Company No: 07064312

esure Group plc

Annual Report and Accounts

for the year ended 31 December 2020

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Strategic Report

Chief Executive Officer's Statement

Overview

2020 has been one of the most unpredictable years in memory for the market, economy and broader society, as a result of the Coronavirus (Covid) pandemic. Supporting our customers through this period and safeguarding our colleagues' health and wellbeing has been at the forefront of all our decisions throughout the year.

I am delighted at the positive progress we have made against this backdrop, reflecting the hard work of colleagues across esure to keep our customers safe on the roads and in their homes. The welfare and protection of our customers and colleagues has been a top priority throughout 2020 and we have adopted a comprehensive set of measures to protect and support them during this uncertain time.

2020 Trading profit was £82.6m[1], and In-force Polices grew by 3% to 2.45m. A substantial proportion of the profits has been reinvested in the delivery of our strategy. The Solvency Coverage Ratio finished at 164%, which provides us headroom to pursue further profitable growth and invest in our longer-term strategy.

Our customers' experience has continued to improve throughout 2020, with NPS increasing 2 percentage points to 56 and complaint rates remaining low, although we recognise that there is more work to be done for our Customers in this area. Customers are increasingly choosing to engage with us digitally, with c. 40% of our service now handled online. This will be a key focus going forward as we look to strengthen our digital experience.

Our Purpose

The Insurance Industry has been around for over 400 years. At its best it has been a massive force for good enabling people and communities to flourish and being there for them in their time of need. However, in recent years there has been a breakdown of trust between consumers and their insurers driven by poor practices, painful experiences and too few magical moments. Our purpose is to "Fix Insurance for Good". This is our north star and will guide our direction and actions over the years ahead.

Our Strategy

Our customers expect us to deliver a seamless, highly personalised, digital experience backed up by knowledgeable and caring staff. We believe we can fulfil this by becoming the pre-eminent digital insurer in the UK. Our strategy is called "Game Changer" and the key pillars are:

1. **Magnetic Value** – Attracting new customers and serving them for longer with propositions and experiences that eliminate pain points and provide lasting value. The Group is working on enhanced and new propositions to better serve our customers, in a rapidly changing environment.

2. **Unbeatable Platform** – Building the pre-eminent platform in the UK, underpinned by the best people, processes and technology. The platform will allow us to deliver highly personalised service at low cost.

3. **Data Magic** – Becoming one of the most advanced data science companies by building a revolutionary data science capability, generating powerful insights and enabling smarter, seamless, more personalised service.

4. **Driving Good** – Starting with driving, making everyday life greener and safer for everyone by leveraging our expertise and scale. Further information on our Driving Good initiative can be found in our Environmental, Social and Governance ('ESG') Report on pages 18 to 23.

[1] Profit before tax £34.2m

We also continue to implement the Group's 'Brilliant Basics' programme, dedicated to building best practice insurance fundamentals across Pricing & Underwriting, Claims, and Customer Service.

Management Team

To deliver on our strategy, we are establishing a management team that brings the winning combination of strong insurance DNA and Digital and Analytics leadership from other sectors.

I am delighted with the two new recent appointments that we have made to strengthen the management team. In August 2020, Justin Cockerill joined us as Chief Commercial Officer from OVO Energy. He brings a wealth of experience from utility and telco sectors. Andy Burton has recently joined us as Chief Technology Officer from the Very Group and was previously responsible for developing the Skybet platform. This builds on the appointments of Peter Bole, as Chief Financial Officer, Caroline Smith as Chief People Officer and Kirsty Whitehead as General Counsel who all joined earlier in 2020 and Roy Jubraj as Chief Strategy & Transformation Officer in November 2019.

David Pitt, Chief Operating Officer, and Graham Bolton, Chief Technology Officer, have stepped down from their roles. I'd like to thank both for their contribution to the business, and particularly for their tireless work over 2020 to prepare esure for the Covid pandemic.

Outlook

2021 promises to be another exciting and busy 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 improved customer propositions.

Finally, a thank you to all my colleagues at esure. It has been an unprecedented year of change and uncertainty. Your commitment to our customers and the business is something I am extremely proud of.

David McMillan
Chief Executive Officer

Strategic Report

Business Model

We are focused on delivering market-leading motor and home insurance products to over 2.1 million UK personal customers. The Group's principal brands are esure and Sheilas' Wheels which can be bought direct or via the four principal UK Price Comparison Websites.

Our Purpose is to "Fix Insurance for Good" and our longer-term strategy is called "Game Changer". The strategy encompasses two main programmes:

1. Blueprint: building the pre-eminent pure-play digital insurer in the UK market;
2. Brilliant Basics: delivering world class insurance fundamentals across Pricing, Underwriting, Claims and Customer Service.

The Brilliant Basics programme was initiated in 2019 and is already delivering significant value to customers and shareholders. We launched our Blueprint programme in late 2020 and it will deliver over 2021 and 2022.

We employ 1,764 people spread across our head office in Reigate and our customer centres in Manchester and Glasgow.

We are organised into the typical functions of an insurance company but have increasingly adopted Enterprise Agile as the main method for driving change and innovation across the business.

The principle parts of our business model are:

Customer Proposition and Service: The Group focuses on the provision of high-quality products and strong customer service, priced to deliver great value. Renewal processes for customers are made as simple and straightforward as possible.

Distribution: The Group distributes its high-quality insurance products via both Price Comparison Websites and directly to customers through websites and call centres. In 2020 we were a top 4 provider for the four main Price Comparison Websites.

Customer Service: Making insurance easy and simple to understand is a central part of our vision and culture. This is engrained through the actions of every one of our Contact Centre agents, who often go above and beyond to support our customers. We recognise the increasing desire from customers to engage with us digitally and have made good progress over 2020 in delivering new digital customer journeys such as live chat and online policy adjustments. We received more than half a million logins per month into customers "My Account" and had over 1.5m customers interacting with our chatbot.

Claims: Delivering for customers at the point of claim is the key reason customers buy our products and we aim to put them right at the centre of our claims process. Our UK-based claims centres, with over 700 specialists, an approved repair network, and market-leading fraud capabilities help to deliver an excellent customer service whilst controlling costs. During 2020 we handled over 2,000 claims caused by storms Ciara and Dennis and settled 99% of all claims.

Technology: We have made significant progress in 2020 towards establishing a modern and modular technology platform which will introduce new functionality, event-based architecture, simple configuration and cost effectiveness.

Pricing and Underwriting*:* Pricing analytics and underwriting capability allow the Group to deliver great value to customers while ensuring effective understanding, pricing and management of underwriting risk. A diversified suite of additional insurance products and services provide further opportunities to deliver profitable product and service to customers. During 2020 we have continued to add new data sources and build new algorithms, which improve pricing accuracy and enabled us to quote for, and service, new segments of the market.

Strategic Report cont.

Key Performance Indicators ('KPIs')

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

Key Performance Indicator	**2020**	2019
Financial		
In-force Policies (millions)	**2.453**	2.380
Combined Operating Ratio (%) [2]	**104.4**	106.3
Profit before tax (£m)	**34.2**	3.3
Trading profit (£m) [3]	**82.6**	57.7*
Solvency coverage (%) [4]	**164**	149
Non-financial		
Net promoter score[6]	**56**	54
Digital contact share (sales and service)	**39%**	N/A[7]
Complaints (% of policies)	**1%**	1.1%
Referrals to the Financial Ombudsman (% of policies)	0.03%	0.03%
FOS overturn rate (%)	19%	17%
Retention (%)	**72**	72
Employee engagement score (out of 10)	**7.7**	N/A[7]

*Restated for current management definition, see page 74.

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

Financial Review

Group

	2020	2019
Gross written premiums (£m)	**841.0**	834.5
In-force Policies (millions)	**2.453**	2.380
Trading profit (£m) [2]	**82.6**	57.7*
Profit before tax (£m)	**34.2**	3.3
Combined Operating Ratio (%) [1]	**104.4**	106.3
Net Loss Ratio (%)	**72.8**	80.2
Net Expense Ratio (%)	**31.6**	26.1
Solvency coverage (%) [3]	**164**	149

*Restated for current management definition, see page 74.
The full definitions of the Group's KPIs can be found in the Glossary of Terms.

Gross written premiums grew by 0.8% to £841.0m (2019: £834.5m) with an increase of 3.0% in the number of In-Force Policies, offsetting a reduction in the average premium. The Group's profit before tax of £34.2m (2019: £3.3m) reflects a reduction in the Net Loss Ratio to 72.8% with lower accident numbers due to the nationwide lockdown. The Group's investment portfolio saw relatively stable performance in a volatile market.

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[2] Alternative Profit Measure ("APM") – refer to Glossary of Terms for definition

[3] Alternative Profit Measure ("APM") – refer to Glossary of Terms for definition and Note 5 for reconciliation

[4] 2020 figure unaudited

[6] 2019 restated to include Claims

[7] New non-financial KPIs for 2020

Strategic Report cont.

Trading profit is our 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 £82.6m (2019: £57.7m Restated, see page 74).

The Combined Operating Ratio has fallen to 104.4% (2019: 106.3%), primarily due to an improvement in the Net Loss Ratio as claims fell due to the 2020 lockdown.

The headline expense ratio has increased by 5.5%. This is driven in part by an increased level of Quota share reinsurance used by the Group as part of its capital structuring activities. It also reflects an increased level of investment in technology spend during the year.

To ensure that the KPIs provide a meaningful reflection of underlying performance, and in line with the disclosure made in the prior year, the Group has adjusted the reported Combined Operating Ratio, Net Loss Ratio and Net Expense Ratio to remove the impact of Non-Trading costs, consistent with the segmental reporting of the income statement.

Profit before tax was £34.2m, an improvement of £30.9m on 2019. Profit after tax was £29.0m (2019: £5.6m). Excluding non-trading items (2020: £38.5m. 2019: £44.6m) and related tax at 19% (2020: £7.3m, 2019: £8.5m), the adjusted profit after tax was £60.2m (2019: £41.7m.) Non-Trading items are set out on page 9 and further detail is provided on page 72.

In 2019 the Group introduced new reinsurance arrangements to enhance capital availability, including the use of a Loss Portfolio Transfer combined with Adverse Development Cover (the "LPT") and a Quota Share. These arrangements have remained in place over 2020.

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.

A full reconciliation of the Non-Trading costs in both 2019 and 2020, including the restatement, has been included in Note 5 to the Financial Statements.

Motor

The Motor account generated a Trading profit of £91.4m (2019: £54.4m), benefiting from disciplined underwriting and the impact of the Covid pandemic on the number of motor claims due to lockdown restrictions on movement in the UK. Gross written premiums were flat at £737.1m (2019: £736.4m) with lower average premiums offsetting an increase in In-force Policies of 2.5% to 1.868 million (2019: 1.823 million).

The improvement in underwriting loss to £1.6m (2019: £35.3m loss) was driven by a better current year Net Loss Ratio and favourable development on prior year reserves. The Covid pandemic has driven a substantial fall in accident frequency, but this has been tempered by a reduction in average premium and greater than expected cost inflation, driven at least in part by lockdown restrictions. Contribution from additional services revenues was £80.0m (2019: £70.0m).

The Motor account benefited from an investment return of £13.0m (2019: £19.7m), with the reduction driven by a decrease in the valuation of private assets held in the portfolio and the decision to de-risk the portfolio, both a result of the impact of the Covid pandemic.

Strategic Report cont.

Motor cont.

The 2020 accident year Net Loss Ratio was 78.4% (2019: 84.0%). Favourable development of prior accident year reserves of £26.5m equated to 5.8% of net earned premiums (2019: £11.1m; 1.8%). The Board is committed to a prudent approach to setting claims reserves. As a result, the Group holds a reserve margin in excess of the actuarial best estimate and only releases this margin for a given accident year as the data matures and uncertainty reduces. The consequence of this prudent approach is that we expect the reported profit to benefit from prior year reserves being released each year.

	2020	2019
Reported Net Loss Ratio (%)	**72.6**	82.2
Prior year reserves release (%)	**5.8**	1.8
Current accident year Net Loss Ratio (%)	**78.4**	84.0

Home

The Home account continued to grow strongly with gross written premiums increasing 5.9% to £103.9m (2019: £98.1m) aided by In-force Policy growth of 2.9% to 573,000 (2019: 557,000).

The underwriting loss of £21.3m (2019: loss of £8.2m) reflected several weather events and subsidence following a dry spring. Additional services revenues of £10.9m (2019: £9.2m) are higher reflecting the In-force Policy growth. The investment return was £1.6m (2018: £2.3m). The ongoing investment in growth together with the adverse weather performance and an allocated share of fixed overheads, resulted in the Home account generating a trading loss of £8.8m (2019: Trading profit of £3.3m).

The 2020 accident year Loss Ratio was 81.3% (2019: 68.8%). Favourable development of prior accident year reserves of £4.5m equated to 7.0% of net earned premiums (2019: £3.1m; 3.9%). The Group has continued to hold reserves in excess of the actuarial best estimate.

	2020	2019
Reported Net Loss Ratio (%)	**74.3**	64.9
Prior year reserves release (%)	**7.0**	3.9
Current accident year Net Loss Ratio (%)	**81.3**	68.8

Strategic Report cont.

Reconciliation of Trading profit to profit before tax

	2020	2019 Restated
	£m	£m
Trading profit	**82.6**	**57.7**
Non-Trading costs	**(38.5)**	(44.6)
Finance costs	**(9.7)**	(8.8)
Amortisation of acquired intangible assets	**(0.2)**	(1.0)
Profit before tax	**34.2**	**3.3**

During the year, management simplified its definition of Non-Trading costs to better reflect the ongoing level of trading costs. This has led to a reclassification of some 2019 costs from Non-Trading to Trading; these relate to investment in business and technology resource capacity that supports continuous development.[5]

During 2020, the Group incurred £38.5m of Non-Trading costs (2019: £44.6m). This expenditure related to investment in the Brilliant Basics Programme, development of the Group's Blueprint Programme and the impact of unwinding the discounting related to the LPT reinsurance. A breakdown of these costs is provided in Note 5 to the Financial Statements.

The Group incurred £9.7m in Trading finance costs, of which £8.7m (2019: £8.8m) related to the £125.0m 6.75% ten-year tier two Subordinated Notes issued on 19 December 2014 ("the Notes") and £1.0m related to the Quota share arrangements (2019: £nil).

Solvency

The Group's solvency coverage was 164% at 31 December 2020 (2019: 149%). The Group's Eligible Own Funds at 31 December 2020 were £383.3m (2019: £360.7m). The increase is largely driven by profits in the period. The Solvency Capital Requirement has decreased to £233.1m (2019: £242.2m), due to the Group's use of reinsurance and a higher level of quota share reinsurance used throughout the year.

The Group's capital position is outlined below:

	2020	**2019**	2018
	£m	£m	£m
Own Funds	**383.3**	**360.7**	356.7
Tier 1	266.7	239.6	238.8
Tier 2	116.6	121.1	117.9
Solvency Capital Requirement	**233.1**	**242.2**	330.3
Coverage Ratio	**164%**	**149%**	108%

The Group uses a variety of metrics to monitor its capital position, including Solvency coverage, a measure of the Group's own funds which is driven by shareholder's funds, which are £287.8 as at 31 December 2020 (2019: £264.0m).

[5] Refer to Note 5 for reconciliation

Strategic Report cont.

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 2021 with high levels of on-going uncertainty in the insurance market relating to four key areas – the Covid pandemic, Brexit, the delayed Civil Liabilities Act ('CLA') and the FCA Market Study. The Group is committed to the development of its Game Changer Strategy for the medium to long-term and this will be the focus of substantial efforts in 2021 across the business.

Covid Pandemic
The coronavirus pandemic ("Covid pandemic") has disrupted the activity in the UK general insurance market and adversely impacted the broader economic environment during 2020, with effects expected to continue through 2021 and beyond.

In response to the changing UK environment, including the latest government advice on reopening of offices, the Group has implemented operational contingency plans to protect the health and wellbeing of its colleagues whilst protecting service for customers. Further details of our actions during this period can be found in our ESG section on pages 18 to 23.

Throughout the year the Group has closely monitored the impact of the Covid pandemic on key elements of performance including new business sales, customer service and retention and the frequency and severity of claims. This monitoring, together with the broader economic impact on the Group's balance sheet has been taken into account in determining the range of financial sensitivities disclosed by the Group.

While the Group has experienced some 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, it is not practicable to quantify the ultimate financial impact of the Covid pandemic on the Group at this stage.

Brexit
On 1 January 2021 the Brexit transition period ended, and the United Kingdom and the European Union moved to a new trading relationship. In advance of this, the Group took a number of mitigating actions including reducing its market risk exposure, establishing contingency plans for the supply chain and managing the risks from any EU suppliers. In the short term the effects on the Group, which underwrites policies in Great Britain only, have been muted but the longer-term implications are not yet fully known.

The Group continues to monitor potential inflationary pressures within the supply chain and changes in policyholder behaviours. To reduce the impact of the changes on our policyholders, the operations team are ready to issue Green Cards for customers travelling abroad when they are permitted post Covid.

FCA Market Study
In September 2020 the FCA published the final report from its market study into the pricing of Home and Motor insurance. The Group welcomes the proposed changes and will support the FCA fully in their implementation.

The Group does not underestimate the challenge presented by the need to implement such wide-ranging changes. Whilst we await final confirmation on specifics on timings, we continue to evolve our plans in readiness for compliance.

Civil Liabilities Act ("CLA")

In 2020 the Civil Liabilities Act ("CLA"), including the associated whiplash reforms, was further delayed. The Ministry of Justice expects the CLA to reduce the number and cost of compensation for claims for whiplash injuries. The whiplash reform programme is now scheduled to be implemented in May 2021 but the impact of this reform on the market is currently highly uncertain. The Group continues to monitor the expected impact closely.

