esure GROUP

10 March 2017

esure Group plc preliminary results for the year ended 31 December 2016

A strong year of growth in premiums, policies and profit

Highlights

- Gross written premiums up 19.0% to £655.0m (2015: £550.3m)
- In-force policies up 8.6% to 2.174 million (2015: 2.001 million)
- Underlying profit after tax(1) up 18.0% to £80.5m (2015: £68.2m)
- Combined operating ratio 1.0ppt higher at 98.8% (2015: 97.8%)
- Full year dividend of 13.5p (2015: 11.5p) reflects a payout ratio of 70% of underlying earnings per share, inclusive of a 20% special dividend
- Strong capital position with Group coverage(2) at 149% (2015: 123%)
- Demerger of Gocompare.com completed on 3 November 2016

Sir Peter Wood, Chairman, said: "2016 has been a significant and positive year for the Group. Premiums are ahead of expectations; Gocompare.com has been demerged allowing both businesses to thrive and reach their full potential; capital is at the top of our risk appetite; and we have once again paid a special dividend demonstrating the Board's commitment to return excess capital to shareholders."

Stuart Vann, Chief Executive Officer, said: "We are now in full growth mode.

"In 2016 we have delivered strong growth in premiums and profitability, and have provided more quotes to a wider number of customers through our footprint expansion programme. This gives us great confidence to deliver our ambition of 3 million in-force policies by 2020.

"We continue to focus on and control carefully our approach to underwriting, underpinned by our enhanced customer contribution modelling.

"As a result, we are on track to deliver increased value to shareholders both in 2017 and beyond."

Notes

1. The Group's 2016 reported profit after tax is £269.2m (2015: £121.9m). Underlying profit after tax adjusts for the fair value gain on demerger of Gocompare.com of £213.6m (2015: nil); the Group's joint venture deemed disposal gain (2016: nil; 2015: £63.8m); the amortisation charge of acquired intangible assets, net of tax, of £10.4m (2015: £10.1m); and fees associated with the demerger of Gocompare.com of £14.5m (2015: £nil). The underlying profit after tax is management's measure of profitability of the Group and it is with reference to the Group's underlying profit after tax that the dividend has been set.
2. Group solvency coverage is estimated and unaudited as at 31 December 2016.

For further information:

Chris Wensley
Head of Investor Relations & Corporate Strategy
t: 01737 641324
e: investor.relations@esuregroup.com

Chris Barrie/Grant Ringshaw
Citigate Dewe Rogerson
t: 0207 638 9571
e: esure@citigatedr.co.uk

About esure Group plc

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

Cautionary statement

Certain statements made in this announcement are forward-looking statements. Such statements are based on current expectations and assumptions and are subject to a number of known and unknown risks and uncertainties that may cause actual events or results to differ materially from any expected future events or results expressed or implied in these forward-looking statements. Persons receiving this announcement should not place undue reliance on forward-looking statements. Unless otherwise required by applicable law, regulation or accounting standard, the Group does not undertake to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

Disclaimer

This announcement contains inside information which is disclosed in accordance with the Market Abuse Regulation which came into effect on 3 July 2016.

The esure Group plc LEI number is 213800KOI3F5LM54PT80.

Chairman's statement

Introduction

2016 has been a significant and positive year for the Group as we continue to deliver value to all our stakeholders.

We have exceeded our growth expectations for the year with gross written premiums up 19% to £655m through enhancements to our underwriting capabilities and by taking advantage of favourable market conditions in Motor; demerged Gocompare.com from the Group ("the Demerger") to allow both businesses to thrive and reach their full potential; and further strengthened our robust capital position providing us with the capital flexibility to continue our growth ambitions and deliver strong returns.

Insurance

We have always said that we will only grow when we believe it is profitable to do so and throughout 2016 the favourable rating environment in Motor allowed us to grow strongly, albeit the Home insurance market continued to be challenging. The management team remain focused in delivering the Group's growth strategy through initiatives, such as footprint expansion, in a controlled manner and I believe they continue to make the right decisions in dynamic market conditions. We are encouraged that the Government continue to explore options to lower whiplash claims costs which in turn could lead to lower premiums for customers, although we are mindful of the recent change in the Ogden discount rate to minus 0.75% and the impact this could have on customer premiums across the market.

