 0SG. The registered office of esure S.L.U. is Ronda Sant Pere 17, 2ª plant, Barcelona, Spain.

All of the subsidiaries above are included in the consolidation of esure Group plc.

esure Property Management Limited and esure S.L.U. are dormant and are exempt from the requirements of the Companies Act 2006 to prepare annual Financial Statements.

29 . 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:

- Two of the Directors hold shares in Gocompare.com which pays commissions and charges fees for introducing insurance business.
- 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 2019 £m	Year ended 31 Dec 2018 £m
Value of income expense for the year:		
Net fees charged by Gocompare Ltd	**(7.1)**	(8.7)
Business continuity services	**(0.2)**	(0.0)
Recruitment-related services	**(0.0)**	-
Total expense for the year	**(7.3)**	(8.7)
Amount payable at the year end:		
Net fees payable to Gocompare Ltd	**(0.5)**	(0.4)
Recruitment-related services	**(0.0)**	-
Total amount payable at the year end	**(0.5)**	(0.4)

b) Compensation of key management personnel
The key management personnel are considered to be the Directors. Please refer to Note 10 for more details.

30 . 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 in Jersey and its ultimate parent is Blue (BC) Holdings LP, a limited partnership registered in Jersey. Blue (BC) Topco Limited is an intermediate holding company and the largest and smallest group into which these accounts are consolidated.

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

31 . Non-adjusting post balance sheet event: COVID-19

The coronavirus pandemic has disrupted the activity in the UK general insurance market and adversely impacted the broader economic environment.

In response to the changing UK environment, including recent government advice to avoid all but essential travel and maintain social distancing, the Group has implemented operational contingency plans to protect the health and wellbeing of its colleagues whilst protecting service for customers. These plans include transitioning the majority of staff to home working and closure of the Group's office locations to all but essential activities.

An assessment of the potential range of impacts has been undertaken including consideration of new business sales, customer service and retention, frequency and severity of claims and the exposure to the broader economic environment through the Group's investment portfolio.

It is not practicable to quantify the ultimate financial effect of the outbreak on the Group at this stage. The Group has experienced some initial impact on its activities including lower levels of claims notifications, a reduction in quotes for new business and movements in the value of its investment portfolio. There is also early indication of an increase in the proportion of customers renewing their policies with the Group. The trends continue to evolve, remain immature and are difficult to forecast, both in terms of the degree to which performance is affected and in relation to the period that the impact may last. In addition to the sensitivities provided in Notes 18 and 19 the following information is provided, based on the Group's position at the signing date, to support an assessment of the potential impact arising from the coronavirus pandemic:

In force policies

- A reduction in new business sales volumes of 10 percent for 1 month would reduce in-force policies by less than 1% and result in a modest improvement to solvency coverage.

Claims frequency

- A reduction in claims frequency of 40 percent for 1 month would reduce the combined operating ratio by 2 percentage points, increase profit commission from reinsurers by £5m and improve solvency coverage by approximately 9 percentage points.

Market risk

- The fair value of the Group's investment portfolio is exposed to changes in the level of credit spreads. Since 31 December 2019, credit spreads for investment grade corporate bonds have widened. In the event that credit spreads for investment grade corporate bonds widen by 100 basis points, the estimated reduction in the valuation of the Group's investment grade bond portfolio would be approximately £12.4m.
- The Group's investment portfolio also includes unquoted Infrastructure and Direct Lending funds. A 10 percent reduction in the valuation inputs of these funds would reduce their fair value by approximately £15m. The combined impact of the market risk sensitivities on the Group's solvency coverage would be a reduction in the region of 12 percentage points.

Solvency coverage

- As part of Management's capital management activities, a range of contingent actions have been identified that could be used to help mitigate the financial impact of the outbreak.
- The sensitivity of Group's solvency coverage has been noted above with respect to the target operating range.

The Group continues to monitor closely the development of the coronavirus pandemic.

Parent Company statement of financial position

	Notes	As at 31 Dec 2019 £m	As at 31 Dec 2018 £m
Fixed assets			
Investments	4	**234.6**	234.6
Current assets			
Investments: call deposits		**0.0**	6.5
Deferred tax asset		**1.7**	0.0
Debtors	5	**(0.0)**	0.8
Cash at bank		**0.3**	0.3
		2.0	7.6
Creditors: amounts falling due within one year	6	**(11.8)**	(13.9)
Net current liabilities		**(9.8)**	(6.3)
Total assets less current liabilities		**224.8**	228.3
Creditors: amounts falling due after more than one year	6	**(123.3)**	(123.0)
Net assets		**101.5**	105.3
Capital and reserves			
Share capital	7	**0.4**	0.4
Share premium account	7	**48.2**	48.2
Capital redemption reserve	7	**44.9**	44.9
Profit and loss account		**8.0**	11.8
Shareholders' funds - all equity		**101.5**	105.3

The notes on pages 89 to 91 form part of these Financial Statements.