Strategic Report

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, 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

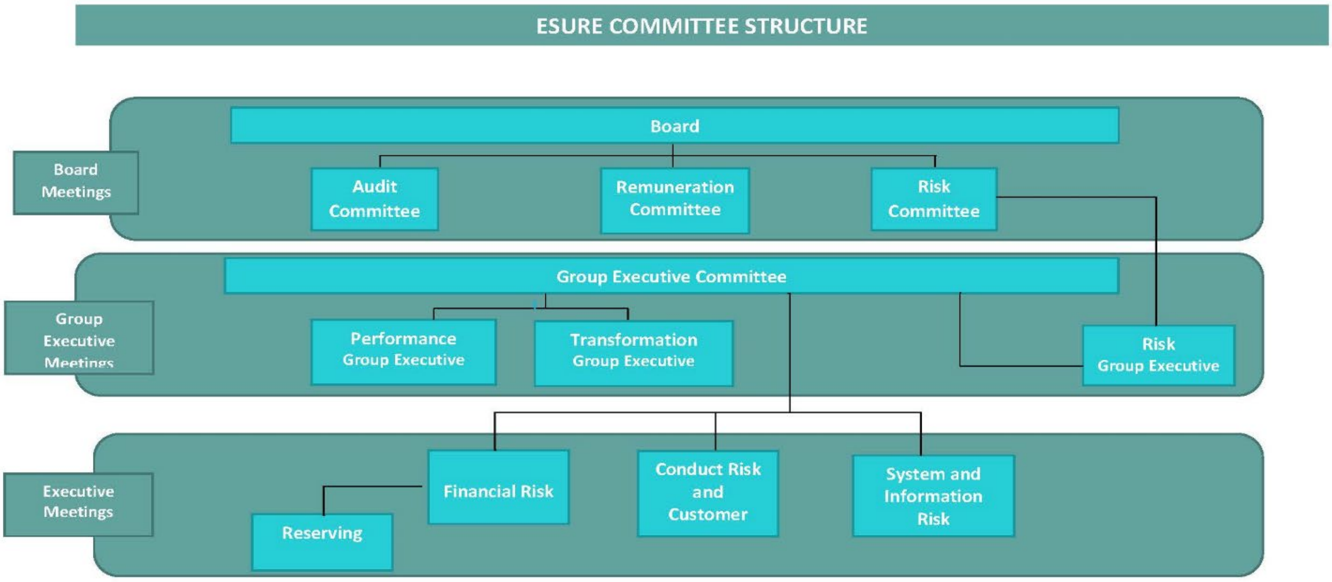
- Provides oversight and challenge to business areas and management.
- Coordinates risk and compliance activities and reporting, including ensuring an effective risk framework is embedded within the 1st Line of Defence.

3rd Line of Defence – Internal Audit function

- Independent and objective assurance on the internal control environment.
- Assurance 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 key committees are shown in the following diagram- these support the Senior Managers to discharge their accountabilities.



Risk Management cont.

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

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 on pages 15 to 17.

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.

The strategic risk statements provide the basis for the Group's strategic decision making and business planning and inform the way we think about risk within the business. We use Key Performance Indicators, aligned to the strategic risk statements, to determine how performance is assessed, and Key Risk Indicators to determine the future trajectory. We also ensure that colleague objectives and behaviours are aligned to the risk appetite and strategic risk objectives and that this is reflected in day-to-day decision-making.

Risk Management cont.

Strategic Risk Statements

Strategy and Change: We execute and manage change and transformation risk within the business to support our strategic focus on digital innovation and customer needs.

Earnings (includes 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 with consideration of prudential risks.

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

Business and System Operations: We prevent significant disruption to our business operations and information systems through a proportionate system of control, monitoring and effective incident response.

Cyber and Data*:* 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 and transformation agenda.

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 Executive Committees, Group Executive Committee, the Risk Committee and the Board.

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

Risk Management cont.

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 Group is exposed to Underwriting Risks as part of its strategic objective; this is balanced with the reinsurance structures in place. Currently the Group faces into a number of material risks including specific risks for 2021 from the FCA general insurance market study, uncertain legal environment (with the Civil Liability Act), frequency and severity uncertainty from the Covid pandemic, as well as potential supply chain impacts from Brexit. These are in addition to continuing risks from a highly competitive pricing environment, elevated claims inflation, changes to risk profile of the car parc from electric and vehicle automation as well as climate change increasing the frequency of extreme weather events.	• Pricing Risk • Reserving Risk • Catastrophe Risk	• There is reinsurance in place to protect the business from large losses, catastrophe events, adverse reserve development and adverse loss ratio movement. • There is regular monitoring 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 cautious 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 Reserving Committee.
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 2020, the Group reduced its investment risk profile in advance of the end of the Brexit transition period and with market uncertainty due to the Covid pandemic. There continues to be a potential for volatility in UK-based assets due to uncertainty after the Brexit	• 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 and overall financial risks is undertaken 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 Group's risk appetites. • The Group manages the level of investment counterparty credit risk it accepts by placing limits on its exposure to counterparties,

transition period and in general market conditions due to the Covid pandemic. Risks from climate change could impact market risk. These arise from the potential impact of the global transition to a lower carbon economy. Investor preferences may also influence asset prices e.g. changes in sentiment and financial innovation, such as the 'hedging' of carbon risk or fossil fuel divestment.		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 Financial Risk Committee. • The investment strategy does not expose the Group to material currency risk or the risks arising from active trading of derivatives.
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's most material exposures to Credit Risk are through its reinsurance counterparties and its investments in Direct Lending funds. There are fewer material exposures through the supply chain.	• 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 exposure 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.
SOLVENCY AND LIQUIDITY RISK **Definition** Solvency Risk is the risk that the Group has insufficient capital to meet regulatory requirements. 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** These risks tend to be materially driven by other risk types impacting the Solvency and Liquidity position. However, there is a material review of the Solvency II framework by EIOPA that could impact how the capital requirements are set.	• Solvency Risk Liquidity Risk	• The Group monitors its Solvency Risk through the ORSA processes including assessing the impact on Solvency through stress and scenario testing of a range of events and decisions. • The Group oversees Liquidity Risk by considering the Group's operating cash flows, stressed for catastrophe scenarios, and liquidity strains. • Oversight of Solvency and 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** The Operational Risks are currently heightened due to the Covid Pandemic, with the move to a remote working environment, as a contingency plan, on an elongated period. While mitigating actions have been implemented this has impacted our people, processes, controls and ways of working.	• Business Process Risk • IT Systems and Disaster Recovery Risk • Data Security and Cyber Risk • Infrastructure Risk and Business Continuity Risk • Financial Crime and Fraud Risk • Outsourcing & Third Party Supplier Risks • Distribution Risk	• The Group has a governance and risk framework in place which provides an effective structure within which operational risks are identified, measured and managed. It ensures that there is clear ownership for risks with effective reporting and escalation mechanisms, supporting management oversight and decision-making. • There are specialist teams in the business functions that provide expertise and support, including for business continuity, people, IT disaster recovery, fraud, financial crime and cyber risk. • Oversight, support and challenge are provided by the second-line Risk function

	• People Risk • Health & Safety Risk • Operational Resilience Risk	which works closely with the first-line business and specialist functions.
CHANGE RISK **Definition** Change Risk is the loss or adverse impact due to an inability to deliver change effectively, uncertainty in the outcome or impact on current business operations. **Current Risk Profile** This risk is currently heightened due to the Group undergoing a period of significant transformational change.	• People Risk • Change Risk • Systems Risk • Data Risk	• This is being managed within a dedicated Transformation Office and running parallel to business as usual. • Risks are overseen at the Transformation Committee within the Strategy & Change Risk Appetite tolerances. • Support in establishing a robust change risk framework has been provided by an external change risk consultancy firm. • Oversight and Challenge is provided by a dedicated 2nd line Transformation Risk Lead.
CONDUCT RISK **Definition** Conduct Risk is the risk of failing to deliver the appropriate treatment to 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 the FCA general insurance market study, supporting our customers through the Covid pandemic, potential regulatory and legal changes due to Brexit as well as continuing heightened level of risk from Data Privacy regulations.	• Legal and Political Risk • Conduct and Compliance Risk • Regulatory Risk	• The Group is averse to Conduct Risks and this is reflected in our Risk Appetite and 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 bodies, using proactive management processes to mitigate its exposure to Conduct Risk.

Strategic Report

Environmental, Social and Governance Matters

We continuously strive to be a responsible and sustainable business in everything we do. It is, put simply, the right thing to do and will also help us deliver long-term value.

Governance

The Board oversees the Group's environmental, social and governance ("ESG") activity. To assist the Board with its oversight on ESG matters the Board approved an ESG Policy in 2020, which among other things:

- Ensures ESG factors are considered in all strategic decisions to ensure the sustainability of the Group's business model
- Monitors ESG factors in the Group's Risk Appetite Statement to ensure appropriate risk management of ESG factors
- Promotes clear and transparent ESG reporting
- Considers and assesses ESG matters that impact customers, colleagues and our wider communities
- Helps to address climate change by reducing our carbon footprint
- Supports the integration of ESG factors in the investment of assets under management
- Links remuneration to ESG factors to ensure accountability

In addition to the ESG Policy, we have several other related policies in place, including: (i) Financial Crime Policy, (ii) Modern Slavery Policy, (iii) Whistleblowing Policy, (iv) Equity, Inclusion and Diversity ('I&D')Policy; and our (iv) Procurement Policy. Further information on Human Rights and anti-corruption and anti-bribery matters, are provided in the Director's Report on page 48.

In 2020, we also established an ESG Steering Committee to monitor and assess the current and potential risks and opportunities associated with ESG matters to the business.

Non-Financial Information Statement

Under sections 414CA and 414CB of the Companies Act 2006, the Company is required to include, in its Strategic Report, a non-financial information statement. The information required by this legislation can be found in the following sections:

- Business Model – page 05
- Key Performance Indicators - page 06
- Principle Risks- pages 15-17
- Environmental, Social and Governance Matters – pages 18-23
- Directors' Report – pages 42-49

Commitment to Section 172(1) Companies Act

Further details of how the Board incorporates the views of key stakeholders in the decisions made for the long-term success of the Company can be found in the Directors' Report on pages 42 to 45.

People

Our people are our most important asset. They enable us to achieve our strategy and deliver for our stakeholders. As of 31 December 2020, the Group employed 1,764 people across three offices in Glasgow, Manchester and Reigate.

Colleagues' safety during the Covid pandemic

Colleague wellbeing throughout the Covid pandemic has been a key area of focus. Our ethos has been to protect our customers, our colleagues, and our business. The Covid pandemic changed the way we all work, how we communicate and connect with one another. As the pandemic unfolded in the first quarter of 2020, the Group quickly prioritised investment in resources to ensure our colleagues could transition to working from home and adapt to the new ways of working.

Environmental, Social and Governance Matters cont.

We also launched a number of initiatives to support colleagues working from home including fortnightly Covid-based surveys using a new colleague survey tool; a new Employee Assistance Programme to help colleagues with emotional resilience and giving access to mental health awareness webinars; a business-wide 'No Apologies' campaign for parents balancing working from home with childcare and encouraging no need to apologise for their children being children ; and free online health and wellbeing classes.

To accommodate those unable or struggling to work from home, we also undertook an independent risk assessment of our offices and we set up Covid-secure working spaces to allow them to work from the office safely in line with government guidance. We put in place a stringent set of protocols to protect colleagues returning to our offices and carried out induction sessions setting out the new ways of working in the offices.

Employee Engagement

Employee engagement has always been important for us but has taken on new standing during the Covid pandemic. To help maintain and improve employee engagement, in 2020 we invested in a new colleague engagement tool. This new tool allowed us to implement a modern 'continual listening' approach, to ensure we capture the views and experiences of our colleagues on a regular basis. We are delighted that our first survey received a 92% response rate, an engagement score of 7.7, which is above the true benchmark for the finance sector, and an Employee Net Promotor Score (ENPS) of 30, which is above the ENPS benchmark of 17.

In addition to sponsoring numerous events throughout the year our Colleague Forum also provides our colleagues with the opportunity to discuss issues, ideas and opinions on workplace matters. It consists of elected representatives from across the business.

The Group held several employee events during 2020 to drive engagement, including a business-wide data science competition, charity fundraisers, online health and wellbeing classes, award nights, company-wide quizzes and Christmas events.

Diversity and Inclusion

We are committed to fostering a supportive and inclusive working environment where people from all backgrounds feel respected, are treated equally and can thrive. We believe that outstanding customer service comes hand in hand with a positive working culture where varied skills, perspectives and experiences are respected and nurtured. A diverse and inclusive workplace is also critical to enable us to attract and retain the best talent, reduce risk and improve decision-making. We also believe that the perspectives and experiences of our employees should reflect the breadth and diversity of our customers, suppliers, business partners and communities across the UK.

In the latter half of 2020, the Group established an Inclusion and Diversity ('I&D') working group consisting of representatives from across the organisation, overseen by Roy Jubraj, our Chief Strategy & Transformation Officer, and is responsible for determining the main areas of focus for diversity and inclusion within the Group. To date, this working group has sought feedback and surveyed all colleagues on the topics of Inclusion and Diversity which will drive a number of initiatives the group will undertake in 2021.

In 2020, the Board also approved an Equity, Inclusion and Diversity Policy ('I&D Policy') to reinforce our commitment to promote equity, inclusion, diversity and fairness by:

- Ensuring that inclusion and diversity is part of everything we do, from how we treat customers to how we work together every day as colleagues;
- Creating an environment that nurtures individual differences and ensuring that the contributions of all colleagues are recognised and valued;
- Partnering with third parties to drive improvements; and
- Continuously learning from our colleagues using our engagement tool.

Environmental, Social and Governance Matters cont.

Colleague experience

In line with our broader strategic ambitions, we continue to invest in technology to further enhance the experience of our colleagues. In 2020 we launched a digital HR system to improve HR processes and an engagement tool to regularly receive input from colleagues. We also improved our onboarding experience, through a new onboarding platform and applicant tracking system; and invested in a new Employee Assistance Programme to assist our colleagues during these particularly challenging times. In addition, we broadened our communication and collaboration channels with the launch of an enterprise-wide social networking service.

Learning and Development

We are dedicated to developing the potential of our colleagues. We invest in a range of programmes for our people, including apprenticeship opportunities and talent programmes, that provide colleagues the opportunities to gain experience and broaden their knowledge within our industry. We are currently investing in 69 colleagues undertaking an Apprenticeship across a range of qualifications. In 2020, to support individual and team growth we launched our esure Academies to build critical capabilities, with, our first esure Leadership Academy programme commencing in February 2021. In addition, we continue to invest in our learning management system with an extensive selection of accredited learning under the Chartered Institute of Insurance (CII).

Social, Charity and Community

We value meaningfully contributing to the communities which surround us and strive to make a positive impact in our wider communities.

During the Covid pandemic, we made it a priority to help the most vulnerable in our communities raising nearly £20,000 for nine charities, supporting homeless shelters, elderly care homes, a women's refuge and mental health charities.

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

We actively support the communities we represent through our regional Community Committees which are run by esure volunteers who organise fundraising activities. Throughout 2020 they raised over £46,000, as well as supporting broader appeals such as food drives for homeless charities, donating supplies and appliances to a soup kitchen and a Christmas gift appeal.

Awards

At the 2020 Insurance Post Claims & Fraud Awards, we received the Counter Fraud Team of the Year Award, Combatting Fraud: Risk Management Initiative Award, as well as the Combatting Fraud: Technology Innovation of the Year Award. We also received a Verint 'Hero of the Year' award which recognises organisations that have transitioned to new working environments and continued to drive employee and customer engagement, maintaining operational efficiency and compliance throughout the year. In the Customer Intelligence Awards, recognising brands that deliver an excellent customer experience and being the only industry awards that are voted for entirely by Insurance customers, the Sheilas' Wheels brand picked up wins in the following categories: Motor Insurance: Claims Satisfaction, Motor Insurance: Customer Satisfaction and Home Insurance: Recommended by Customers.

Environment

We are committed to playing our part in helping the UK become a sustainable, low carbon economy. To reinforce our commitment to help tackle climate change, we incorporated our Driving Good initiative as part of our broader Game Changer business strategy. While we have made some progress on minimizing our carbon footprint in recent years, there is more we can and want to achieve and we will be developing the metrics and targets to guide our approach.

We took steps in 2020 to explore how to minimize our impact on the environment and continued to assess the risks and opportunities associated with climate change. In particular, we established a Sustainability Working group, consisting of representatives from across the organisation, to examine all aspects of sustainability and the environment, including how to set energy reduction targets for our offices, improve the energy efficiency of our offices and implement a responsible investment policy. We also established an Environmental Driving Working group to examine how we can play an active role in promoting electric vehicles to help lead to a greener society.

Environmental Footprint

As an insurance provider, our environmental footprint mainly stems from our office operations and business travel. Given the restrictions associated with the Covid pandemic, relatively little business travel was undertaken in 2020. When restrictions ease, we expect business travel to increase although not to the same levels as prior years given increased use of e-conferencing and other collaboration technology. To further reduce our carbon footprint we will explore, where possible, installing electric car charging points at the car parks that service our offices.

We are committed to not disposing of our office waste in landfill facilities or through refuse incineration. Instead, we recycle as much of our waste as possible and, in the event we cannot recycle, we use our waste to create refuse derived fuel. We are proud to say that we did not contribute any of our waste to landfill in 2020. In addition, we have removed all sources of traditional single use plastic in our offices and instead use products made from plant and vegetable ingredients.

To run our offices even more efficiently in 2021, we aim to transition to renewable sources of energy, as well as installing energy efficient equipment, such as energy efficient boilers and LED lighting throughout our offices. As a business that has traditionally relied on paper for product dissemination, we will also continue to explore how to reduce our paper usage, such as by creating digital customer journeys, installing hand dryers and migrating to centralised printing.

We have been running a pilot to use recycled auto parts to repair our customers' vehicles. Recycled auto parts are beneficial for the environment because they reduce the need to manufacture new parts, a process which uses significant resources. Moreover, the manufacturing process produces a lot of waste and pollutants. As part of this pilot, we fitted over 2,000 recycled non-safety critical parts, such as bolts on body panels in our customers' vehicles and we continue to work with our suppliers to achieve a more environmentally resilient supply chain.