Demerger of Gocompare.com

On 3 November 2016, Gocompare.com demerged from the Group and listed on the London Stock Exchange. Since acquiring full control of Gocompare.com in early 2015 the Group successfully repositioned the business and strengthened its management team with the introduction of Matthew Crummack as chief executive officer in June 2016. The return of Gio Compario reinvigorated Gocompare.com's marketing proposition; an expense review addressed the cost base; and focus was given to the many opportunities available to Gocompare.com to grow outside of its core markets. Both esure and Gocompare.com are now positioned to thrive and reach their full potential and we wish the new management team at Gocompare.com well for the future.

Capital & Dividends

The Group's capital coverage above its solvency capital requirement has always been appropriate for the business that we are, and continue to be, a low risk personal lines insurer. As part of the Demerger, the Group received a dividend from Gocompare.com that further strengthened its robust capital position. The Group's capital position is at the upper end of our risk appetite, after allowing for the final dividend that is inclusive of a special element, and gives us the capital flexibility to pursue further profitable growth opportunities.

The Board has recommended a final dividend of 10.5 pence per share, and in conjunction with the interim dividend of 3.0 pence per share, gives a full year dividend of 13.5 pence per share representing a payout ratio of 70% of underlying profit after tax. Since the Group became public in 2013, the Board have returned £240m to shareholders through dividends, underpinning the Board's commitment to return excess capital to shareholders.

Board

Once again the Board have demonstrated the value that their wealth of experience and knowledge bring to our Group and I would like to thank them for their input throughout the year. We have benefitted from a year of relatively little change after Anne Richards left us in February 2016 and I am delighted that Peter Shaw and Alan Rubenstein joined the Board in March 2017, giving us further strength and depth. Peter Ward will be stepping down from the Board at the Annual General Meeting in May 2017 after many years of great service and I would like to thank him for his support, challenge and wisdom across the years.

Summary

2016 has been a significant and positive year for the Group and this would not have been possible without the hard work and dedication of all our colleagues across the business. I believe the Group is well positioned to carry on with this positive momentum and I look forward to the future with great confidence.

Sir Peter Wood
Chairman

Chief Executive Officer's review

Introduction

What a year 2016 has been. We have exceeded our gross written premium expectations for the year with growth of 19%; increased underlying profit by 18% and profit from continuing operations by 19%; successfully demerged Gocompare.com; and returned excess capital to shareholders through special dividends while maintaining sufficient capital flexibility to carry on our growth ambitions in 2017 and beyond.

Focus

2016 has been a year of growth through focused underwriting. We added nearly 200,000 in-force policies to the business and momentum continues to build in our footprint expansion programmes with the launch of a further 12 segments in Motor towards the end of the year. Through enhancements to our underwriting capabilities we are now able to quote for 70-80% of the Motor market, without materially moving the dial on risk, giving us great opportunities to deliver our ambition of 3 million in-force policies by 2020.

In Motor, our customer contribution modelling continues to evolve. With regular and detailed monitoring we are able to make more informed value based decisions on a daily basis. Through a customer contribution approach we are able to offer competitive prices to customers allowing them to benefit from our great products and service throughout their time with the Group, while generating value for the business.

The Home market remains challenging, in particular the rating environment on price comparison websites, and we do not believe market conditions are conducive to growth at this time. Adverse weather events in the early part of the year, along with flash flooding in June, impacted the profitability of the market and our portfolio, and we have taken corrective action on the portfolio as we look to improve the underwriting performance of the account. Despite this, Home remained a key contributor to the Group in 2016.

Control

We remain committed to only growing when we believe it is profitable to do so, rather than for vanity, and our ambition is to reach three million in-force policies by 2020, underpinned by this philosophy.

There is an acquisition cost to growth, however through our enhanced contribution analysis, great service and strong customer retention, we are confident our growth will deliver value.

Effective claims management and expense efficiency provide the foundations to deliver increased value and our counter fraud capabilities continue to lead the way across the market. Over the past three years the Group has utilised device profiling to deter "ghost broking" with great success and this would not have been possible without our collaborative and innovative approaches across the business.

Our low risk approach to underwriting and conservative reinsurance programme mitigated much of our exposure to the change in the Ogden discount rate and leaves us well placed within the market compared to our peers.

Scale

Investment in our infrastructure is ongoing to ensure we have agile, flexible and scalable systems in place to meet ever changing customer preferences. Our digital market place remains focused on price comparison website distribution and improvements to our online customer journey have improved new business sale conversion and our customer experience. There is plenty more to come.