These Financial Statements were approved by the Board on 8 April 2020 and signed on its behalf.

Peter Bole
Director

Registration Number: 07064312

Parent Company statement of cash flows

		Year ended 31 Dec 2019	Year ended 31 Dec 2018
Cash flows from operating activities	**Notes**	**£m**	**£m**
Profit after tax for the year		**(3.8)**	39.3
Adjustments to reconcile profit after tax to net cash flows:			
- Finance costs		**8.7**	8.7
- Taxation credit	3	**(2.0)**	(1.6)
- Dividends received from subsidiary undertakings		**(4.4)**	(58.0)
- Total investment return		**(0.1)**	(0.1)
Operating cash flows before movements in working capital, tax and interest paid		**(1.6)**	(11.7)
Interest received on financial investments		**0.0**	0.1
Changes in working capital:			
- Decrease in debtors		**0.0**	0.0
- Increase/(decrease) in payables		**(2.1)**	3.6
Taxation received		**1.1**	2.1
Net cash used in operating activities		**(2.6)**	(5.9)
Cash flows from investing activities			
Purchase of financial investments (investments: call deposits)		**-**	(71.3)
Sale of financial investments (investments: call deposits)		**6.6**	64.8
Dividends received from subsidiary undertakings		**4.4**	58.0
Net cash generated in investing activities		**11.0**	51.5
Cash flows used in financing activities			
Proceeds on issue of ordinary shares		**-**	2.5
Interest paid on loans		**(8.4)**	(8.5)
Dividends paid		**-**	(39.4)
Net cash used in financing activities		**(8.4)**	(45.4)
Net increase in cash and cash equivalents		**0.0**	0.2
Cash and cash equivalents at the beginning of the year		**0.3**	0.1
Cash and cash equivalents at the end of the year		**0.3**	0.3

The notes on pages 89 to 91 form part of these Financial Statements.

Parent Company statement of changes in equity

	Share capital £m	Share premium £m	Capital redemption £m	Profit and loss account £m	Total equity £m
Year ended 31 December 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
Year ended 31 December 2019					
At 1 January 2019	**0.4**	**48.2**	**44.9**	**11.8**	**105.3**
Profit for the year	-	-	-	**(3.8)**	**(3.8)**
Total comprehensive income	**-**	**-**	**-**	**(3.8)**	**(3.8)**
Transactions with owners:					
Dividends	-	-	-	-	-
Total transactions with owners	**-**	**-**	**-**	**-**	**-**
At 31 December 2019	**0.4**	**48.2**	**44.9**	**8.0**	**101.5**

The notes on pages 89 to 91 form part of these Financial Statements.

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.

These consolidated Financial Statements have been prepared on a going concern basis. The Board has reviewed the Company's projections for the next 12 months and beyond, including cash flow forecasts and has taken into account the potential impacts arising from the coronavirus pandemic. Based on this assessment, the Directors confirm that they have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least the next 12 months.

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 12).

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 IFRS13 regarding financial instruments.
- 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).
- 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 37.

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 2019 or the year ended 31 December 2018.

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 2019 and 31 December 2018 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 2019

2 . Parent Company accounting policies (continued)

Financial liabilities

The Company's financial liabilities as at 31 December 2019 and 31 December 2018 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% (2018: 19.00%) payable by the corporate entities in the UK on taxable profits under tax law in that jurisdiction.

	Year ended 31 Dec 2019 £m	**Year ended 31 Dec 2018 £m**
Profit before taxation	**(5.7)**	37.7
Taxation calculated at 19.00% (2018: 19.00%)	**(1.1)**	7.2
Effects of:		
Non taxable Income	**(0.9)**	(8.8)
Taxation credit	**(2.0)**	(1.6)

4 . Investments

	Year ended 31 Dec 2019 £m	**Year ended 31 Dec 2018 £m**
As at 1 January	**234.6**	232.5
Additions: share-based payments	**-**	2.1
As at 31 December	**234.6**	234.6

As required under IAS 36 *Impairment of Assets*, the Company reviews its investment annually for any indicator of impairment, both internal and external. None were noted. There is no provision for impairment held.