As a provider of car insurance, we also understand that we play a unique role in accelerating the widespread adoption of electric vehicles. We recognise that replacing polluting petrol and diesel engine vehicles with electric versions is the most impactful change we can collectively make to dramatically improve roadside air quality and reduce carbon emissions. As a result, we are setting ambitious targets to grow our market share in this strategically important segment of the market.

Environmental, Social and Governance Matters cont.

Greenhouse Gas disclosures

The table below presents the 2020 Greenhouse Gas ('GHG') reporting of esure Group's UK Operations.

Emissions from:	**2020**		**2019**
Tonnes of carbon dioxide equivalent (tCO_2e)	Scope 1	440	1,616
	Scope 2	858	
	Total	1,298	
Company's chosen intensity measurement	tCO_2e/£m Turnover		tCO_2e/£m Turnover
Turnover[1]	£840m		£835m
tCO_2e/£m Turnover	1.55		1.94

[1] Turnover is gross written premiums

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

<u>Emissions sources</u>: The footprint includes the Scope 1 (fossil fuel and refrigerant leakage) and Scope 2 (electricity) emissions associated with the offices in which the Group is based.

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

Environmental – Investment strategy

Following the Board's approval of the ESG Policy in 2020, work has commenced to enhance the Group's approach to ESG in relation to our investment portfolio. During 2021 we will formalise our monitoring metrics, targets and limits with regards to key ESG areas, and evolve our reporting against these.

Our ambition, which supports the Driving Good element of our strategy, is to continually assess our investment portfolio and consider investing in assets that have a positive impact on the environment

As at the end of 2020 our core publicly-traded assets (which are c.85% of our assets under management), have very low levels of exposure to high carbon emission industries such as Utilities and Minerals, including oil, gas and coal. However, we recognise there is an opportunity to more actively manage the environmental impact of our investment activities.

ESG considerations are integral to the top-down macroeconomic thematic investment process applied to decisions within our publicly traded portfolio. It is recognised that non-financial factors, including environmental, social and governance issues have a material influence on the relative attractiveness of assets, and these are considered alongside traditional risk and return metrics. Over 2021 we will be reassessing our investment portfolio allocation and will look to manage the transition with ESG considerations being a key element.

Our private portfolio assets invest in a range of direct lending, infrastructure equity and capital-efficient funds. Within our Infrastructure Equity fund for example, 13 out of the 17 portfolio companies in 2020 received 4 or 5 star ESG ratings when assessed by an independent industry-driven organisation example portfolio companies include wind-power generation, photovoltaic power generation and renewable power.

All of our external fund managers are signatories of the Principles of Responsible Investment.

Environmental Risks

There are a range of environmental factors which impact the business. These include the direct impact of weather-related climate change on catastrophe claims, materially relevant to our Home book. There are also strategic, social and environmental factors that impact the motor sector. The environmental impact of motor vehicles, the move towards increased use of electric cars and shared car ownership models will impact the motor insurance sector over the medium term. Further details can be found in our Principal Risks section at pages 15 to 17.

Corporate Governance Report
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, 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. He 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
Andy has the right to attend all Committee meetings of the Board.

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. He 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. He joined Aviva in 2002 following almost 10 years with the management consulting arm of PricewaterhouseCoopers.

Committee membership
David chairs the Group Executive Committee. David has the right to attend all Committee meetings of the Board. He does not participate in the Remuneration Committee's discussions around his own remuneration.

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.

Committee membership
None.

Andrew Birrell
Independent Non-Executive Director

Background and experience
Andrew Birrell was appointed to the Board as an independent Non-executive Director and a Chair of the Audit Committee in December 2019. He 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 where he has had M&A and Balance Sheet responsibility along with delivering operational and strategic change. He trained as an Actuary and is a Fellow of the Institute and Faculty of Actuaries and a Chartered Enterprise Risk Actuary.

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 and Chief Financial Officer of Capital Alliance Holdings, 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 an independent Non-executive Director in March 2017. Alan has had a long and distinguished career in investment banking and asset management. Alan is the Chair of the National House-Building Council and a non-executive director of British Coal Staff Superannuation Scheme Trustees Ltd where he chairs the 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. He began his career with Scottish Widows, where he qualified as a Fellow of the Faculty of Actuaries before moving into senior executive positions with BZW Asset Management and Lucas Varity Fund Management. Alan is a former vice-chairman of the National Association of Pension Funds, and former Chairman of its Investment Council. He is a former member of the Council and Management Board of the Institute and Faculty of Actuaries, a former member of the Takeover Panel and a former member of the supervisory board of Robeco Groep NV.

Committee membership
Alan 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 an independent 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.

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 roles of non-executive director Aldermore Bank plc and at Bank of Ireland (UK) plc.

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

Elke Reichart
Independent Non-Executive Director

Background and experience
Elke was appointed to the Board as an independent Non-executive Director with effect from 6 January 2021. Elke is currently CEO at TUI InfoTech and Chief Digital Officer at TUI Group, the world's leading tourism business, and is responsible for Group-wide IT solutions and implementation.

Elke has 29 years' experience in the IT industry and an impressive track record of driving large-scale business transformations on a global scale. She graduated in Roman Languages and Literature, Economics and Applied Information Sciences at the Universities of Gießen and Montpellier, France. Elke is passionate about encouraging more women to forge a career in technology - she was recently named in the Inspiring Fifty DACH Awards and won CIO of the Year in 2019.

Prior appointments
Previously, Elke held several management positions at Hewlett Packard (HP) and took over as Vice President for Strategy and Planning at HP's head office in Palo Alto in 2012. In 2013, she headed an international team and led the largest transformation programme to date at HP. From 2009 to 2016, Elke was a member of the Supervisory Board of HP Germany. On return from the USA in 2015, she started to work as a business consultant for CureVac AG, a biotech company in Germany. In December 2017, Elke was appointed a member of the Supervisory Board of Bechtle AG.

Committee membership
None.

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. Robin serves as a non-executive Director on the Board of the UK's Ministry of Defence. 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 on 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.

James Stevens
Non-Executive Director

Background and experience
James was appointed to the Board on 1 April 2020. James joined Bain Capital Private Equity in 2014. He is a Principal in the Technology Financial and Business Services Vertical and a member of the European Private Equity team. He has an LLB, First Class Honours and a B.Com in Finance from the University of Canterbury, New Zealand.

Prior appointments
Prior to joining Bain Capital Private Equity, James worked as a consultant at Bain & Company in London and Sydney across a number of sectors including Private Equity, consumer products and mining. Prior to this he worked in renewable energy across Asia.

Committee membership
None.

Corporate Governance Report cont.

Group Executive Committee

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

Board membership and changes during the year 1 January 2020 to 31 December 2020

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)
David McMillan	
Alan Rubenstein	
Peter Shaw	
Andrew Birrell	
Elke Reichart	(appointed to the Board as an independent Non-executive Director on 6 January 2021)
Luca Bassi	
Philip Loughlin	
Robin Marshall	
Stephen Long	(stepped down as Interim Chief Finance Officer & 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

Kirsty Whitehead	(appointed as Company Secretary on 27 January 2020)

Corporate Governance Report cont.

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 2020 It has also adopted the Guidelines for Disclosure and Transparency in Private Equity Companies (the "Walker PERG Guidelines") and has met the requirements of the regulations which are set out within the Strategic Report and Directors Report.

As a major UK general insurer, the Group is familiar and comfortable with the corporate governance practices expected of a public limited company, without a premium listing but 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.

Company Ownership

In December 2018, esure Group was acquired by Blue (BC) Bidco Limited a wholly owned subsidiary of funds advised by Bain Capital Private Equity, LP and its affiliates. esure was established in 2000 and is headquartered in Reigate, Surrey, UK. The company was originally conceived for the online channel which now dominates insurance distribution.

Bain Capital Private Equity (Europe), LLP is an investment adviser authorised and regulated by the Financial Conduct Authority ("FCA"). Bain Capital Private Equity (Europe), LLP is an indirect subsidiary of Bain Capital, LP, a global investment firm based in Boston, Massachusetts, USA. It is based in London and is the investment adviser to the following European private equity funds:

- Bain Capital Fund VII-E, LP
- Bain Capital Fund VIII-E, LP
- Bain Capital Europe Fund III, LP
- Bain Capital Fund Europe – V, SCSp
  and the investment sub-advisor to:
- Bain Capital Fund Europe – IV, LP

Leadership

The Board is responsible for leading and controlling the 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.

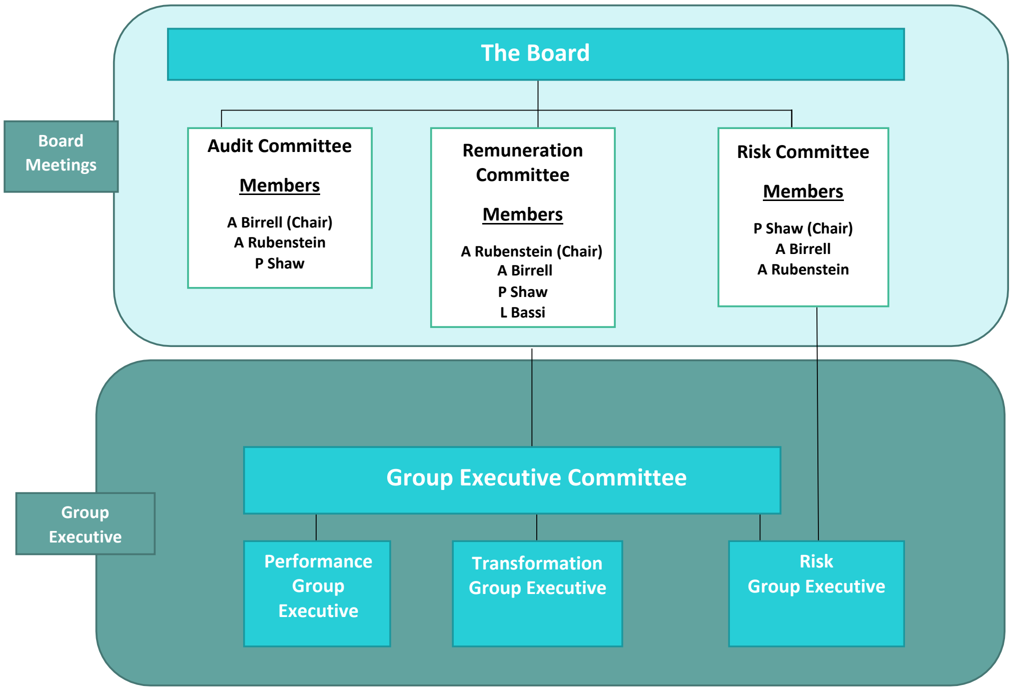
Corporate Governance Structure

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, risk management and remuneration policy. 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.

Corporate Governance Report cont.

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 are 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, Independent Non-executive Directors and Non-executive Directors

• 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

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. Further details can be found in our Environmental, Social and Governance section on pages 19 to 21.

Corporate Governance Report cont.

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 Group Executive Committee meets monthly. There is also a monthly Group Executive Performance Committee and Group Executive Transformation Committee and a quarterly Group Executive Risk Committee.

During 2020 the Group Executive Committee was strengthened with the appointments of Peter Bole, as Chief Financial Officer, Roy Jubraj as Chief Strategy & Transformation Officer, Caroline Smith as Chief People Officer, Kirsty Whitehead as General Counsel and Justin Cockerill as Chief Commercial Officer. Andy Burton has recently joined us in 2021 as Chief Technology Officer.

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. 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 across the financial, commercial, actuarial and technology sectors bringing 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.

Non-executive Directors

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 and inclusion

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. Elke Reichart was appointed as an Independent Non-executive Director with effect from 6 January 2021. She brings valuable transformation and technology experience to the Board, along with broad business experience. Her biography can be found on page 26.

During 2020, the Board has introduced a new Equity, Inclusion and Diversity Policy ('I&D Policy') further information can be found in the Environmental, Social and Governance section on page 19. The Board believes that a diverse and inclusive culture is essential to the long-term success of esure and enables us to respond to our diverse customer and wider stakeholder needs. It is committed to achieving an inclusive and diverse Board membership resulting in optimal decision-making and assisting in the development and execution of a strategy which promotes the success of esure for the benefit of its shareholders and employees. It is acknowledged that more needs to be done in this area.

The Board believes:

- Membership of the Board should include a diverse mixture of skills, professional and industry backgrounds, geographical experiences and expertise, gender, tenure, ethnicity and diversity of thoughts.
- A diverse Board with a range of views, insights, perspectives and opinions will improve its decision making and be of benefit to the Company's shareholder and other stakeholders.
- A culture of equity, inclusion and diversity is cultivated through clear tone from the top, with the Board and Group Executive championing equity, inclusion and diversity in support of esure as a whole.

The Board supports and monitors management's actions to increase the proportion of senior leadership roles held by women, people from ethnic minority backgrounds and other under-represented groups across esure in support of Gender Pay Equality. The Board is supportive of the recommendations from the Hampton-Alexander Review and the Parker Review.

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 required to declare any interests that may give rise to a conflict of interest on appointment and to obtain authorisation from the Chairman subsequently as they arise. It is a Directors' responsibility to ensure that they will be able to meet the time commitment expected of them in their role in the Group. Any potential conflicts approved by the Board are recorded in a Conflicts of Interests Register and are noted by the Board at its next meeting. Directors are required to review and confirm their interests annually. The Board is satisfied that the systems for the reporting of conflicts of interest are operating effectively.

Board evaluation

In line with best practice, and the Wates Corporate Governance Principles and regulatory guidelines, regular evaluations of the Board should be conducted. The Board completed an internal self-assessment questionnaire-based evaluation in Q4 2020. A follow up external Board evaluation will be undertaken in the second half of 2021.

The Board is committed to their ongoing professional development to enable individual directors to contribute effectively and to address the strengths and weaknesses of the Board as a whole.
The questionnaire responses were collated, and reports produced on the performance and effectiveness of the Board, each Committee and the Directors. The Board discussed the results openly and constructively and overall confirmed that it continued to work effectively.

However, the Board identified a need for increased focus on the following areas:

- To enhance the skill set of the Board, currently biased towards financial services, and to address the diversity of the Board in terms of culture/gender/psychological and other factors.
- To address comparative performance relative to competitors.
- To increase focus on non-financial matters, including customer, ESG and people.
- Robust succession planning for both Executive Directors and key management positions, with the Board having visibility of potential successors.

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, mid-year report in line with the Walker PERG Guidelines and recent press releases.

Corporate Governance Report cont.

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, following the potential impact of the Covid pandemic on the business, to ensure that the Group maintains a strong internal control environment.

The Committee has, this year, focused on outstanding claims reserves, financial reporting, the effectiveness of internal controls and challenged the work of both internal and external audit. In particular, consideration was given to the potential risks posed to the control environment arising from modified working practices during the Covid pandemic.

AUDIT COMMITTEE COMPOSITION AND MEETINGS

The Committee is comprised of Independent Non-executive Directors. Andrew Birrell was appointed Chair of the Committee on 17 December 2019. The other members of the Committee are Alan Rubenstein and Peter Shaw.

The Chairman, the Chief Executive Officer, the Chief Financial Officer, the Chief Risk Officer, the Chief Audit 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 any other announcements.
- Reviewing the Solvency and Financial Condition Report and the Group RSR.
- 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 verbally on its proceedings after each Committee 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 Principles for Large Private Companies and the Walker PERG Guidelines.

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, Chief Audit Officer 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 Chief Actuary, the Risk function and independent reviews by external consultancy firms. These reports considered the projected ultimate claims costs, inherent uncertainties, range of potential outcomes and the impact of reinsurance arrangements.

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 are appropriate. In reaching this conclusion, the Committee specifically considered risks related to the impact of the Covid pandemic.

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 and IFRS 17.
- The requirement for the Group to publish its Tax Strategy.

Internal Audit

Internal Audit draws on the Group's risk registers to help plan and inform its annual audit programme around the most significant risks to the business to ensure that adequate 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 24 November 2020. 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 is satisfied with the performance and effectiveness of KPMG. It 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 former external audit engagement partner, being appointed to lead the audit in 2015 rotated off after the conclusion of the 2019 audit. Caroline Gilbertson was appointed to succeed Mr Smart and has led the 2020 audit.

Details of fees paid to KPMG in 2020 are included in Note 12 in the Financial Statements.

The Committee also carried out a review of its own Terms of Reference during 2020.

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

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).

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 which can be found in the Strategic Report at pages 03 to 23.

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.

Responsibilities

The Committee responsibilities in respect of the Risk Management Framework are to:

- Provide advice to the Board on risk strategy and oversight of current risk exposures in relation to risk limits ;
- Keep under review the effectiveness of the Group's risk management systems, the overall risk assessment processes and methodology, and that risk-based information is used effectively by management and the Board in the running of the business;
- Evaluate potential emerging trends, including but not limited to environmental, social and governance trends, that may result in future adverse developments against the Group's risk appetite or new risk issues facing the Group and their potential impact on the business model;
- Review the principal risk policies for consistency with the Group's risk appetite and approve any material changes to those policies;
- Oversee and challenge the design and execution of stress and scenario testing, including reverse stress testing including day-to-day risk management and management's responsiveness to the findings and recommendations from the Chief Risk Officer and the Risk Management function;
- Challenge due diligence on risk issues relating to material transactions and strategic proposals that are subject to approval by the Board;
- Provide advice, oversight and challenge necessary to embed and maintain a supportive risk culture and review the effectiveness of its embedding and maintenance throughout the Group;
- Review the capital adequacy of the Group, taking into account the forward looking assessment of risks from the outcomes of the Own Risk and Solvency Assessment (ORSA) process and recommend to the Board for approval prior to submission to the Group's regulatory supervisor;
- Approve the annual objectives of the Risk Management Function, ensuring it has adequate resources, independence and has appropriate access to information to enable it to perform its function effectively;
- Review the approach by which each principal risk is controlled and the capability to identify and manage new and emerging risks;
- Receive notification of any material breaches of risk limits and discuss possible actions and solutions; and
- Consider the implications of any changes proposed to regulations and legislation that could be material to the Group's risk appetite, risk exposure, management of risk and regulatory compliance.