Colleagues

We strive to make esure a great place to work as it is our colleagues who are fundamental to our success. In 2016, we have implemented a new pay & reward framework; invested in our talent; and our first employee sharesave scheme vested allowing colleagues to share in the success of the business.

Summary & Outlook

2016 has been a year of strong growth and I am confident this will deliver value over the coming years. As we look out into 2017, assuming stable market conditions and normal weather, we continue to expect strong growth in both premiums and in-force policies at 15-20% and 5-10%, respectively; the combined operating ratio to be in the region of 96-98%; and our non-underwritten additional services revenues are forecast to grow ahead of in-force policies in line with the trend seen in the second half of 2016.

Our performance in 2017 and beyond will be driven by the hard work of all our colleagues across the business and I would like to thank them for their commitment and dedication in helping us to deliver our ambitions.

Stuart Vann
Chief Executive Officer

Finance review

Group financials

	2016	2015
Gross written premiums (£m)	**655.0**	550.3
In-force policies (millions)	**2.174**	2.001
Trading profit from continuing operations (£m)	84.6	72.1
Profit after tax (£m)	269.2	121.9
Earnings per share (pence)	64.6	29.3
Underlying profit after tax (£m)	**80.5**	68.2
Underlying earnings per share (pence)	19.3	16.4
Dividend per share (pence)	**13.5**	11.5
Combined operating ratio (%)	**98.8**	97.8
Loss ratio (%)	74.2	74.0
Expense ratio (%)	24.6	23.8
Investment return – gross (%)	**2.2**	0.8
Solvency coverage (%)	**149**	123

Premiums, policies and profit

	2016	2015
Gross written premiums (£m)	**655.0**	550.3
Motor	563.7	461.0
Home	91.3	89.3
In-force policies (millions)	**2.174**	2.001
Motor	1.606	1.435
Home	0.568	0.566
Profit after tax (£m)	**269.2**	121.9
Underlying profit after tax (£m)	**80.5**	68.2

Gross written premiums increased 19.0% to £655.0m (2015: £550.3m) through growth in in-force policies and positive rate increases across the portfolio in Motor. In-force policies increased by 8.6% to 2.174 million (2015: 2.001 million) as the Group delivered strong growth in Motor in favourable market conditions.

Profit after tax of £269.2m includes a non-cash disposal gain of £213.6m on Demerger; amortisation of acquired intangible assets of £10.4m; and £14.5m of fees associated with the Demerger. Management's measure of the underlying profit after tax of £80.5m excludes these items as they do not impact the Group's dividend capacity.

Trading profit

	2016 £m	2015 £m
Trading profit from continuing operations	**84.6**	72.1
Motor underwriting	8.9	6.7
Home underwriting	(2.4)	4.2
Non-underwritten additional services revenues	60.0	55.1
Investments	18.1	6.1
Trading profit from discontinued operations	**24.5**	20.2
Gocompare.com	24.5	20.2

Trading profit from continuing operations, being earnings before interest, tax, non-trading expenses and amortisation of acquired intangible assets, is management's measure of the overall profitability of the Group's operating activities. The Group's segmental trading profit of £84.6m (2015: £72.1m) includes Motor underwriting, Home underwriting, Investments and Non-underwritten additional services.

The Group generated a trading profit of £24.5m (2015: £20.2m) on its discontinued operation (Gocompare.com) prior to the Demerger on 3 November 2016.

Motor underwriting

	2016	**2015**
Gross written premiums (£m)	**563.7**	461.0
In-force policies (millions)	**1.606**	1.435
Trading profit (£m)	**8.9**	6.7
Combined operating ratio (%)	**98.1**	98.4
Loss ratio (%)	75.7	76.3
Expense ratio (%)	22.4	22.1

Gross written premiums increased 22.3% to £563.7m (2015: £461.0m) through growth in in-force policies and positive rate increases across the portfolio. In-force policies increased by 11.9% to 1.606 million (2015: 1.435 million) as the Group's footprint expansion programmes build momentum.

Trading profit of £8.9m (2015: £6.7m) has improved as the positive rating environments of 2015 and 2016 start to earn through ahead of claims inflation, albeit this has been largely offset by a lower level of favourable development of prior accident year reserves to £29.4m (2015: £46.4m) which equated to 6.2% of net earned premiums (2015: 11.2%).