Investments in Group undertakings, which are wholly directly owned are as follows:

	Country of incorporation	**Class of shares held**	**Registered office address**
esure Finance Limited	England and Wales	Ordinary	The Observatory, Reigate, Surrey, RH2 0SG

5 . Debtors

	As at 31 Dec 2019 £m	**As at 31 Dec 2018 £m**
Due within one year		
Current tax	**(0.0)**	0.8
Total debtors due within one year	**(0.0)**	0.8

6 . Creditors and other payables

Amounts falling due within one year

	As at 31 Dec 2019 £m	As at 31 Dec 2018 £m
Amounts owed to Group undertakings	**11.5**	6.8
Accrued expenses	**-**	6.8
Accrued interest on 10 year Subordinated Notes	**0.3**	0.3
Total creditors due within one year	**11.8**	13.9

Amounts falling due after more than one year

	As at 31 Dec 2019 £m	As at 31 Dec 2018 £m
Borrowings: 10 year Subordinated Notes	**123.3**	123.0
Total creditors due after more than one year	**123.3**	123.0

Full details of the Company's 10 year Subordinated Notes are included in the consolidated Financial Statements of esure Group plc above at note 18.2.

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 25. Full details of dividends declared during the year are included in the consolidated Financial Statements of esure Group plc above at note 15.

8 . Post balance sheet event: COVID-19

The coronavirus pandemic has disrupted the activity in the UK general insurance market and adversely impacted the broader economic environment. The impact on the Group is disclosed in the consolidated Financial Statements of esure Group plc above at Note 31.

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.
'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.
'Group' or 'esure Group'	means the Company and its subsidiaries.
'Group Executive ('GE')'	comprises the Chief Executive Officer, Chief Financial Offer, Chief Risk Officer, Chief Technology Officer, Chief Operating Officer, Chief Underwriting Officer, Chief Strategy and Transformation Officer, Chief People Officer, Interim Chief Data Officer and the General Counsel and Company Secretary.
'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.
'Loss Portfolio Transfer combined with adverse development cover ('LPT')'	is a reinsurance contract or agreement in which an insurer cedes policies to a reinsurer, and includes reinsurance should any deterioration be seen in the amounts ceded. In an LPT, a reinsurer assumes and accepts an insurer's existing open and future claim liabilities.
'Ogden Rate'	is the discount rate set by the Lord Chancellor and used by UK courts to calculate lump sum settlements.
'Ordinary shares'	means the ordinary shares with a nominal value of 1⁄12 pence each in the capital of the Company.
'ORSA'	means Own Risk and Solvency Assessment and aims to assess the overall solvency needs of an insurance company.
'Periodic Payment Orders ('PPOs')'	are claims payments used to settle large personal injury claims. In addition to providing a lump sum, PPOs provide regular index-linked payments for some or all of the future financial loss suffered.
'Prudent Person Principle'	is a Solvency II rule requiring insurers to only make investments that a 'prudent person' would make. It does not require that those charged with governance should always makes correct decisions; but requires them to make decisions that will be generally accepted as sound by an average person and such decisions should be made as if they were managing their own affairs.
'Quota share ('QS')'	is a pro-rata reinsurance contract in which the insurer and reinsurer share premiums and losses according to a fixed percentage.
'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.
'Senior Leadership Team ('SLT')'	comprises the team of esure colleagues responsible for the day-to-day management of the Group.
'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.
'SFCR'	means Solvency and Financial Condition Report.
'Solvency II'	is an EU legislative programme implemented in all 28 Member States on 1 January 2016. Primarily it concerns the amount of capital that EU insurance companies must hold to reduce the risk of insolvency.
'The Notes'	means the £125m 6.75% 10 year Tier 2 Subordinated Notes issued on 19 December 2014.
'Underwriting'	is the receipt of premium in return for the provision of insurance to a policyholder. The underwriting year refers to the financial year in which the policy begins.

Glossary of terms (continued)

Alternative Performance Measures

Throughout this report, the Group uses a number of Alternative Performance Measures (‘APMs’). The Group prepares its Financial Statements under IFRS and by definition these measures are not IFRS metrics.

These APMs are used by the Group, alongside IFRS measures, for both internal performance analysis and to help shareholders and other users of the Annual Report and Financial Statements to better understand the Group’s performance.

‘Combined operating ratio’	is a metric for assessing the performance of a general insurance firm, calculated as the loss ratio plus the expense ratio.
‘Contribution’	means the trading profit/(loss) generated from underwriting, non-underwritten additional services revenues and investments.
‘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 earnined 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. During 2019, the Group incurred non-trading costs related to investment in the Brilliant Basics Programme, development of the Group’s Strategy and Technology Blueprint and the net cost of LPT reinsurance.
‘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.