KEY AREAS OF FOCUS

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

- Oversight and review of Governance and Risk profile around the Transformation and Change Programme, including assessing the management of change risks and impact of the transformation on the overall business risk profile.
- Oversight of the ORSA (Own Risk and Solvency Assessment) process and reporting including assessment of the overarching risks within the business.

- Oversight of the Strategic risk appetite and during 2020 the top risk of the Covid pandemic focusing on Business Continuity Actions, Customer Vulnerability and response to Customer needs, and Key Risks.
- Oversight of responses and dialogue with the regulators in relation to the Covid pandemic, GI Pricing practices , Reserving and risk exposure management.
- Reporting and debate into material risk areas including Operational Resilience, Pricing, Reserving, Solvency, Investment, Conduct and Customer risk, Investment Risk and Data and Cyber risk.
- Assessment and debate regarding Risk Culture within the business.
- Review and approval of policies including Conflicts of interest, Health and Safety, Outsourcing, Financial Crime, Environmental, Social and Governance ('ESG'), Code of Conduct and Diversity and Inclusion.
- Review of the 2021 reinsurance programme for recommendation to the Board.

In addition, pages 15 to 17 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 15 to 17.

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. During 2020, the Committee informally discussed the Chief Risk Officer's report to the Remuneration Committee.

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 2020.

Peter Shaw
Chair of the Risk Committee

Corporate Governance Report cont.

REMUNERATION COMMITTEE REPORT

On behalf of the Remuneration Committee (the Committee), I am pleased to present the Directors' Remuneration report, for the year ended 31 December 2020.
The Committee is appointed by the Board and is comprised of Independent Non-executive Directors and a representative Director of the Shareholder.
This report presents an overview of the remuneration of our Chairman, Executive Directors, Independent Non-executive Directors and aggregate remuneration for our senior management team, together with a summary of our Remuneration Policy.

Roles and Responsibilities
The role of the Remuneration Committee is to oversee remuneration arrangements and make decisions on behalf of the Board for Executive and Material Risk Takers (MRT) remuneration. In fulfilling their role, the Remuneration Committee are advised by the Chief Executive Officer, Chief People Officer, General Counsel, Chief Risk Officer and Chief Financial Officer. 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 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. Agree population governed by Remuneration Policy
9. Accountability for Remuneration Policy – Board approval for all proposed amendments
10. Definition of Expense policy
11. Retirement terms
12. Contractual terms

Executive and Material Risk Takers Remuneration Policy
The Executive and MRT Remuneration Policy applies to the Chairman, Executives and the Material Risk Takers. It is reviewed and agreed annually by the Remuneration Committee. In setting the Policy and individuals' remuneration, the Remuneration Committee is mindful of the remuneration on offer to the wider employee population within the Group.

Key Elements and Principles of the Policy
The Policy sets out key elements including key principles underpinning the Policy and the regulatory framework within which policy sits, in addition to 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 Groups 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 The role of the Remuneration Committee is to approve recommendations for the remuneration of the Executives and Material Risk Takers to ensure that they comply with the relevant "legal and regulatory requirements" including but not limited 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;
- 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; and
- Wates Corporate Governance Principles for Large Private Companies which came into force from 1 January 2019.

It also complies with the Companies Act 2006, the Large and Medium Size Companies and Group (Accounts and Reports) amendment Regulations 2013.
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.

Types of Remuneration
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**: provide a fair level of fixed base pay to individual Executives and MRTs which reflects the individual's experience, role, contribution and external market pricing.
- **Pension**: 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 or receipt of a cash pension allowance.
- **Short-term Incentive – Bonus Plan**: motivate and incentivise the Executive and MRTs to deliver company performance in line with strategy and annual plan expectations. The bonus pool is calculated using a basket of both financial and non-financial measures. Bonus amount considers both business and individual performance.
- **Long-term Incentive – Management Incentive Plan:** motivate and incentivise Executive and MRTs to deliver long-term business plans, sustainable long-term growth and group strategic priorities. The Company has put in place a Management Incentive Plan (MIP), which has been offered to a number of senior colleagues who are critical to achieving the long-term goals of the organisation. It is expected that this incentive will be realised in a number of years and is subject to successful achievement of the long-term targets.
- **Other Benefits**: provide additional core benefits to Executives and MRTs that are market competitive. This may include provision of a range of benefits such as Death in Service, Private Medical Insurance and other benefits as considered appropriate.

In setting the Remuneration for the Executives and MRTs, the Remuneration Committee considers the remuneration on offer to the wider employee population within the Group. The Remuneration Committee and the Board takes a keen interest in the Group's Gender Pay Gap reporting, our progress against the HM Treasury Women in Finance Charter and the organisation's approach to inclusion and diversity.

Chairman and Independent Non-executive Directors Remuneration Policy
Remuneration for the Chairman is set by the Chair of the Remuneration Committee in consultation with the Shareholder. The remuneration for the Chair of the Remuneration Committee is set by the Chairman, in consultation with the Shareholder, while the remuneration for the other Non-executive Directors is set by the Chair of the Remuneration Committee and the Chairman, in all cases advised by External Advisers as necessary.

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 guidance and oversight. Fees are reviewed annually, considering time commitments and equivalent benchmarks for comparable Non-executive Director roles.
In addition to the remuneration described in this section, the Chairman also is a participant in the MIP scheme described above.

Chief Executive Officer

The Chief Executive does not participate in the Remuneration Committee's discussion of his pay review and any variable remuneration award. The Remuneration Committee consults the Chairman and the Shareholder on the Chief Executive's performance.

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.

Short-term variable remuneration – key control functions

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.

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.

Directors' Remuneration

Remuneration received by the Directors for the year ended 31 December 2020 is shown below:

All Directors	Year ended 31 December 2020	Year ended 31 December 2019
Directors emoluments	£3,281,718	£3,735,750
Payments in respect of pension	£131,585	£117,936
Total	**£3,413,303**	**£3,853,686**

Highest Paid Director	Year ended 31 December 2020	Year ended 31 December 2019
Directors emoluments	£1,871,833	£1,872,409
Payments in respect of pension	£90,000	£41,613
Total	**£1,961,833**	**£1,914,022**

Remuneration for other members of the senior management team

The principles and remuneration structures described within the Executive and MRT Remuneration Policy 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 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.

Gender Pay Gap Report

Gender Pay Gap data is reviewed on a regular basis, and 2020 data will be published on the Group website in due course.

Loss of Office

Within the terms of the agreed policy, as appropriate, the Committee will approve any termination payments to be made to Executives and Material Risk Takers including pay in lieu of notice, annual bonus, deferred bonus, long-term incentives and ex-gratia payments. 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.

Remuneration Committee Terms of Reference

The Committee carried out a review of its own Terms of Reference during 2020.

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 2020.

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 Statement – pages 03 to 04.
- Strategic Report – pages 03 to 23.
- Risk Management – pages 12 to 17.
- Corporate Governance Report – pages 24 to 41.

Corporate Governance Statement
For the year ended 31 December 2020, 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). 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. We have also applied the Guidelines for Disclosure and Transparency in Private Equity ("Walker PERG Guidelines")

Section 172 statement of the Directors
This report sets out how the Directors complied with the requirements of section 172(1) (a) to (f) of the Companies Act 2006 when performing their duties under section 172. The Directors have acted, in good faith, to promote the success of the Company for the benefit of its members as a whole.

In doing this, section 172 requires a Director to have regard, among other matters to: the likely consequences of any decision in the long-term; the interests of the Company's employees; the need to foster the Company' s business relationships with suppliers, customers and others; the impact of the company' s operations on the community and the environment; the desirability of the Company maintaining a reputation for high standards of business conduct; and the need to act fairly with members of the Company. This also forms the Directors' Statement required under section 414CZA of The Companies Act 2006.

The Board considers that key stakeholders who are impacted by its decisions include its shareholder, customers, colleagues, suppliers, regulators and industry bodies, external partners, the wider community and society including the Group's impact on the environment. The Board also engages with other stakeholders on specific issues, such as the tax authorities and the media.

The Board recognises that the purpose of stakeholder engagement is to ensure that the perspectives, insights and opinions of stakeholders are understood and taken into account when key strategic, financial or operational decisions are being taken. The Board believes that building strong relationships with our stakeholders enables delivery of our strategy in line with our purpose and long-term values and allows operation of the business in the best interests of all.

During the year, the Board considered the inputs, engagement and outcomes of the relationships between the Group and each of its stakeholder groups and has reflected on how the Group's corporate governance structure maintains and protects its reputation by upholding high standards of business conduct.

Stakeholder engagement - responding to the Covid pandemic
During the emergence of the coronavirus (Covid) outbreak in 2020, the Board remained committed to doing the right thing. The impacts of this pandemic for our key stakeholders has been significant and the repercussions will be felt for a long time to come. The Group has taken a series of practical steps to support customers, employees, communities and suppliers.

Directors' Report cont.

The table below highlights the interests of our key stakeholders, our engagement methods and examples of decisions taken during the year. Further details can be found in the Strategic Report on pages 03 to 23.

Stakeholders – Who		
Customers	**How we as a Board engage**	**Decisions and evidence in 2020**
Customers are at the heart of our business operations, and we are committed to providing them with great-value products, excellent customer service and fair and reasonable treatment. The Board recognises the growing movement towards digital and automation capabilities across the financial services sector and is taking steps to prepare the Group for long-term success in the digital economy.	We engage with our customers in a variety of ways, through: • Our Customer Service teams. • Our Claims teams. • Our Complaints teams. • Customer focus groups • Direct conversations with customers. • Via Social media. • KPIs – these are tracked and monitored by the Board.	• The Board received updates on the treatment of existing customers, vulnerable customers and on ensuring fair outcomes throughout the customer journey. • During 2020, the Board have taken into consideration the needs of customers, especially during the Covid pandemic. • Established a hardship fund to be available to communities in direct response to the challenges posed by the Covid pandemic. • Supported NHS and Key Workers during the Covid pandemic with deployment of various tools to assist including waiving excesses for all NHS and emergency workers; offering payment holidays; and prioritising NHS and emergency workers' vehicles throughout the claims and repair processes. • Offered discounts for reduced mileage. • The Board approved the Game Changer Strategic Plan in July 2020 (five-year plan) including the allocation of capital to support it, and monitors its implementation throughout the year using detailed reports on operating and financial performance. Customer and employee feedback is fed into Board discussions which ultimately shapes strategic decisions, including the Board approval of the Game Changer Strategy including transformation plans related to digital investment and product diversification which may have potential benefits for current and future customers. • The Board received updates on Conduct Risk framework and steps taken to address these such as transformation impact, large fines for data breach, and decision on cyber insurance

<table>
<tr><th>Colleagues – Our People</th><th>How we as a Board engage</th><th>Decisions and evidence in 2020</th></tr>
<tr><td>The Board values our employees, their commitment and contribution to fulfilling our purpose.
We engage with employees throughout the year to understand what they really value. This provides a highly motivating environment, attractive career paths and benefits; and empowerment to own and drive our vision.

Employees are critical to the services provided to our customers and employee engagement is regularly discussed.

Colleague insights and feedback play a part in facilitating the Board discussions and decision-making processes.

The key material issues for our people are a friendly, safe and productive workplace where there are open communications, fair treatment, consideration of their views, opportunities for development along with reward and recognition.

High colleague engagement helps the organisation attract, retain and develop a talented workforce for now and in the future. Further information can be found in our ESG section on pages 18 to 20.</td><td>• Colleagues are encouraged to engage across multiple channels including website chats, Teams meetings and face-to-face meetings. (before the Covid pandemic).
Also engagement via:
• 1:1 meetings with Executive Directors.
• Employee Consultation Group (ECG) updates.
• Colleague Surveys.
• Feedback schemes such as ‘Ask David’ and ‘Speak Up’
• An “Open Door” policy (pre Covid).
• An independent whistleblowing helpline.
• Updates relating to gender and diversity, and corporate culture and values
• Other fora with colleagues via esure Wellbeing programme throughout the year covering diversity and inclusion, mental health and wellbeing.
• Online learning and development tool.</td><td>• The health and safety of the Group’s employees (and other stakeholders) remains its main priority and the Directors review the performance in this area.
• Closure of three locations and set up of 1000+ employees to work from home.
• Independent external H&S assessment of steps taken to provide Covid-safe working environment for some colleagues returning to office work in Q3 and Q4 2020.
• Launch of a regular survey programme to gauge the views of our employees.
• Engagement and employee net promoter scores tracked monthly since July.
• People Committee launched chaired by CPO, and including the CEO, CSTO, General Counsel, Head of Claims and other senior representatives.
• Approval of 2020 Annual bonus by the Remuneration Committee of the Board.
• Review of Gender pay gap reporting.
• Launch of a new model of learning and a Leadership Academy.</td></tr>
</table>

<table>
<tr><th>Shareholder</th><th>How we engage</th><th>Decisions and evidence in 2020</th></tr>
<tr><td>Delivering sustainable returns on shareholder investments.

The Directors take the reputation of the Group seriously which is not limited to only operational and financial performance</td><td>• Regular programme of engagement including attendance at Board meetings and strategy days.
• In alternate months to Board meetings a monthly Shareholder Review meeting is hosted by the CEO and CFO with the Chairman in attendance.
• One-to-one Shareholder meetings with the Chairman, iNEDs, CEO, CFO and other members of the Executive Team as required
• Monthly performance reporting – both financial and non-financial and Deep</td><td>• The Board approved the Game Changer Strategic Plan in July 2020 (five-year plan) including the allocation of capital to support it and monitors its implementation throughout the year using detailed reports on operating and financial performance.
• The Board approved the 2021 Budget and Management Plan.
• The Shareholder received updates on the impact of Covid pandemic on the business operating rating environment.
• The Board also considered external factors such as competitor behaviour, the performance of the</td></tr>
</table>

	Dives into specific subject matter	insurance industry, and the evolving economic and market conditions.
Suppliers	**How we engage**	**Decisions and evidence in 2020**
We recognise the key role our suppliers play in helping us run our business and deliver quality service for our customer. The Group works closely with suppliers to ensure its values are upheld throughout its supply chain. The Board annually reviews and approves the Modern Slavery and Human Trafficking Statement which sets out our efforts and actions to eliminate modern slavery across our supply chain.	• The Directors understand the importance of the Group's supply chain in delivering the long-term plans of the Group. • Every supplier has a designated supplier relationship manager to monitor performance and help enhance the relationship.	• Approval of Outsourcing Policy. • Slavery and Human Trafficking Statement approved and published. • Approved Financial Crime Policy. • Approval of Code of Conduct Policy. • Supplier Governance Forum established to ensure appropriate oversight and challenge of our supply.
Regulators	**How we engage**	**Decisions and evidence in 2020**
We recognise the importance of open and continuous dialogue with our regulators and seek to maintain the highest possible regulatory standards, to protect and enhance the integrity of the UK financial system and ensure fair outcomes for our members.	• Member of industry bodies (such as the ABI) to ensure active engagement in industry-wide discussions. • Active engagement with the PRA / FCA / ICO and alignment of our approach to meet regulatory requirements. • Regular and ad hoc meetings attended by Board members and CRO with the regulators: • Open and transparent reporting. • Proactive engagement and collaborative approach. • Responded to several letters from the regulator. • Ad hoc engagement with the regulators during 2020.	Discussion topics in 2020 included: • COVID 19 customer response. • Dear CRO letter into Reserving and Exposure management. • Dear CEO letter into cyber. underwriting risk. • Brexit action plan. • Climate Change. • Operational resilience. • FCA market study into pricing practices.
Community and environment	**How we engage**	**Decisions and evidence in 2020**
We believe in supporting people in their communities. Regular engagement with local communities, our regional Community Committees which are run by esure volunteers who organise fundraising activities Further information can be found in our ESG section on page 20.	• Colleague community committees run by volunteers at each of our office locations, interact and fund raiser for local charities.	• Donated over £46,000 to our Charitable organisations - further details can be found in the ESG section on page 20. • Approved the Framework for the ESG policy

Directors’ Report cont.

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 2020 and a description of the principal risks and uncertainties faced by the Company in addition to certain non-financial reporting matters. The Strategic Report can be found on pages 03 to 24.

Results

The results for the year are shown in the consolidated statement of comprehensive income which can be found on page 59.

Dividends

The Directors do not propose to recommend the payment of a final dividend in respect of the year ending 31 December 2020 (2019: nil).

Post-balance sheet events

There were no significant post-balance sheet events requiring an adjustment to the Group financial position since 31 December 2020. Further information is provided in the Financial Review on page 06.

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 2020 financial year and up to the date of this report are provided in the Corporate Governance section on pages 24 to 27 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 20 April 2020 (‘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 2020, the Group employed 1,764 people of which 854 are women (48.4%) and 910 are men (51.6%). Our Board of directors during 2020 were all male. Our Senior Leadership team comprises 81 male (69.8%) and 35 Female (30.2%).

Employee Engagement Actions

The Group is committed to creating an inclusive 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. It 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.

Directors' Report cont.

We are committed to becoming a truly diverse and inclusive organisation – in everything and for everyone. Further details on Employee and Employee engagement can be found in the ESG section on pages 19 to 20. Through an inclusive recruitment approach in 2020, we have established a more diverse Group Executive team and improved diversity at Board Level with a female Independent Non-executive Director being recently appointed to the Board.
This approach has also supported the increase of women in our senior leadership group from 25% to 30% in the last 12 months. We have appointed Roy Jubraj, our Chief Strategy and Transformation Officer as our I&D Executive Sponsor. Key progress to drive our I&D agenda has included establishing the first ever esure I&D working group with representatives from across the company. The group held virtual campfires, shared stories of why this subject is personally important and agreed key focus areas the group is passionate about driving forward. We surveyed the whole Company in December 2020 using a dedicated diversity tool. Insights from the survey have helped shape our strategy and priority plans. We have extensively researched actions other organisations have taken to further I&D to inform our plans and next steps.
We have begun a communication campaign including a video of why inclusion matters to those in the I&D group and spotlight interviews with eight members of the I&D group. To build inclusive leadership capabilities we launched the first cohort of an external Leadership Programme with balanced male and female representation.