	2016	**2015**
Reported net loss ratio (%)	**75.7**	76.3
Prior year reserve releases (%)	6.2	11.2
Current year net loss ratio (%)	**81.9**	87.5

The Group continued to take a disciplined approach to cost management and delivered an expense ratio of 22.4% (2015: 22.1%) demonstrating the Group's efficient operations. As the Group delivers its growth strategy, an increase in the number of new business customers has and will continue to impact the expense ratio in the near term.

Home underwriting

	2016	**2015**
Gross written premiums (£m)	**91.3**	89.3
In-force policies (thousands)	**568**	566
Trading (loss) / profit (£m)	**(2.4)**	4.2
Combined operating ratio (%)	**102.9**	94.9
Loss ratio (%)	66.0	62.2
Expense ratio (%)	36.9	32.7

Gross written premiums increased 2.2% to £91.3m (2015: £89.3m) and in-force policies remained broadly flat at 568 thousand (2015: 566 thousand). In competitive market conditions the Group has remained disciplined in its rating actions against a backdrop of rate reductions on price comparison websites.

Adverse weather claims costs totalled £6.6m (2015: £4m), £3.2m higher than the Group expected to incur in the year, and costs associated with the Flood Re Levy of £2.9m (2015: £nil) caused the Home portfolio to deliver a loss of £2.4m (2015: profit of £4.2m). The current year loss ratio increased as outlined above and the Group continued to benefit from strong favourable development of prior accident year reserves of £9.3m (2015: £10.3m) which equated to 11.0% of net earned premiums (2015: 12.5%).

	2016	2015
Reported net loss ratio (%)	**66.0**	62.2
Prior year reserve releases (%)	11.0	12.5
Current year net loss ratio (%)	**77.0**	74.7

The expense ratio of 36.9% (2015: 32.7%) has been impacted by costs associated with the Flood Re levy introduced in April 2016.

Additional services revenues

	2016 £m	2015 £m
Non-underwritten additional insurance products	9.8	9.5
Policy administration fees and other income	19.5	21.1
Claims income	7.6	7.5
Instalment income	37.6	30.2
Non-underwritten additional services	**74.5**	68.3
Underwritten additional insurance products	32.0	34.6
Total income from additional services	**106.5**	102.9
Non-underwritten additional services trading profit	**60.0**	55.1
Motor	50.7	45.9
Home	9.3	9.2

Total income from additional services increased 3.5% to £106.5m (2015: £102.9m) largely driven by a strong performance in instalment income.

Non-underwritten additional services trading profit increased 8.9% to £60.0m (2015: £55.1m) in line with the Group's in-force policy growth. The growth in instalment income is largely driven by an increase in Motor customers and higher average written premiums.

Investments

	2016 £m	2015 £m
Investment income	14.3	14.1
Net gains / (losses) on investments	3.8	(7.7)
Investment charges	(3.5)	(3.3)
Net investment return	**14.6**	3.1
Other income	3.5	3.0
Total investment return	**18.1**	6.1
Investment return – gross (%)	2.2	0.8

The Group achieved a gross investment return of 2.2% (2015: 0.8%) and a net investment return of 1.8% (2015: 0.5%).

The investment return benefitted from a strong performance in the equity portfolio and a fall in the UK Gilt curve which resulted in an increase in fixed income asset valuations.

Other income improved to £3.5m (2015: £3.0m) primarily as a result of income from the Group's investment in IMe Law Limited, operated by the Group's partner, Irwin Mitchell.

Reconciliation of trading profit from continuing operations to profit before tax from continuing operations

	2016 £m	2015 £m
Trading profit from continuing operations	**84.6**	72.1
Non-trading costs	(0.9)	(0.2)
Finance costs	(8.7)	(8.7)
Amortisation of acquired intangible assets	(2.3)	(2.3)
Profit before tax from continuing operations	**72.7**	60.9

The Group incurred £8.7m in finance costs in 2016 relating to the £125.0m of 6.75% ten year tier two Subordinated Notes issued on 19 December 2014 ("the Notes").

Reconciliation of profit before tax from continuing operations to underlying profit before tax

	2016 £m	2015 £m
Profit before tax from continuing operations	**72.7**	**60.9**
Profit generated by Gocompare.com	24.5	16.7
Share of joint venture (net of tax)	-	3.0
Amortisation of acquired intangible assets	2.3	2.3
Underlying profit before tax	**99.5**	**82.9**

In order to reflect better the Group's performance for the period and its dividend paying capacity the Group has disclosed its underlying profit before tax of £99.5m (2015: £82.9m). The reported profit before tax from continuing operations for each period is adjusted for the Group's share of profit generated by Gocompare.com (2016: £24.5m; 2015: £19.7m) and amortisation of acquired intangible assets (2016: £2.3m; 2015: £2.3m).