Employee Engagement Priorities
We have identified the first set of priorities to pursue in 2021. We will define an engaging I&D calendar to raise awareness, promote diversity and importantly educate and celebrate a broad range of cultural events. We will conduct a review of all our policies and propose changes to promote diversity more widely. We will review our approach to flexible working – considering flexibility around working hours and from where work is done. We will review our recruitment approach and processes at all levels to ensure they are fit for purpose and support and enable diverse hiring. We will build strong partner relationships to support our I&D journey. We will build a clear and transparent communication plan throughout the year to create recognition around I&D. We will continue to offer leadership development opportunities ensuring a balanced pipeline and representation.

Employee Policies
Our Employee Policies listed below are reviewed annually by the Board:

- Equity, Inclusion and Diversity Policy (I&D Policy)
- Code of Conduct
- Resourcing Policy

The Code of Conduct guides everyone in how to behave. It is a mandatory policy all colleagues are required to read, understand and acknowledge annually. The Code of Conduct explicitly refers to equality and diversity, and it is currently being updated to reflect the updated I&D Policy. The Resourcing Policy affirms our commitment to equality and diversity throughout the recruitment and selection process and outlines our approach to increasing gender diversity.

A Policy project team reviews people policies throughout the year, making recommendations to update policies ahead of changes in employment legislation. In 2021 their focus includes reviewing people policies though an I&D lens.

The Group is committed to employing people with disabilities or who become disabled during their employment by making reasonable adjustments as appropriate to support the continued employment of employees. The training, career opportunities, development and promotion of people with disabilities are, as far as possible, identical to those of other employees. Further information in respect of actions taken with the aim of encouraging employee involvement and achieving employee engagement in the Company has been disclosed in the ESG section.

Directors' Report cont.

Human Rights

The Group resides and offers its products only within Great Britain. During 2020, the Group was 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. The Board annually reviews and approves the Modern Slavery and Human Trafficking Statement which sets out our efforts and actions to eliminate modern slavery across our supply chain.

Bribery and Corruption

The Group maintains high ethical standards in carrying out its business activities. The Group's Code of Conduct and Financial Crime Policy help 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 and 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 2021 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 34 to 36.

Their 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; and
- 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.

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 33 to 35.

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 12 months from approval of the financial statements, including regulatory capital surpluses and has taken into account the potential impacts arising from the Covid pandemic. The Directors have a reasonable expectation that the Group has adequate resources to continue in operation for at least the next 12 months.

Directors' Report cont.

Related Party Transactions
The following transactions took place with related parties during the year:

- The Group uses a Company which was controlled by Bain Capital for part of the year to provide business continuity services
- The Group uses a Company which is controlled by Bain Capital to provide recruitment, HR and payroll - related services.

The Group undertakes a quarterly review of related party relationships with Bain Capital. Further details can be found in the Notes to the accounts on page 100.

The Group undertakes an annual review of Conflicts of interest and any related party transactions of the Board of Directors and Group Executive members. Directors and Group Executive members are required to review and confirm their interests annually. The Board is satisfied that the systems for the reporting of conflicts of interest and related party transactions are operating effectively. Further details on Directors' conflicts of interest can be found on page 32.

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. Financial Risk Management, including the possible impacts of Brexit and Covid, is discussed in the Risk Management Section on pages 12 to 17. The Risk Committee and the Audit Committee, respectively, regularly review the effectiveness of the Group's risk management and internal control systems. 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. Further details can be found in Audit Committee and Risk Committee reports on pages 33 to 37.

The Committees continue to evaluate climate-related risks. Further details can be found in the ESG section on pages 20 to 22 in the Strategic Report.

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.

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

This section, together with the reports set out on pages 03 to 41, are approved by order of the Board.

Kirsty Whitehead

K Whitehead
Company Secretary
9 March 2021

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 UK (IFRSs as adopted by the UK) and applicable law and have elected to prepare the parent Company Financial Statements in accordance with UK accounting standards and applicable law, 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 the Group's 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 UK;
- for the parent Company Financial Statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent Company Financial Statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They are responsible for such internal control as they determine 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 and a Directors' Report 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
9 March 2021

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 2020 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 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- 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 to the extent applicable.

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 shareholders for the financial year ended 31 December 2000. The period of total uninterrupted engagement is for the 21 financial years ended 31 December 2020. 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: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, 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.

Valuation of insurance contract liabilities

(Insurance contract liabilities £1,110.4m ; 2019: £998.0m)
Refer to page 70 (accounting policy) and page 90 (financial disclosures).

The risk:

Valuation of insurance contract liabilities is the area requiring the most significant judgement in the Financial Statements. The Group maintains reserves to cover losses or injuries that have been incurred as at the balance sheet date, whether or not those losses or injuries have been reported to the Group as at the balance sheet date. Estimating the reserves required for claims incurred but not reported ("IBNR") to the Group involves significant judgement and the use of actuarial and statistical projections.

This judgement is applied to a number of key assumptions, such as the frequency and severity of incurred bodily injury, accidental damage and third party property damage losses and the choice of development pattern.

In addition, the determination of the valuation of individual large losses can be particularly subjective as it is based on estimated settlement amounts which are inherently uncertain, especially for recently reported claims.

A margin is added to the actuarial best estimate of insurance liabilities to make allowance for specific risks and uncertainties that are not specifically allowed for in establishing the actuarial best estimate. The appropriate margin to recognise is a subjective judgment and estimate taken by the directors, based on the perceived uncertainty and potential for volatility in the underlying claims.

We have increased the level of assessed risk due to additional uncertainties as a result of the COVID-19 pandemic in relation to the impact on trends in frequency and severity and the level of margin held to allow for these increased uncertainties.

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of insurance contract liabilities 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.

Our response:

Our approach predominantly comprised of substantive testing, with significant involvement of our actuarial specialists.

- **Assessed valuer's credentials:** We evaluated the competence, capabilities and objectivity of the Company's internal actuaries and the external actuaries used by the Company based on our knowledge of the actuaries' qualifications and the professional standards that their work is subject to, through discussion with both actuaries, and by analysing the differences in reserving methodology applied by both actuaries, through the procedures outlined below.
- **Benchmarking:** We evaluated the assumptions, methodologies and development patterns through assessment of claims development trends and benchmarking to market data, actuarial benchmarks and the Group's historical experience. In 2020, our benchmarking was extended to include the assumptions and methodology choices made as a result of the increased uncertainty due to the COVID-19 pandemic.
- **Historical comparisons:** We considered the movement in reserves relating to claims incurred in prior years to assess the reasonableness of the Directors' past assumptions and the methodology used to estimate claims outstanding.
- **Margin evaluation:** We evaluated the appropriateness of the Group's margin held at year end. In order to do this, we assessed the Directors' approach, and supporting analysis for margin to be held, having regard to the allowance for uncertainties inherent in the data and assumptions in developing the actuarial best estimate. We assessed the extent to which the margin between the reserves booked and the actuarial best estimate was determined consistently with prior periods and in line with the reserving methodology. In 2020, our procedures were extended to specifically consider the margin held to allow for increased uncertainty in relation to the COVID-19 pandemic. We assessed

the supporting analysis with reference to our own view of the nature, quantum and likelihood of relevant scenarios and sensitivities and historic and market benchmarks.

- **Independent re-performance:** Independent re-projection of selected cohorts of claims outstanding using our own models for large bodily injury claims for motor insurance.
- **Test of Detail:** In addition to this, we agreed a sample of large loss reserves to underlying documentation to gain assurance that case reserves held are in line with the Company's reserving methodology. We evaluated the competence, capabilities and objectivity of the Company's internal claims handlers responsible for estimating the large loss reserves, through inquiry and obtaining an understanding of the judgements made on a sample of large loss reserves.
- **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.

We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Our results

We found the valuation of the insurance contract liabilities to be acceptable (2019: acceptable).

Parent company investment in subsidiaries

(£234.6m; 2019: £234.6m)
Refer to page 105 (accounting policy) and page 106 (financial disclosures).

The risk:

Low risk high value assets:
The carrying amount of the parent company's investments in subsidiaries represents 99.2% (2019: 99.2%) 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 (2019: acceptable).

In the prior year we reported a key audit matter in respect of the impact of uncertainties due to the UK exiting the European Union. Following the trade agreement between the UK and the EU, and the end of the EU-exit implementation period, the nature of these uncertainties has changed. We continue to perform procedures over material assumptions in forward looking assessments such as going concern, valuation of insurance contract liabilities and valuation of investments however we no longer consider the effect of the UK's departure from the EU to be a separate key audit matter.

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 £6.4m (2019: £6.7m), determined with reference to a benchmark of total Group revenue of £841m (of which it represents 0.76% (2019: 0.75%)). 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 (2019: £2.4m), determined with reference to a benchmark of company total assets, of which it represents 1% (2019: 1%).
Esure Services Limited is part of a group headed by esure Holdings Limited. Materiality of £4.5m, as communicated by the group audit team, has been applied to the audit of this company. This is lower than the materiality we would otherwise have determined by reference to total expenses, and represents 1.5% of the company’s total expenses (2019: 1.3%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality for the group and parent company was set at 75% (2019 :75%) of materiality for the financial statements as a whole, which equates to £4.8m (2019 : £5m) for the group and £1.8m (2019 : £1.8m) for parent. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £320k for the Group and £117k for the parent , in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's seven (2019: seven) reporting components, we subjected three (2019: three) to full scope audits for group purposes and one (2019: one) to specified-risk focused audit procedures (2019: 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 components within the scope of our work accounted for below:

	Number of components	Group revenue %	Group profit before tax %	Group total assets %
Audit for group reporting purposes	3	99.9%	99.5%	98%
Specified risk-focused audit procedures over investment property	1	-0%	0%	1.9%
Total	4	99.9%	99.5%	99.9%
Total (2019)	4	99.9%	99.5%	99.5%

The Group team has also completed the audit of the significant components. The Group team approved the component materiality, which ranged from £1.6m to £6.2m (2019: £2.7m to £6.6m), having regard to the mix of size and risk profile of the Group across the components.

4 Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company'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").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its 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

We also considered less predictable but realistic second order impacts that could affect demand in the Group's markets, such as the impact of COVID-19 on the Group's results and operations, the failure of counterparties who transact with the group (such as policyholders and reinsurers), the performance of the investment portfolio, solvency and capital adequacy.

We considered whether these risks could plausibly affect the solvency, profitability and liquidity in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Group's financial forecasts.

We considered whether the going concern disclosure in note 2 to the financial statements gives a full and accurate description of the Directors' assessment of going concern , including the identified risks dependencies and related sensitivities. We assessed the completeness of the going concern disclosure.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 2 to be acceptable.

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 above conclusions are not a guarantee that the Group or the Company will continue in operation.

5 Fraud and breaches of laws and regulations – ability to detect

<u>Identifying and responding to risks of material misstatement due to fraud</u>

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee and internal audit and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading board, audit, risk and remuneration committee minutes.
- Considering remuneration incentive schemes and performance targets for management and staff.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that Group and component management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as the valuation of insurance contract liabilities. On this audit we do not believe there is a fraud risk related to revenue recognition because the non-judgemental nature of the valuation and recognition of premiums means there is limited opportunity for management to commit a fraud, that would lead to a material misstatement.

We also identified fraud risks related to the valuation of insurance contract liabilities and the valuation of unlisted and alternative investments in response to the opportunity for fraudulent financial reporting arising from the subjective nature of these estimates. Further detail in respect of insurance contract liabilities is set out in the key audit matter disclosures in section 2 of this report.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. The risk criteria included those posted by an individual who is not from the Finance Department to seldom used accounts, unusual journal entry pairings and journal entries recorded at the end of the period or as post-closing entries that have little or no explanation or description.
- Assessing significant accounting estimates for bias.

<u>Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations</u>

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 correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

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 license to operate. We identified the following areas as those most likely to have such an effect: data privacy, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities and its legal form. 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. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

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 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 fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6 We have nothing to report on the other information in the Annual Report

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

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

Strategic report and directors' report

Based solely on our work on the other information:

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

Corporate governance disclosures

Based solely on our work on the other information described above:

- with respect to the Corporate Governance Statement disclosures about internal control and risk management systems in relation to financial reporting processes and about share capital structures:
- we have not identified material misstatements therein; and
- the information therein is consistent with the financial statements; and
- in our opinion, the Corporate Governance Statement has been prepared in accordance with relevant rules of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

7 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.

8 Respective responsibilities

Directors’ responsibilities

As explained more fully in their statement set out on page 50 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 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 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.

9 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.

Caroline Gilbertson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
9 March 2021

Consolidated statement of comprehensive income

	Notes	Year ended 31 Dec 2020 £m	Year ended 31 Dec 2019 £m
Gross written premiums	6	**841.0**	834.5
Gross earned premiums	6	**829.3**	839.8
Earned premiums, ceded to reinsurers		**(306.0)**	(642.0)
Earned premiums, net of reinsurance	6	**523.3**	197.8
Investment return and instalment interest	7	**70.2**	78.1
Other income	8	**51.9**	49.8
Total income		**645.4**	325.7
Claims incurred and claims handling expenses	19	**(644.5)**	(650.0)
Claims incurred recoverable from reinsurers	19	**234.8**	540.9
Claims incurred, net of reinsurance		**(409.7)**	(109.1)
Insurance expenses	11	**(134.7)**	(147.4)
Other operating expenses	11	**(53.3)**	(53.1)
Total expenses		**(597.7)**	(309.6)
Finance costs	13	**(13.5)**	(12.8)
Profit before tax		**34.2**	3.3
Taxation (expense)/credit	14	**(5.2)**	2.3
Profit attributable to the owners of the parent		**29.0**	5.6
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Revaluation of land and buildings	25	**(0.6)**	0.0
		(0.6)	0.0
Items that are or may be reclassified to profit or loss:			
Available-for-sale financial assets - change in fair value	25	**1.4**	7.1
Tax relating to items that are reclassified	25	**(1.1)**	(1.6)
		0.3	5.5
Total comprehensive income for the period attributable to owners of the parent		**28.7**	11.1

The Notes on pages 63 to 101 form part of these Financial Statements.

Consolidated statement of financial position

	Notes	As at 31 Dec 2020 £m	As at 31 Dec 2019 £m
Assets			
Goodwill and intangible assets	16	**34.7**	33.1
Deferred acquisition costs	21	**53.1**	48.9
Property, plant and equipment	17	**36.1**	43.2
Financial investments	18	**1,135.6**	1,059.0
Reinsurance assets	19	**736.9**	726.9
Deferred tax assets	24	**-**	0.6
Insurance and other receivables	20	**313.8**	329.0
Current tax assets		**8.9**	3.5
Cash and cash equivalents	18, 22	**45.3**	24.4
Total assets		**2,364.4**	2,268.6
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	**12.7**	12.9
Retained earnings		**181.6**	157.6
Total equity		**287.8**	264.0
Liabilities			
Insurance contract liabilities	19	**1,537.8**	1,413.7
Borrowings	18	**123.9**	123.6
Insurance and other payables	23	**413.4**	467.0
Deferred tax liability	24	**1.3**	-
Derivative financial liabilities	18	**0.2**	0.3
Total liabilities		**2,076.6**	2,004.6
Total equity and liabilities		**2,364.4**	2,268.6

The Notes on pages 63 to 101 form part of these Financial Statements.

The Financial Statements were approved by the Board and authorised for issue on 9 March 2021 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 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
Year ended 31 December 2020							
At 1 January 2020	25	**0.4**	**48.2**	**44.9**	**12.9**	**157.6**	**264.0**
Profit for the year		**-**	**-**	**-**	**-**	**29.0**	**29.0**
Other comprehensive loss		**-**	**-**	**-**	**(0.3)**	**-**	**(0.3)**
Total comprehensive income		**-**	**-**	**-**	**(0.3)**	**29.0**	**28.7**
Transactions with owners							
Capital contribution: share-based payments	26	**-**	**-**	**-**	**0.1**	**-**	**0.1**
Dividends	15	**-**	**-**	**-**	**-**	**(5.0)**	**(5.0)**
Total transactions with owners		**-**	**-**	**-**	**0.1**	**(5.0)**	**(4.9)**
At 31 December 2020		**0.4**	**48.2**	**44.9**	**12.7**	**181.6**	**287.8**

The Notes on pages 63 to 101 form part of these Financial Statements.

Consolidated statement of cash flows

Cash flows from operating activities	Notes	Year ended 31 Dec 2020 £m	Year ended 31 Dec 2019 £m
Profit after tax for the period		**29.0**	5.6
Adjustments to reconcile profit after tax to net cash flows:			
- Finance costs	13	**13.5**	12.8
- Depreciation and revaluation of property, plant and equipment	17	**7.3**	6.9
- Amortisation of intangible assets	16	**12.6**	10.5
- Share-based payments	26	**0.1**	-
- Taxation charge / (credit)	14	**5.2**	(2.3)
- Total investment return	7	**(14.6)**	(22.0)
- Instalment interest	7	**(55.6)**	(56.1)
- Loss on the sale of property, plant and equipment	16, 17	**1.8**	1.6
Operating cash flows before movements in working capital, tax and interest paid		**(0.7)**	(43.0)
Sales of financial investments		**838.5**	558.2
Purchase of financial investments		**(914.3)**	(622.2)
Interest, rent and dividends received less investment management expenses on financial investments		**15.3**	18.6
Instalment interest received		**57.5**	56.6
Changes in working capital:			
- Increase in insurance liabilities including reinsurance assets, unearned premium reserves and deferred acquisition costs		**46.1**	17.4
- Decrease in insurance and other receivables		**13.7**	10.2
- Increase/(decrease) in trade and other payables including insurance payables		**6.8**	(4.7)
Taxation (paid)/recovered		**(8.7)**	9.2
Net cash generated in operating activities		**54.2**	0.3
Cash flows used in investing activities			
Purchase of property, plant and equipment, and software	16, 17	**(16.8)**	(15.1)
Net cash used in investing activities		**(16.8)**	(15.1)
Cash flows used in financing activities			
Interest paid on loans	18	**(8.4)**	(8.5)
Repayment of lease liabilities		**(3.1)**	(3.1)
Dividends paid	15	**(5.0)**	-
Net cash used in financing activities		**(16.5)**	(11.6)
Net increase/(decrease) in cash and cash equivalents		**20.9**	(26.4)
Cash and cash equivalents at the beginning of the year	22	**24.4**	50.8
Cash and cash equivalents at the end of the year	22	**45.3**	24.4

The Notes on pages 63 to 101 form part of these Financial Statements.

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 2020, 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 accounting standards in conformity with the requirements of the Companies Act 2006 .

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 planning cycle, including regulatory capital surpluses and has considered the possible impact of a range of scenarios and related contingent management actions, including market rating and claims inflation. Further analysis of the wider risks facing the Group can be found on pages 15.

The Board has considered the likely impact of the on-going Covid pandemic, including the economic consequences for the Group of severe, but plausible, stresses that could result. When modelling scenarios resulting from the pandemic the Board considered risks including increased customer needs, down-grading of reinsurers' credit ratings, supplier impacts and sustained reduced economic growth. In all of these scenarios the Group continues to have adequate solvency coverage. Further analysis of the Group's operations, capital management strategy and risk management practices may be found on pages YY.

The Board has reviewed the Group's projections for the 12 months from the date of approval of the financial statements, including regulatory capital surpluses and, based on this work, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation for at least the 12 months from the date of signing of these financial statements.

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

There were no new accounting standards adopted in 2020 that affected the Group's accounts.

New and amended accounting standards that have been issued but are not yet effective

The following standards have been issued, are not yet effective 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 2023. 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 contracts within the scope of IFRS 4. It therefore remains eligible to and will be applying the temporary exemption from applying IFRS 9.

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 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.

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.

2 . Accounting policies (continued)

Intangible assets (continued)

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 economic lives and amortisation methods of acquired intangible assets, other than software, are as follows:

Insurer customer relationships	5 to 6 years, based on the pattern of consumption of the benefits
Insurer brands	8 to 10 years, on a straight-line basis

Impairment testing of intangible assets

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. All intangible assets not yet in use within the business are tested annually for impairment.

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 3 and 8 years
Freehold buildings	100 years

The assets' residual values, useful lives and method of depreciation are reviewed and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the 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.

Financial assets

Impairment of financial assets

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

Financial assets measured at amortised cost

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

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.

When a reinsurance contract is commuted the reinsurer is discharged from all obligations relating to that contract. Reinsurance assets and liabilities relating to the commuted contracts are settled in the period in which the commutation agreement is signed.

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.

2 . Accounting policies (continued)

Financial liabilities

Financial liabilities falling within the scope of IAS 39 are classified as 'derivatives held for trading', or 'other financial liabilities'. The Group determines the classification of its financial liabilities at initial recognition.

The Group's 'other financial liabilities' include other payables and borrowings. Insurance payables are also presented as other financial liabilities.

Initial recognition

All financial liabilities are measured initially at fair value less, in the case of other financial liabilities, directly attributable transaction costs.

Subsequent measurement

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised.

Amortised cost is calculated by taking into account any fees or costs that are an integral part of effective interest rate, transaction costs and all other premiums and discounts. The amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification, 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.

2 . Accounting policies (continued)

Leases

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.

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 in excess of US$ 1,000 in line with IFRS 16.

<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; and
- 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) and the expected vesting date 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.

Non-trading costs

Non-trading costs are those costs which do not relate to the ongoing trading of the business.

3 . Critical accounting judgements and estimates

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

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

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

Insurance contract liabilities

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

In 2020 there is additional uncertainty due to the impact of the Covid pandemic which has affected claims frequency and claims settlement costs.

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.

3 . Critical accounting judgements and estimates (continued)

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

Valuation of Level 3 Financial Assets

The valuation of Level 3 assets involves the use of inputs that are necessarily judgemental and the reasonable range of these estimates is wider in the current year than has been seen historically, due to the impact of Covid.

Factors that have been considered in making these judgements have included the nature of fund holding the assets, the basis of the calculation of the fund value by the fund manager, and the nature and individual circumstances surrounding the underlying investments within the fund.

Please refer to Note 18 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. The details of the changes in accounting policies are disclosed below.

See Note 2 for details of the accounting policies under 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.

5 . Segmental information (continued)

Segmental revenues, expenses and other information

An analysis of the Group's results by reportable segment is shown below:
Reconciliation to adjusted measures
Year ended 31 December 2020

	Income statement	LPT	Reclassifications	Segmental reporting
	£m	£m	£m	£m
Net earned premium	523.3	(1.8)	-	521.5
Investment income	14.6	-	-	14.6
Instalment interest income	55.6	-	-	55.6
Other income	51.9	-	-	51.9
Total income	**645.4**	**(1.8)**	-	**643.6**
Net incurred claims	(379.7)	-	-	(379.7)
Claims handling costs	(30.0)	-	-	(30.0)
Insurance expenses	(134.7)	-	-	(134.7)
Other operating expenses	(53.3)	-	36.7	(16.6)
Total expenses	**(597.7)**	**-**	**36.7**	**(561.0)**
Trading profit	**47.7**	**(1.8)**	**36.7**	**82.6**
Amortisation of acquired intangible assets	-	-	(0.2)	(0.2)
Non-trading costs: Strategic investment	-	-	(30.4)	(30.4)
Non-trading costs: LPT and related costs	-	(1.0)	-	(1.0)
Non-trading costs: Other	-	-	(7.1)	(7.1)
Finance costs	(13.5)	2.8	1.0	(9.7)
Profit before tax	**34.2**	-	-	**34.2**

Year ended 31 December 2020

	Motor	Home	Adjusted
	£m	£m	£m
Gross written premiums	**737.1**	**103.9**	**841.0**
Earned premiums, net of reinsurance	457.2	64.3	521.5
Investment income	13.0	1.6	14.6
Instalment interest income	50.1	5.5	55.6
Other income	45.2	6.7	51.9
Total income	**565.5**	**78.1**	**643.6**
Net incurred claims	(331.9)	(47.8)	(379.7)
Claims handling costs	(25.8)	(4.2)	(30.0)
Insurance expenses	(101.1)	(33.6)	(134.7)
Other operating expenses	(15.3)	(1.3)	(16.6)
Total expenses	**(474.1)**	**(86.9)**	**(561.0)**
Trading profit	**91.4**	**(8.8)**	**82.6**
Amortisation of acquired intangibles			(0.2)
Non-trading costs			(38.5)
Finance costs			(9.7)
Profit before taxation			**34.2**
Tax expense			(5.2)
Profit after taxation			**29.0**
Net expense ratio			31.6%
Net loss ratio			72.8%
Combined operating ratio			104.4%

The average number of in-force policies during the year ended 31 December 2020 was 2.41 million.

5 . Segmental information (continued)

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

Reconciliation to adjusted measures (restated) *
Year ended 31 December 2019

	Income statement £m	LPT £m	Reclassifications £m		Segmental reporting £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)	-	26.4	*	(26.7)
Total expenses	**(309.6)**	**(472.3)**	**26.4**		**(755.5)**
Trading profit	**16.1**	**15.2**	**26.4**		**57.7**
Amortisation of acquired intangible assets	-	-	(1.0)		(1.0)
Non-trading costs: Strategic Investment	-	-	(17.2)	*	(17.2)
Non-trading costs: LPT and related costs	-	(18.2)	(0.2)	*	(18.4)
Non-trading costs: Other	-	-	(9.0)	*	(9.0)
Finance costs	(12.8)	3.0	1.0	*	(8.8)
Profit before tax	**3.3**	-	-		**3.3**

* see reconciliation on page 74

Year ended 31 December 2019

	Motor £m	Home £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	(24.4)	(2.3)	(26.7)
Total expenses	**(667.5)**	**(88.0)**	**(755.5)**
Trading profit	**54.4**	**3.3**	**57.7**
Amortisation of acquired intangibles			(1.0)
Non-trading costs			(44.6)
Finance costs			(8.8)
Profit before taxation			**3.3**
Tax credit			2.3
Profit after taxation			**5.6**
Net expense ratio			26.1%
Net loss ratio			80.2%
Combined operating ratio			106.3%

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

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

5 . Segmental information (continued)

In 2020 Management reviewed the classification of costs that had in 2019 been classified as non-trading and refined the definition. Following this review a restatement has been made to the 2019 figures to allow full comparison with the 2020 figures:

Year ended 31 December 2019

	Trading profit	Amortisation of acquired intangibles	Non-trading costs	Finance costs	**Profit before tax**
Disclosed in 2019	**68.0**	(1.0)	(53.9)	(9.8)	**3.3**
Strategic Asset Amortisation reclassified to trading	(8.1)	-	8.1	-	-
IFRS 16 interest expense classified as trading	(1.0)	-	-	1.0	-
Other costs reclassified to trading	(1.2)	-	1.2	-	-
Restated in 2020	**57.7**	(1.0)	(44.6)	(8.8)	**3.3**

6 . Earned premiums, net of reinsurance

	Year ended 31 Dec 2020 £m	Year ended 31 Dec 2019 £m
Gross written premiums	**841.0**	834.5
Change in unearned premium provision	**(11.7)**	5.3
Gross earned premiums	**829.3**	839.8
Written premiums, ceded to reinsurers other than LPT and QS	**(91.5)**	(77.6)
Written premiums, ceded to reinsurer under LPT and QS	**(221.7)**	(563.1)
Change in unearned premium provision	**7.2**	(1.3)
Earned premiums, ceded to reinsurers	**(306.0)**	(642.0)
Earned premiums, net of reinsurance	**523.3**	197.8

7 . Investment return and instalment interest

	Year ended 31 Dec 2020 £m	Year ended 31 Dec 2019 £m
Interest income on financial investments	**6.7**	10.7
Interest income on cash deposits	**0.1**	0.3
Investment expenses	**(4.9)**	(6.1)
Dividend income on financial instruments	**13.2**	11.6
Net fair value gains on derivative financial instruments	**7.5**	5.4
Net fair value gains/(losses) on financial instruments at FVTPL	**(11.1)**	0.5
Net gains on AFS financial instruments reclassified from equity to P&L	**2.9**	(0.6)
Rental income	**0.2**	0.2
Total investment return	**14.6**	22.0
Instalment interest	**55.6**	56.1
Total investment return and instalment interest	**70.2**	78.1

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 2020 £m	Year ended 31 Dec 2019 £m
Brokerage and commission income	**12.0**	13.8
Claims and related income	**6.4**	9.2
Profit commission from reinsurers	**12.3**	1.2
	30.7	24.2
Policy administration fees and other income	**21.2**	25.6
Total other income	**51.9**	49.8

9 . Employee benefit expense

	Year ended 31 Dec 2020 £m	Year ended 31 Dec 2019 £m
Wages and salaries	**69.7**	69.2
Social security costs	**7.4**	6.9
Pension costs (defined contribution schemes)	**3.9**	3.8
Equity settled share-based payment expenses (Note 26)	**0.1**	-
Total employee benefit expense	**81.1**	79.9

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

	Year ended 31 Dec 2020	Year ended 31 Dec 2019
Operations	**1,342**	1,425
Support	**453**	493
Total average number of employees	**1,795**	1,918

10 . Directors' remuneration

	Year ended 31 Dec 2020 £m	Year ended 31 Dec 2019 £m
Emoluments	**3.3**	3.7
Contributions to defined contribution pension scheme	**0.1**	0.1
Total Directors' remuneration	**3.4**	3.8

	Year ended 31 Dec 2020 £m	Year ended 31 Dec 2019 £m
Remuneration of the highest paid Director		
Emoluments	**1.9**	1.9
Contributions to defined contribution pension scheme	**0.1**	0.0
Total remuneration of the highest paid Director	**2.0**	1.9

Directors emoluments do not include the value of any share awards granted to Directors. Full disclosure of the awards is provided in Note 26.

Retirement benefits were accruing to two Directors (2019: three Directors) in respect of defined contribution pension schemes.

11 . Insurance and other operating expenses

	Year ended 31 Dec 2020 £m	Year ended 31 Dec 2019 £m
Acquisition of insurance contracts	**104.2**	97.8
Change in deferred acquisition costs	**(4.2)**	(2.3)
Administration	**34.7**	51.9
Insurance expenses	**134.7**	147.4
Other operating expenses	**53.3**	53.1

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For the year ended 31 December 2020

12 . Profit after tax

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

	Year ended 31 Dec 2020 £m	Year ended 31 Dec 2019 £m
Employee benefit expense (Note 9)	**81.1**	79.9
Depreciation and revaluation of property, plant and equipment (Note 17)	**7.9**	6.9
Amortisation of intangible assets (Note 16)	**12.6**	10.5
Operating lease payments	**0.7**	0.7
Government grant income	**-**	(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	**0.5**	0.6
Total audit fees	**0.6**	0.7
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	**0.7**	0.8

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 2020 £m	Year ended 31 Dec 2019 £m
Interest expense on 10 year subordinated Notes (see Note 18)	**8.7**	8.8
Unwind of discount on long-term reinsurance liabilities	**3.8**	3.0
Interest expense on leasing liabilities	**1.0**	1.0
Total finance costs	**13.5**	12.8

14 . Taxation

	Year ended 31 Dec 2020 £m	Year ended 31 Dec 2019 £m
Current tax charge/(credit) on income for the reporting period	**5.5**	(0.2)
Tax adjustment relating to income for prior periods	**1.3**	(0.5)
Total current tax charge/(credit)	**6.8**	(0.7)
Origination and reversal of temporary differences	**(1.2)**	(1.2)
Tax adjustment relating to deferred tax for prior periods	**(0.4)**	(0.4)
Total deferred tax credit	**(1.6)**	(1.6)
Taxation charge/(credit)	**5.2**	(2.3)

The tax rate used for the calculations is the Corporation Tax rate of 19.00% (2019: 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 2020 £m	Year ended 31 Dec 2019 £m
Profit before taxation	**34.2**	3.3
Taxation charge/(credit) calculated at 19.00% (2019: 19.00%)	**6.5**	0.6
Effect of expenses that are not deductible	**0.1**	0.0
Adjustments in relation to the current tax of prior years	**1.3**	(0.5)
Adjustments in relation to the deferred tax of prior years	**(0.4)**	(0.4)
Non-taxable income	**(2.3)**	(2.0)
Taxation (credit)/expense	**5.2**	(2.3)

Tax recognised directly in equity

	Year ended 31 Dec 2020 £m	Year ended 31 Dec 2019 £m
Deferred tax credit recognised directly in equity	**(1.1)**	(1.2)
Total tax recognised directly in equity	**(1.1)**	(1.2)

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.

15 . Dividends

An interim dividend per share of 0.012p (£5.0m) was declared during 2020. No final dividend has been declared for 2020. No interim or final dividend was declared for 2019.

16 . Intangible assets

	Software £m	Acquired brands £m	Total £m
Cost			
As at 1 January 2019	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
Additions in the year	16.0	-	16.0
Impairments and disposals in the year	(2.5)	-	(2.5)
As at 31 December 2020	**66.9**	**24.2**	**91.1**
Accumulated amortisation and impairment			
As at 1 January 2019	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
Amortisation for the year	12.4	0.2	12.6
Impairments and disposals in the year	(0.7)	-	(0.7)
As at 31 December 2020	**32.2**	**24.2**	**56.4**
Net book value			
As at 31 December 2019	32.9	0.2	33.1
As at 31 December 2020	**34.7**	**-**	**34.7**

Included in software as at 31 December 2020 is £8.1m relating to software assets that are not yet available for use in the manner intended by management (31 December 2019: £3.5m). 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 2021, 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~~s~~ 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. In 2020, due to regulatory changes, the Group has identified intangible assets requiring impairment and recognised a loss of £1.7m

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 and no impairments were identified.

The estimated value in use for each asset was determined using a pre-tax discount rate of 8.0% (2019: 8.0%) and assuming that no value would be obtained beyond the end of the assets useful economic lives.

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 2019	-	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
Additions in the year	-	-	0.8	0.8
Revaluation of land and buildings	-	(0.6)	-	(0.6)
As at 31 December 2020	**22.7**	**13.0**	**32.0**	**67.7**
Accumulated depreciation				
As at 1 January 2019	-	-	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
Depreciation for the year	2.0	0.1	5.3	7.4
Revaluation of land and buildings	-	(0.1)	-	(0.1)
As at 31 December 2020	**4.1**	**-**	**27.5**	**31.6**
Carrying amount				
As at 31 December 2019	20.6	13.6	9.0	43.2
As at 31 December 2020	**18.6**	**13.0**	**4.5**	**36.1**

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 reviews 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 2020 and 31 December 2019. 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 2020 of £11.5m (31 December 2019: £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 2020	As at 31 Dec 2019
Financial investments designated at FVTPL:	**£m**	**£m**
Shares and other variable yield securities and units in unit trusts	**74.3**	70.4
Debt securities and other fixed income securities	**132.7**	143.7
Deposits with credit institutions	**261.2**	200.0
Financial investments held for trading:		
Derivative financial instruments	**4.5**	4.6
Financial investments at FVTPL	**472.7**	418.7
AFS financial assets:		
Debt securities and other fixed income securities	**658.5**	632.1
Shares in unquoted equity investments	**4.4**	8.2
Total financial investments	**1,135.6**	1,059.0
Loans and receivables:		
Insurance and other receivables (Note 20)	**258.7**	265.5
Cash and cash equivalents (Note 22)	**45.3**	24.4
Total financial assets	**1,439.6**	1,348.9

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 2020	As at 31 Dec 2019
Financial liabilities held for trading:	**£m**	**£m**
Derivative financial instruments	**0.2**	0.3
Other financial liabilities:		
Borrowings (see below)	**123.9**	123.6
Insurance and reinsurance payables (Note 23)	**292.6**	356.8
Total financial liabilities	**416.7**	480.7

	As at 31 Dec 2020	As at 31 Dec 2019
Borrowings	**£m**	**£m**
10-year Subordinated Notes	**123.9**	123.6
Total borrowings	**123.9**	123.6

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 2020 £m	Year ended 31 Dec 2019 £m
As at 1 January	**123.6**	123.3
Cash outflow	**(8.4)**	(8.5)
Non-cash movement: interest accrued	**8.7**	8.8
As at 31 December	**123.9**	123.6

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 2020 was £133.2m.