The Group will not report underlying profit metrics in 2017 as the Group's reported profit will be more closely aligned with the underlying performance of the business and its dividend paying capacity post the Demerger.

Reconciliation of profit after tax to underlying profit after tax

The Group generated a profit after tax of £269.2m (2015: £121.9m) and an underlying profit after tax of £80.5m (2015: £68.2m).

	Continuing		**Discontinued**		**Group**	
	2016 £m	2015 £m	**2016** £m	**2015** £m	**2016** £m	2015 £m
Reported profit after tax	**59.5**	49.9	**209.7**	72.0	**269.2**	121.9
Fair value gain on Demerger	-	-	(213.6)	-	(213.6)	-
Joint venture deemed disposal gain	-	-	-	(63.8)	-	(63.8)
Amortisation of acquired intangible assets (net of tax)	1.8	1.9	8.6	8.2	10.4	10.1
Fees associated with the Demerger	-	-	14.5	-	14.5	-
Underlying profit after tax	**61.3**	51.8	**19.2**	16.4	**80.5**	68.2

<u>Profit after tax from continuing operations</u>

The Group's profit after tax from continuing operations increased 19.2% to £59.5m (2015: £49.9m) largely driven by an improvement in the investment return.

Profit after tax from discontinued operations

Income and expenses relating to Gocompare.com are disclosed in the Group's profit after tax from discontinued operations. The profit after tax of £209.7m (2015: £72.0m) is the profit generated by Gocompare.com up to Demerger, net of tax (2016: £19.2m; 2015: £16.4m); the fair value gain of the Group's holding in Gocompare.com at Demerger (2016: £213.6m; 2015: nil); the Group's joint venture deemed disposal gain (2016: nil; 2015: £63.8m); the amortisation of acquired intangible assets relating to Gocompare.com, net of tax (2016: £8.6m; 2015: £8.2m); and the fees associated with the Demerger of £14.5m (2015: nil).

In accordance with IFRIC 17, the Group calculated the fair value of Gocompare.com at Demerger. Prior to the Demerger, the Group held Gocompare.com at book value (£88.2m); however, on Demerger Gocompare.com plc's market capitalisation was £301.8m. This resulted in a fair value gain on Demerger of £213.6m.

Underlying profit after tax

The Group's 2016 reported profit after tax is £269.2m (2015: £121.9m). Underlying profit after tax adjusts for the fair value gain on demerger of Gocompare.com of £213.6m (2015: nil); the Group's joint venture deemed disposal gain (2016: nil; 2015: £63.8m); the amortisation charge of acquired intangible assets, net of tax, of £10.4m (2015: £10.1m); and fees associated with the demerger of Gocompare.com of £14.5m (2015: £nil). The underlying profit after tax is management's measure of profitability of the Group and it is with reference to the Group's underlying profit after tax that the dividend has been set.

Earnings per share

Reported earnings per share increased by 120.5% to 64.6 pence (2015: 29.3 pence) as a consequence of the fair value gain on Demerger of £213.6m in 2016 not occurring in 2015.

Underlying earnings per share increased 17.7% to 19.3 pence (2015: 16.4 pence) largely driven by an improvement in the investment return.

Dividend per share

The Board has proposed a final dividend of 10.5 pence per share, which together with the interim dividend of 3.0 pence per share, takes the full year dividend to 13.5 pence per share. The full year dividend of 13.5 pence per share represents an annualised payout ratio of 70% of the Group's underlying earnings per share. The payout ratio comprises a base dividend of 50% and a special dividend of 20%.

The ex-dividend date is 13 April 2017, the record date is 18 April 2017 and the payment date is 26 May 2017. These dates are in respect of both the base and special dividend.

Cash flow

	2016 £m	**2015** £m
Profit after tax	**269.2**	121.9
Net cash generated from:		
Operating activities	(3.8)	154.8
Investing activities	(25.7)	(73.5)
Financing activities	23.1	(74.5)
Net (decrease) / increase in cash and cash equivalents	(6.4)	6.8
Cash and cash equivalents at the end of the period	**25.5**	31.9

The Group's cash and cash equivalents at the end of the period are £25.5m (2015: £31.9m).