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 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. The Group policy concerning Market Risk aligns and ensures compliance with Solvency II 'Prudent Person Principle'

In 2020, the Group reduced its investment risk profile in advance of the end of the Brexit transition period and with market uncertainty due to the Covid pandemic. 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 the Covid pandemic.

Risks from climate change could impact Market Risk. These arise from the potential impact of the global transition to a lower carbon economy. Investor preferences e.g. changes in sentiment and financial innovation, such as the 'hedging' of carbon risk or fossil fuel divestment, can impact asset values.

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 and overall financial risks is undertaken 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 Group's risk appetites.
- The Group manages the level of investment counterparty credit risk it accepts by placing limits on its exposure to counterparties, 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 Financial Risk 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 for the purpose of 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 £0.2m (2019: £0.4m), reflecting the reduction in fair value on assets designated as FVTPL and equity would decrease by £17.7m (2019: £17.1m). For a decrease of 50 basis points in the Bank of England base rate the profit before tax for the period would increase by £0.1m (2019: £0.2m), reflecting the increase in fair value on assets designated as FVTPL and equity would increase by £8.9m (2019: £8.6m).

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 £7.4m (2019: £7.0m).

Currency Risk

At the reporting date, the Group has direct exposure to both US Dollars and Euros with a value of £0.3m (2019: £1.2m). 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 £0.0m (2019: £0.1m).

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's most material exposures to Credit Risk are through its reinsurance counterparties and its investments in Direct Lending funds. There are fewer material exposures through the supply chain.

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 exposure 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 2020 £m	As at 31 Dec 2019 £m
Derivative financial instruments	**4.5**	4.6
Debt securities	**791.2**	775.8
Deposits with credit institutions	**261.2**	200.0
Cash at bank and in hand	**45.3**	24.4
Investments bearing credit risk and cash and cash equivalents	**1,102.2**	1,004.8
AAA	**488.2**	293.9
AA	**299.7**	337.2
A	**144.1**	138.5
BBB	**91.7**	152.6
Below BBB or not rated	**78.5**	82.6
Investments bearing credit risk and cash and cash equivalents	**1,102.2**	1,004.8

The Group has the following financial assets that would meet the solely payment of principal and interest ("SPPI") criteria under IFRS 9:

AAA	**488.2**	293.9
AA	**299.7**	337.2
A	**144.1**	138.5
BBB	**57.9**	120.6
Financial assets which would meet SPPI criteria	**989.9**	890.2

The change in the fair value during the period for these financial assets was £4.5m (2019: £3.9m).

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 £0.2m (2019: £0.4m), reflecting the reduction in fair value on assets designated as FVTPL and the impact on equity would be a decrease by £12.3m (2019: £12.4m).

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) Solvency and Liquidity risk

Solvency Risk is the risk that the Group has insufficient capital to meet regulatory requirements. 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
- Solvency Risk

Mitigation

- The Group monitors its Solvency Risk through the ORSA processes including assessing the impact on Solvency through stress and scenario testing of a range of events and decisions.
- The Group oversees Liquidity Risk by considering the Company's operating cash flows, stressed for catastrophe scenarios and liquidity strains.
- Oversight of Solvency and Liquidity Risk is undertaken by the Financial Risk Committee.

The following table presents the remaining contractual or, for reinsurers' share of outstanding claims, expected maturities of the Group's financial assets and liabilities, including contractual interest payments:

	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 2020					
Derivative financial instruments	**4.5**	-	-	**4.5**	**4.5**
Debt securities and other fixed income securities	**203.7**	**508.2**	**121.2**	**833.1**	**791.2**
Deposits with credit institutions	**261.2**	-	-	**261.2**	**261.2**
Cash at bank and in hand	**45.3**	-	-	**45.3**	**45.3**
Loans and receivables including salvage and subrogation assets	**293.4**	**7.4**	-	**300.8**	**300.8**
Total excluding reinsurers' share of outstanding claims	**808.1**	**515.6**	**121.2**	**1,444.9**	**1,403.0**
Reinsurers' share of outstanding claims	**181.8**	**367.4**	**146.1**	**695.3**	**695.3**
Total	**989.9**	**883.0**	**267.3**	**2,140.2**	**2,098.3**
Financial and insurance liabilities					
At 31 December 2020					
Borrowings	**8.4**	**146.1**	-	**154.5**	**123.9**
Derivative financial instruments	**0.2**	-	-	**0.2**	**0.2**
Insurance and other payables and social security and other taxes	**39.7**	-	-	**39.7**	**39.7**
Lease liabilities	**3.1**	**12.5**	**12.5**	**28.1**	**23.7**
Financial and tax liabilities	**51.4**	**158.6**	**12.5**	**222.5**	**187.5**
Claims outstanding	**389.0**	**550.3**	**171.1**	**1,110.4**	**1,110.4**
Unearned premium reserve	**274.4**	**97.2**	**14.2**	**385.8**	**385.8**
Financial and insurance liabilities	**714.8**	**806.1**	**197.8**	**1,718.7**	**1,683.7**

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 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

(d) Capital management and regulation

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

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

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	Unaudited Impact on coverage
Equity markets +/- 25%	+/- 0%
Interest rates +/- 50 bps	+/- 0%
Credit spreads of corporate bonds +/- 50bps	-/+ 1%
Real estate values +/- 25%	+/- 4%
Motor Loss Ratio 5ppts worse	-12%
1987 Hurricane	-7%
Ogden discount rate of -1.0%	0%

18 . Financial assets and liabilities (continued)

18.3. Financial risk management objectives (continued)

(e) Fair value estimation

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

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

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

Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) - (Level 2).

Fair value measurements that are derived from inputs other than quoted prices included in Level 1, if all significant inputs required to fair value an instrument are observable, would result in the instrument being included in Level 2. The majority of assets classified as Level 2 are over-the-counter corporate bonds, where trades are less frequent owing to the nature of the assets. Inputs used in pricing the Group's Level 2 assets include:

- quoted prices for similar (i.e. not identical) assets in active markets;
- quoted prices for identical or similar assets in markets that are not active, the prices are not current, or price quotations vary among market makers, or in which little information is released publicly;
- inputs that are derived principally from, or corroborated by, observable market data by correlation; and
- for forward exchange contracts, the use of observable forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

The Group's policy, should there be a change to the valuation techniques or level of activity in the market in which that asset is traded, is to transfer the asset between levels effective from the beginning of the reporting period. In line with the requirements of IFRS 13, the Group classifies all debt securities as Level 2 assets with the exception of Government backed securities which are classified as Level 1 unless they are illiquid.

Inputs for the asset or liability that are not based on observable market data (unobservable inputs) - (Level 3)

Unobservable inputs have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date (or market information for the inputs to any valuation models). As such, unobservable inputs reflect assumptions about the inputs that market participants would use in pricing the asset.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. The Group held Level 3 AFS financial assets of £4.4m as at 31 December 2020 (2019: £8.2m)

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 and internal views of fair value where considered appropriate. 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 Financial Risk Committee and the Finance Committee, both chaired by the Chief Finance Officer.

The Group monitors movements in fair value and this analysis is regularly reviewed by the Financial Risk Committee.

Under IFRS 13, land and buildings with a carrying value of £13.0m (2019: £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.

18 . Financial assets and liabilities (continued)

18.3. Financial risk management objectives (continued)

The following table presents the Group's assets and liabilities measured at fair value:

At 31 December 2020	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
	£m	**£m**	**£m**	**£m**
Financial assets				
Derivative financial instruments	**-**	**4.5**	**-**	**4.5**
Equity securities	**-**	**-**	**74.3**	**74.3**
Debt securities	**-**	**25.1**	**107.6**	**132.7**
Deposits with credit institutions	**261.2**	**-**	**-**	**261.2**
Total financial assets at fair value through profit or loss	**261.2**	**29.6**	**181.9**	**472.7**
Debt securities	**186.9**	**471.6**	**-**	**658.5**
Deposits with credit institutions	**-**	**-**	**-**	**0.0**
Unquoted equity securities	**-**	**-**	**4.4**	**4.4**
Total AFS financial assets	**186.9**	**471.6**	**4.4**	**662.9**
Land and buildings	**-**	**-**	**13.0**	**13.0**
Financial liabilities				
Derivative financial instruments	**-**	**0.2**	**-**	**0.2**
Total financial liabilities reported at fair value	**-**	**0.2**	**-**	**0.2**

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

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

	Available for Sale investments (including land and buildings)	**Fair Value through Profit and Loss investments**
	£m	**£m**
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 1 January 2020	**21.8**	**180.5**
Purchases	-	**3.9**
Sales	-	**(3.4)**
Total net gains/(losses) recognised in the income statement	-	**0.9**
Total net gains/(losses) recognised in the statement of comprehensive income	**(4.4)**	-
Balance at 31 December 2020	**17.4**	**181.9**

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

18 . Financial assets and liabilities (continued)

18.3. Financial risk management objectives (continued)

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 2020 in respect of Level 3 assets measured at fair value was £2.6m (31 December 2019: £8.4m). In addition, there were £1.7m of foreign exchange related losses in respect of Level 3 assets measured at fair value during the period (31 December 2019: £2.5m) 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.

For the fair values of debt securities and equity securities, reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects.

Underlying net asset value of funds moves by 5%

	Profit for the year	
	Increase	**Decrease**
	£m	**£m**
At 31 December 2020	9.1	(9.1)
At 31 December 2019	9.0	(9.0)

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 2019 and 2020 the Group entered into three additional significant reinsurance agreements:

- In 2019, an aggregate excess of loss agreement; and
- In 2019 and 2020, quota share agreements.

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.

19 . Reinsurance assets and insurance contract liabilities (continued)

19.1. Insurance Risk (continued)

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 2019 the Group entered into an aggregate excess of loss contract, protecting the Group from prior period deterioration on the covered claims. During 2019 and 2020 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.

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 ('PPO's) are an area of uncertainty relating to the claims provision at 31 December 2020. 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 2020. 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, which has reduced the reserving risk for these claims.

Actuarial methods are inherently judgemental and use historical experience to develop an expectation. The impact of Covid in 2020 is unprecedented and there has therefore inevitably been an increase in the level of uncertainty around the reserves held for that accident year.

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 . Reinsurance assets and insurance contract liabilities (continued)

19.2. Analysis of recognised amounts

	As at 31 Dec 2020 £m	As at 31 Dec 2019 £m
Gross		
Claims outstanding (before deduction of salvage and subrogation recoveries) and Claims handling expenses	1,110.4	998.0
Unearned premiums	427.4	415.7
Total insurance liabilities, gross	1,537.8	1,413.7
Recoverable from reinsurers		
Claims outstanding (before deduction of salvage and subrogation recoveries)	695.3	692.5
Unearned premiums	41.6	34.4
Total reinsurers' share of insurance liabilities	736.9	726.9
Net		
Claims outstanding (before deduction of salvage and subrogation recoveries) and Claims handling expenses	415.1	305.5
Unearned premiums	385.8	381.3
Total insurance liabilities, net	800.9	686.8
Due within one year (gross)	673.3	789.7
Due in more than one year (gross)	864.5	624.0
Reinsurers' share of insurance liabilities	736.9	726.9
Total assets arising from reinsurance contracts	736.9	726.9
Expected to be recovered within one year	250.5	222.7
Expected to be recovered in more than one year	486.4	504.2

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.

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

	As at 31 Dec 2020 £m	As at 31 Dec 2019 £m
Net claims outstanding (before deduction of salvage and subrogation recoveries) and claims handling	415.1	305.5
Salvage and subrogation recoveries	(37.4)	(52.4)
Net claims outstanding and claims handling expenses	377.7	253.1

19.3. Sensitivity of recognised amounts to changes in assumptions

The following table shows the impact of a 1% or a 5% variation in outstanding claims balance on profit or loss and shareholders' equity after tax as at 31 December 2020:

	Accident year									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Oustanding claims balance	0.0	0.2	0.5	0.9	2.1	5.7	9.5	22.6	86.8	247.6
Impact of 1% variation (£m)	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.9	2.5
Impact of 5% variation (£m)	0.0	0.0	0.0	0.0	0.1	0.3	0.5	1.1	4.3	12.4

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	**2011 £m**	**2012 £m**	**2013 £m**	**2014 £m**	**2015 £m**	**2016 £m**	**2017 £m**	**2018 £m**	**2019 £m**	**2020 £m**	**Total £m**
Ultimate gross earned premium	488.7	511.7	526.1	528.7	532.4	598.0	734.0	856.8	839.8	829.3	6,445.5
Estimate of ultimate gross claims costs:											
- At end of reporting year	392.7	442.0	439.5	456.1	457.2	534.6	640.4	764.5	735.4	619.7	
- One year later	355.7	399.8	386.9	442.4	446.1	481.5	600.9	703.5	672.2		
- Two years later	331.5	369.2	374.6	440.2	425.4	489.9	566.8	726.6			
- Three years later	309.7	355.8	368.9	439.4	434.0	485.2	573.9				
- Four years later	304.9	347.6	363.0	440.9	417.6	506.5					
- Five years later	294.4	354.1	358.5	440.5	421.1						
- Six years later	292.6	350.3	356.1	433.6							
- Seven years later	293.8	350.0	357.0								
- Eight years later	293.9	351.8									
- Nine years later	293.9										
Current estimate of cumulative claims	293.9	351.8	357.0	433.6	421.1	506.5	573.9	726.6	672.2	619.7	4,956.3
Cumulative payments to date	(293.6)	(339.3)	(345.0)	(415.5)	(401.0)	(418.6)	(479.5)	(527.8)	(463.0)	(249.5)	(3,932.8)
Liability recognised in the consolidated statement of financial position											1,023.5
Reserve in respect of prior periods											37.9
Provision for claims handling costs											11.6
Salvage and subrogation											37.4
Total reserve included in the consolidated statement of financial position											1,110.4

19 . Reinsurance assets and insurance contract liabilities (continued)

19.4. Claims development tables (continued)

(b) Insurance claims - net ultimate claims

Accident year	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	Total £m
Ultimate net earned premium	459.7	480.2	489.2	490.8	495.6	554.9	677.8	777.1	197.8	523.3	5,146.4
Estimate of ultimate net claims costs:											
- At end of reporting year	360.1	401.0	404.7	423.8	423.1	450.8	516.8	655.0	438.6	412.0	
- One year later	317.3	356.7	357.9	394.8	396.3	435.2	519.7	488.7	406.4		
- Two years later	296.4	331.9	345.9	391.4	389.8	444.6	442.4	483.7			
- Three years later	285.0	326.3	340.4	390.0	401.4	400.0	440.9				
- Four years later	284.5	325.6	339.8	395.2	373.0	399.6					
- Five years later	281.8	324.8	340.5	382.3	372.8						
- Six years later	281.6	323.3	337.2	382.1							
- Seven years later	281.9	322.2	337.2								
- Eight years later	281.7	322.2									
- Nine years later	281.7										
Current estimate of cumulative claims	281.7	322.2	337.2	382.1	372.8	399.6	440.9	483.7	406.4	412.0	3,838.6
Cumulative payments to date	(281.7)	(321.9)	(336.7)	(381.2)	(370.7)	(393.9)	(431.3)	(461.2)	(319.6)	(164.4)	(3,462.6)
Liability recognised in the consolidated statement of financial position											376.0
Reserve in respect of prior periods											0.3
Provision for claims handling costs											11.6
Salvage and subrogation											25.5
Recoverables due to reinsurer											1.7
Total net reserve included in the consolidated statement of financial position											415.1

19 . Reinsurance assets and insurance contract liabilities (continued)

19.4. Claims development tables (continued)

(c) Insurance claims - net loss ratio development

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Estimate of ultimate loss ratio:										
- At end of reporting year	78%	84%	83%	86%	85%	81%	76%	84%	222%	79%
- One year later	69%	74%	73%	80%	80%	78%	77%	63%	205%	
- Two years later	64%	69%	71%	80%	79%	80%	65%	62%		
- Three years later	62%	68%	70%	79%	81%	72%	65%			
- Four years later	62%	68%	69%	81%	75%	72%				
- Five years later	61%	68%	70%	78%	75%					
- Six years later	61%	67%	69%	78%						
- Seven years later	61%	67%	69%							
- Eight years later	61%	67%								
- Nine years later	61%									

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.