Profit after tax of £269.2m (2015: £121.9m) includes a non-cash disposal gain of £213.6m (2015 included a joint venture deemed disposal gain of £63.8m).

Operating activities were a net outflow of £3.8m (2015: net inflow of £154.8m) largely driven by cash flows generated from the Group's operating activities being invested into its investment portfolio. In 2015, the net cash generated benefitted from a drawdown in cash to fund the acquisition of Gocompare.com in March 2015.

Investing activities generated a net outflow of £25.7m (2015: £73.5m) reflecting the purchase of property, plant and equipment alongside fees relating to the Demerger. In 2015, the cash outflow reflects the acquisition of Gocompare.com in March 2015 and the cash dividends received from Gocompare.com prior to completion when held as a joint venture.

Financing activities includes the Group's dividend payments of £42.9m in 2016 (2015: £66.1m), the Gocompare.com debt raise of £73.1m prior to Demerger and the finance costs associated with the Notes of £8.4m (2015: £8.4m).

The Group's cash flow statement can be found on page 19.

Investments

The Group deploys a conservative investment strategy with the primary objectives of capital preservation and maintaining liquidity. Through better alignment of the investment and liability durations the Group is able to deliver appropriate returns while minimising earnings and capital volatility.

<u>Strategic investment allocations</u>

The Group's investment portfolio is in the process of transitioning towards the following strategic asset allocations and target returns. The Group expects the target allocations to be achieved in mid 2017.

Investment categories	**Target allocations**	**Gross target returns**
Cash & Liquidity	5%	0.1%
Claims backed	65%	1.0%
Surplus	30%	3.0%

As at the 31 December 2016 the Group held the following investments:

	2016	
	%	**£m**
Total	*100*	**862.9**
Cash & Liquidity	*5%*	**45.5**
Liquidity funds		20.0
Cash		25.5
Claims backed	*64%*	**551.8**
Liquidity funds		46.2
Fixed income		505.6
Surplus	*31%*	**265.6**
Liquidity funds		143.0
Equity		42.5
Fixed income		80.1

Note: 2015 comparative information has not been provided as the investment portfolio was classified differently

The Group's total assets under management are 14.0% higher at £862.9m (2015 £757.0m including derivative financial liabilities) due to a combination of strong premium growth and dividend received prior to the Demerger.

The Cash & Liquidity portfolio reflects accessible cash for operational activities and is inclusive of a buffer for adverse events. The allocation of 5% is in line with the Board approved Liquidity Risk Appetite.

The Claims backed portfolio is constructed with reference to the expected future cost of the Group's technical liabilities, as defined under Solvency II. During the period, the Group has improved the alignment of the duration of these assets with the appropriate liabilities. This has increased the duration of claims backing assets to 3.6 years compared to 3.4 years on claims liabilities. The assets acquired during this period have been designated as available-for-sale ("AFS") to minimise the impact of interest rate changes on earnings. In total, the Group has designated £192.6m as AFS and £359.1m as fair value through profit and loss. Additionally, the Group has disposed of all residential mortgage back securities (2015: £38.0m).

The Surplus portfolio seeks to deliver returns while investing in a manner that reflects the Group's risk appetite, in particular with reference to its solvency capital. The Group currently holds £143m (17% of total assets) in a liquidity fund within its surplus portfolio pending the outcome of a review of the strategic asset allocation within the investment portfolio. This is expected to complete during the first half of 2017. The remaining assets are invested across a mixture of fixed income and equities.

The Group's total investment duration was 2.6 years (2015 <1.0 year) as the Group looks to match better its asset and liability durations under Solvency II.

Fixed income

	2016 £m	2015 £m
Total fixed income	**585.7**	494.6
Corporate bonds	280.4	211.5
Covered / residential mortgage backed securities	14.9	75.5
Government bonds	206.1	84.2
Floating rate notes	84.3	123.4

Fixed income credit risk quality

	2016	2015
AAA	**18%**	24%
AA	**35%**	27%
A	**22%**	28%
BBB or below	**25%**	21%

There has been no significant change in the credit risk quality of the fixed income portfolio with 75% held in assets rated 'A' or above.