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:

	2020				2019			
	Gross	Reinsurers' share		Net	Gross	Reinsurers' share		Net
		LPT & QS	Other			LPT & QS	Other	
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January	**934.8**	**(336.2)**	**(356.3)**	**242.3**	888.0	-	(359.8)	528.2
Cash paid for claims settled in year	**(482.7)**	**200.4**	**19.7**	**(262.6)**	(571.9)	197.0	11.2	(363.7)
Change arising from:								
Current year claims	**619.7**	**(123.1)**	**(84.6)**	**412.0**	735.4	(193.5)	(103.3)	438.6
Prior year claims	**(10.4)**	**(34.2)**	**5.2**	**(39.4)**	(116.7)	(339.7)	95.6	(360.8)
Commutation	**-**	**24.0**	**-**	**24.0**	-	-	-	-
Total at 31 December	**1,061.4**	**(269.1)**	**(416.0)**	**376.3**	934.8	(336.2)	(356.3)	242.3
Accrued amounts	**-**	**1.7**	**-**	**1.7**	(1.1)	-	-	(1.1)
Provision for claims handling costs	**11.6**	**-**	**-**	**11.6**	11.9	-	-	11.9
Salvage and subrogation	**37.4**	**(11.9)**	**-**	**25.5**	52.4	-	-	52.4
Total reserve at 31 December	**1,110.4**	**(279.3)**	**(416.0)**	**415.1**	998.0	(336.2)	(356.3)	305.5

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

	Year ended 31 Dec 2020				Year ended 31 Dec 2019			
	Gross	Reinsurers' share		Net	Gross	Reinsurers' share		Net
		LPT & QS	Other			LPT & QS	Other	
	£m	£m	£m	£m	£m	£m	£m	£m
Claims incurred	**614.5**	**(155.5)**	**(79.3)**	**379.7**	618.7	(533.2)	(7.7)	77.8
Claims handling expenses	**30.0**	**-**	**-**	**30.0**	31.3	-	-	31.3
Claims incurred and claims handling expenses	**644.5**	**(155.5)**	**(79.3)**	**409.7**	650.0	(533.2)	(7.7)	109.1

(b) Provisions for unearned premiums

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

	2020				2019			
	Gross	Reinsurers' share		Net	Gross	Reinsurers' share		Net
		LPT & QS	Other			LPT & QS	Other	
	£m	£m	£m	£m	£m	£m	£m	£m
Unearned premium provision								
At beginning of the year	**415.7**	**-**	**(34.4)**	**381.3**	421.0	-	(35.7)	385.3
Premiums written in the year	**841.0**	**(221.7)**	**(91.5)**	**527.8**	834.5	(563.1)	(77.6)	193.8
Premiums earned in the year	**(829.3)**	**221.7**	**84.3**	**(523.3)**	(839.8)	563.1	78.9	(197.8)
At end of year	**427.4**	**-**	**(41.6)**	**385.8**	415.7	-	(34.4)	381.3

20 . Insurance and other receivables

	As at 31 Dec 2020 £m	As at 31 Dec 2019 £m
Insurance receivables	**249.7**	251.1
Prepayments and accrued income	**12.9**	9.9
Other debtors	**9.0**	14.4
Salvage and subrogation assets	**37.4**	52.4
Profit commission receivable	**4.8**	1.2
Total insurance and other receivables	**313.8**	329.0

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 £8.0m of salvage and subrogation assets which are expected to be recovered in more than one year (2019: £8.9m) and £4.8m of profit commisison receivable which is expected to be recovered in more than one year (2019: £1.2m).

21 . Deferred acquisition costs

Movement in the deferred acquisition costs asset are as follows:

Deferred Acquisition Costs	As at 31 Dec 2020 £m	As at 31 Dec 2019 £m
At 1 January	**48.9**	46.6
Movement during the period	**4.2**	2.3
At 31 December	**53.1**	48.9

22 . Cash and cash equivalents

	As at 31 Dec 2020 £m	As at 31 Dec 2019 £m
Cash at bank and in hand	**45.3**	24.4
Total	**45.3**	24.4

23 . Insurance and other payables

	As at 31 Dec 2020 £m	As at 31 Dec 2019 £m
Insurance payables	**3.6**	7.8
Reinsurance payable	**289.0**	349.0
Accrued expenses	**40.7**	32.7
Social security and other taxes	**36.1**	32.1
Due to related parties	**0.6**	-
Deferred income	**19.7**	19.6
Lease liabilities	**23.7**	25.8
Total insurance and other payables	**413.4**	467.0

Insurance payables and accrued expenses principally comprise amounts outstanding for suppliers and ongoing costs. The average credit period taken for invoiced trade purchases is 1.6 days (2019: 9.8 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.

Of the lease liabilities, £21.4m is expected to be settled in more than one year (2019: £23.7m).

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 2020 £m	As at 31 Dec 2019 £m
Deferred tax assets	**1.4**	2.8
Deferred tax liabilities	**(2.7)**	(2.2)
Net deferred tax assets/(liabilities)	**(1.3)**	0.6

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

	As at 31 Dec 2020 £m	As at 31 Dec 2019 £m
At 1 January	**0.6**	0.2
Income statement credit (Note 14)	**(1.2)**	1.2
Tax adjustment relating to deferred tax for prior periods	**0.4**	0.4
Deferred tax recognised directly in equity	**(1.1)**	(1.2)
At 31 December	**(1.3)**	0.6

The deferred tax rate used is 19.00% (2019: 29.16%).

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	Accelerated capital allowances £m	Total £m
Brought forward as at 1 January 2019	-	2.4	(1.1)	1.3
(Charged) / credited to the income statement	-	(0.1)	1.2	1.1
Deferred tax recognised directly in equity	0.4	-	-	0.4
At 31 December 2019	0.4	2.3	0.1	2.8
Brought forward as at 1 January 2020	**0.4**	**2.3**	**0.1**	**2.8**
(Charged) / credited to the income statement	**(0.1)**	**(2.3)**	**1.0**	**(1.4)**
At 31 December 2020	**0.3**	**-**	**1.1**	**1.4**

There is an unrecognised deferred tax asset on land and buildings of £2.9m at 31 December 2020 (2019: £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 acquisition costs	Intangible assets	Claims equalisation reserve	AFS reserve	Total
Deferred tax liabilities	**£m**	**£m**	**£m**	**£m**	**£m**
Brought forward as at 1 January 2019	0.3	0.2	1.0	(0.4)	1.1
Charged/(credited) to the income statement	0.0	(0.2)	(0.3)	-	(0.5)
Deferred tax recognised directly in equity	-	-	-	1.6	1.6
At 31 December 2019	0.3	0.0	0.7	1.2	2.2
Brought forward as at 1 January 2020	**0.3**	**0.0**	**0.7**	**1.2**	**2.2**
Charged/(credited) to the income statement	**0.0**	**0.0**	**(0.6)**	**-**	**(0.6)**
Deferred tax recognised directly in equity	**-**	**-**	**-**	**1.1**	**1.1**
At 31 December 2020	**0.3**	**-**	**0.1**	**2.3**	**2.7**

25 . Share capital and other reserves

	Ordinary Shares	Share Premium	Capital Redemption Reserve	Other reserves	Total
	£m	**£m**	**£m**	**£m**	**£m**
At 1 January 2019	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)
Fair value movements on land and buildings	-	-	-	0.0	0.0
At 31 December 2019	0.4	48.2	44.9	12.9	106.4
Fair value movements on AFS assets	**-**	**-**	**-**	**1.4**	**1.4**
Tax relating to fair value movements on AFS assets	**-**	**-**	**-**	**(1.1)**	**(1.1)**
Fair value movements on land and buildings	-	-	-	**(0.6)**	**(0.6)**
Capital contribution: share-based payment	-	-	-	**0.1**	**0.1**
At 31 December 2020	**0.4**	**48.2**	**44.9**	**12.7**	**106.2**

The authorised, allotted, called up and fully paid share capital of esure Group plc as at 31 December 2020 was 426,301,337 Ordinary Shares of 1/12 pence each (31 December 2019: 426,301,337 Ordinary Shares of 1/12 pence each). The shares have full voting and dividend rights.

No shares are held in Treasury.

During the year ended 31 December 2020, £1.4m was credited to other comprehensive income in respect of fair value movements on AFS financial assets (31 December 2019: £7.1m).

During the year ended 31 December 2020, £0.6m was charged to other comprehensive income in respect of fair value movements on land and buildings (31 December 2019: £0.0m).

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

26 . Share-based payments

During 2020 the Group certain employees were eligible to purchase shares in the Group's ultimate parent company, Blue (BC) Topco Limited. Due to the restrictive conditions in place over the options these shares qualify as a share-based payment scheme under IFRS 2 share-based Payments. The Group receives the employees' services but the scheme will be settled by Blue (BC) Topco Limited and is therefore classified as equity settled in these accounts.

Awards have been made in the scheme as follows:

	Year ended 31 December 2020 Number granted
Awarded to Directors	510

Under the scheme the restrictions on the shares are lifted on the event of Blue (BC) Topco exiting its investment in the Group.

Number of shares initially granted	510
Number outstanding at 1 January 2020	-
Granted in the year	510
Number outstanding at 31 December 2020	510
Exercise price per share	£5,500

Valuation of awards

As the shares have a variable participation in proceeds on exit, the fair value of the awards was estimated using a Stochastic (Monte-Carlo) model.

The inputs into the model were:

Valuation date	16 October 2020
Volatility (modelled using historical share price volatility of quoted comparator companies)	25.0%
Expected term	3.2 years
Risk free rate	-0.09%
Expected transaction cost (% of enterprise value)	3.0%
Discount for post vesting restrictions	10.0%

Valuation Methodology

IFRS 2 does not provide direct guidance as to the methodology for determining the share price at the valuation date. As Blue (BC) Topco Limited was not listed at the date of grant an approach using a multiple of net asset value at the date of grant has been applied.

Financial effect of share-based payments made

The total expense recognised for the year arising from the share-based payments above was £0.1m (2019: £nil). All share-based payment transactions were accounted for as equity-settled.

27 . Commitments

(a) Pension commitments
The Group contributes to a Group Personal Pension defined contribution scheme available to all staff of which 1,661 employees participated in the scheme at 31 December 2020 (2019: 1,707).

The pension cost charge for the period represents contributions payable by the Group to the scheme and amounted to £3.9m (2019: £3.8m). 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 2020 £m	**As at 31 Dec 2019 £m**
Fixed asset acquisitions contracted for but not provided in these consolidated Financial Statements	**0.1**	0.1
Investment Commitments	**16.6**	14.9

(c) 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 2020 £m	**As at 31 Dec 2019 £m**
Not later than one year	**0.1**	0.1
Total minimum lease payments receivable	**0.1**	0.1

28 . Group subsidiary companies

esure Group plc has the following subsidiaries as at 31 December 2020:

	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:

- The Group uses a Company which was controlled by Bain Capital for part of 2020 to provide business continuity services.
- The Group uses a Company which is controlled by Bain Capital to provide HR-related services.

As a result of changes in the composition of the Board during the year, Gocompare.com, which was previously considered to be a related party ceased to be a related party during the year.

	Year ended 31 Dec 2020 £m	Year ended 31 Dec 2019 £m
Value of income expense for the year/period:		
Net fees charged by Gocompare Ltd	**(2.1)**	(7.1)
Business continuity services	**(0.1)**	(0.2)
HR-related services	**(0.4)**	(0.0)
Total expense for the year	**(2.6)**	(7.3)
Amount payable at the year end:		
Net fees payable to Gocompare Ltd	**N/a**	(0.5)
HR-related services	**(0.0)**	(0.0)
Total amount payable at the year end	**(0.0)**	(0.5)

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 is 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.

Parent Company statement of financial position

	Notes	As at 31 Dec 2020 £m	As at 31 Dec 2019 £m
Fixed assets			
Investments	4	**234.6**	234.6
Current assets			
Investments: call deposits		**0.0**	0.0
Deferred tax asset		**-**	1.7
Debtors	5	**1.1**	0.0
Cash at bank		**0.6**	0.3
		1.7	2.0
Creditors: amounts falling due within one year	6	**(0.5)**	(11.8)
Net current liabilities		**1.2**	(9.8)
Total assets less current liabilities		**235.8**	224.8
Creditors: amounts falling due after more than one year	6	**(123.6)**	(123.3)
Net assets		**112.2**	101.5
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		**18.7**	8.0
Shareholders' funds - all equity		**112.2**	101.5

The Notes on pages 105 to 107 form part of these Financial Statements.

These Financial Statements were approved by the Board on 9 March 2021 and signed on its behalf.

Peter Bole
Director

Registration Number: 07064312

Parent Company statement of cash flows

Cash flows from operating activities	Notes	Year ended 31 Dec 2020 £m	Year ended 31 Dec 2019 £m
Profit/(loss) after tax for the year		**15.7**	(3.8)
Adjustments to reconcile profit after tax to net cash flows:			
- Finance costs		**8.7**	8.7
- Taxation credit	3	**(1.6)**	(2.0)
- Dividends received from subsidiary undertakings		**(22.8)**	(4.4)
- Total investment return		**0.0**	(0.1)
Operating cash flows before movements in working capital, tax and interest paid		**0.0**	(1.6)
Interest received on financial investments		**0.0**	0.0
Changes in working capital:			
- (Increase)/decrease in debtors		**(1.1)**	0.0
- Decrease in payables		**(11.3)**	(2.1)
Taxation received		**3.3**	1.1
Net cash used in operating activities		**(9.1)**	(2.6)
Cash flows from investing activities			
Sale of financial investments (investments: call deposits)		**0.0**	6.6
Dividends received from subsidiary undertakings		**22.8**	4.4
Net cash generated in investing activities		**22.8**	11.0
Cash flows used in financing activities			
Interest paid on loans		**(8.4)**	(8.4)
Dividends paid		**(5.0)**	-
Net cash used in financing activities		**(13.4)**	(8.4)
Net increase in cash and cash equivalents		**0.3**	0.0
Cash and cash equivalents at the beginning of the year		**0.3**	0.3
Cash and cash equivalents at the end of the year		**0.6**	0.3

The Notes on pages 105 to 107 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 2019					
At 1 January 2019	0.4	48.2	44.9	11.8	105.3
Loss for the year	-	-	-	(3.8)	(3.8)
Total comprehensive income	-	-	-	(3.8)	(3.8)
Transactions with owners:					
	-	-	-	-	-
Total transactions with owners	-	-	-	-	-
At 31 December 2019	0.4	48.2	44.9	8.0	101.5
Year ended 31 December 2020					
At 1 January 2020	**0.4**	**48.2**	**44.9**	**8.0**	**101.5**
Profit for the year	**-**	**-**	**-**	**15.7**	**15.7**
Total comprehensive income	**-**	**-**	**-**	**15.7**	**15.7**
Transactions with owners:					
Dividends	**-**	**-**	**-**	**(5.0)**	**(5.0)**
Total transactions with owners	**-**	**-**	**-**	**(5.0)**	**(5.0)**
At 31 December 2020	**0.4**	**48.2**	**44.9**	**18.7**	**112.2**

The Notes on pages 105 to 107 form part of these Financial Statements.

Notes to the Financial Statements
For the year ended 31 December 2020

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 in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

These Financial Statements have been prepared on a going concern basis. The Board has reviewed the Company's projections for the next planning cycle and has considered the possible impact of a range of scenarios and related contingent management actions.

The Board has considered the likely impact of the on-going Covid pandemic, including the economic consequences for the Company of severe, but plausible, stresses that could result. When modelling scenarios resulting from the pandemic the Board considered risks including the impact of other Group companies.

The Board has reviewed the Company's projections for the next 12 months, including cash flow forecasts and, based on this work, the Directors have a reasonable expectation that the Company has adequate resources to continue in operation for at least the 12 months from the date of signing these financial statements.

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the Parent Company is not presented.

The Parent Company audit fee is not disclosed in these Financial Statements as it is disclosed in the consolidated Financial Statements of esure Group plc (Note 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; and
- Disclosures in respect of key management personnel required by IAS 24.

As the consolidated Financial Statements of esure Group plc include the equivalent disclosures, the Company has not provided the following disclosures and will continue to take the exemptions available under FRS 101 in future years subject to no objection being raised by a shareholder:

- The disclosures required by IAS 1 regarding movements in share capital;
- IFRS 2 share-based Payments in respect of Group settled share-based payments (see Note 25 of the consolidated Financial Statements); and
- The disclosures required by IFRS 7 and IFRS 13 regarding financial instrument disclosures.

The disclosures are available on written request to the esure Group plc address provided on page 63.

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 2020 or the year ended 31 December 2019.

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 2020 and 31 December 2019 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 2020

2 . Parent Company accounting policies (continued)

Financial liabilities

The Company's financial liabilities as at 31 December 2020 and 31 December 2019 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% (2019: 19.00%) payable by the corporate entities in the UK on taxable profits under tax law in that jurisdiction.

	Year ended 31 Dec 2020 £m	**Year ended 31 Dec 2019 £m**
Profit before taxation	**14.1**	(5.7)
Taxation calculated at 19.00% (2019: 19.00%)	**2.7**	(1.1)
Effects of:		
Non taxable Income	**(4.3)**	(0.9)
Taxation credit	**(1.6)**	(2.0)

4 . Investments

	Year ended 31 Dec 2020 £m	**Year ended 31 Dec 2019 £m**
As at 1 January and as at 31 Decembe	**234.6**	234.6

There are no provisions for impairment.

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 2020	**As at 31 Dec 2019**
Due within one year	**£m**	**£m**
Due from related parties	**1.1**	-
Total debtors due within one year	**1.1**	-

6 . Creditors and other payables

Amounts falling due within one year

	As at 31 Dec 2020 £m	As at 31 Dec 2019 £m
Amounts owed to Group undertakings	**0.2**	11.5
Current tax	**0.0**	0.0
Accrued interest on 10 year Subordinated Notes	**0.3**	0.3
Total creditors due within one year	**0.5**	11.8

Amounts falling due after more than one year

	As at 31 Dec 2020 £m	As at 31 Dec 2019 £m
Borrowings: 10 year Subordinated Notes	**123.6**	123.3
Total creditors due after more than one year	**123.6**	123.3

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.

esure Group plc

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.
'Brilliant Basics'		short term initiative that's focused on best practice improvement and driving efficiencies across the business.
'Claims incurred, net of reinsurance'		is the cost of claims incurred in the period, less any recoveries from re-insurers. It includes claims payments and movements in claims reserves.
'Claims reserves'		are the Group's estimate of the final cost of claims and related expenses less claims paid to date which the Group will need to pay for claims relating to earned business.
'Commutation'		Is an agreement between the Group and its reinsurer that provides for the valuation and complete discharge of all obligations between the parties under a particular reinsurance contract.
'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.
'Digital contact share'		Number of digital contacts for sales and service enquiries divided by the total number of inbound contacts. Digital defined as LiveChat, ChatBot, FAQs, emails, transacting in the online Portal and social media.
'FOS overturn rate'		% of cases referred to the Financial Ombudsman that are overturned in favour of the customer
'Game Changer'		Means the Group's long-term business strategy. It guides our activities by keeping all colleagues focused on why our business exists, what we need to deliver to successfully transform and grow our business, and how we do it.
'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 Commercial Officer, Chief Underwriting Officer, Chief Strategy and Transformation Officer, Chief People Officer, Chief Claims 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, or that have been reported but where the ultimate cost of settling those claims is still uncertain. IBNR is 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.
'Referrals to the Financial Ombudsman (% of policies)'		Number of complaints referred to Financial Ombudsman divided by in-force policies.
'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
'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.

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 earned 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. Note 5 provides further information on these costs.
'Trading profit'		is earnings before interest, tax, non-trading expenses and amortisation of acquired intangible assets