Reserving

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

For known periodic payment orders ("PPOs") and potential PPO awards, indexed cash flow projections are carried out in order to estimate an ultimate cost on a gross and net of reinsurance basis. The Group currently has 11 PPOs. The cash flow projections were undertaken on a discounted basis. The total net claims provision recognised for PPOs and potential PPOs in the consolidated statement of financial position represents less than 5% of net claims outstanding at 31 December 2016.

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

On 27 February 2017, the Lord Chancellor changed the Ogden discount rate from plus 2.5% to minus 0.75%, effective 20 March 2017. As at 31 December 2016, the Group's reserve margin included an allowance for a change in the discount rate to 0%. The impact on the Group's performance from a change in the discount rate is outlined below:

	2016		2017
	Discount rate (plus 2.5% to 0%)	**Discount rate** (plus 2.5% to minus 0.75%)	**Impact from 2016**
	£m	£m	£m
Gross reserves (£m)	56	88	32
Reserves, net of reinsurance (£m)	2	3	1
Profit after tax (£m)	N/A	1	1

The Group has not adjusted its 2016 financial position to take into account the discount rate moving to minus 0.75%, beyond the 0% allowed for within its reserve margin as at 31 December 2016. The effect is immaterial on profit after tax.

The Group benefited from strong favourable development of prior accident year reserves, with total prior year releases of £38.7m in 2016 (2015: £56.7m). The favourable development represents 7.0% of net earned premium (2015: 11.4%).

Reinsurance

The Group purchases reinsurance as a risk transfer mechanism to mitigate risks that are outside the Group's appetite for individual claim or event exposure and to reduce the volatility caused by large individual and accumulation losses. By doing so, the Group reduces the impact that an event can have on its capital position and its underwriting results in both Motor and Home. The Group's reinsurance programmes are due for renewal on 1 July 2017.

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

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

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

Capital

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

Solvency II is the new solvency framework implemented on 1 January 2016 as the capital adequacy regime for the European insurance industry. It establishes a set of EU-wide capital requirements and risk management standards with the aim of increasing protection for policyholders. The Group is regulated by the Prudential Regulation Authority ("PRA") on both a Group basis and, for the Group's sole underwriter, esure Insurance Limited, on a solo basis.

The Group intends to hold capital coverage of its solvency capital requirement ("SCR") in the region of 130-150%. The capital surplus above the SCR provides sufficient headroom to absorb adverse capital events and should enable the Group to continue to meet its regulatory capital requirements.

Solvency II
Note the figures quoted in this section are estimated, unaudited and subject to change

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

	2016 £m	2015 £m
Own Funds	**348**	264
Tier 1	*231*	*157*
Tier 2	*117*	*107*
Solvency Capital Requirement	**233**	214
Coverage ratio	**149%**	123%

From 1 January 2016, the Group was required to calculate its solvency capital requirement ("SCR") and capital resources ("Own Funds") under the Solvency II Directive. The SCR is the level of capital the Group is required to hold to meet its obligations if a 1 in 200 year event were to occur in the next 12 months. The Group adopts the standard formula to calculate its capital requirements under Solvency II.

The Group intends to hold capital coverage of its SCR in the region of 130-150%. This provides sufficient headroom to absorb adverse capital events and capital flexibility to fund further profitable growth. As at 31 December 2016, the coverage ratio of the Group's SCR was 149% (2015: 123%).

The Group's Own Funds increased by £84m in 2016 largely driven by a Gocompare.com's debt raise prior to Demerger being paid to the Group as a dividend and an increase in the Group's qualifying Tier 2 capital instrument. Own Funds comprise Tier 1 and Tier 2 qualifying capital. The Notes meet the qualifying criteria of a Tier 2 capital instrument and qualify up to a maximum of 50% of the SCR. The quality of the Group's capital remains strong with 66% in Tier 1 and 34% in Tier 2.

<u>Solvency Capital Requirement</u>

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

	2016
Underwriting risk	72%
Market risk	18%
Operational risk	8%
Credit risk	2%

The main risk driver is underwriting, consisting of premium, reserve and catastrophe risk, reflecting the capital requirements of the core business activities for the Group.

<u>Sensitivities</u>

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

	Impact on coverage*
Motor loss ratio 5ppts worse	(7)ppts
Yield curve 50bps lower	(1)ppts
Equities fall 25%	(1)ppts
Credit spreads widen 50bps	(1)ppts
1987 Hurricane	(2)ppts

* Capital coverage movements are stated after earnings impact (net of tax and dividend with events assumed to occur on 31 December 2016).

<u>Ogden discount rate</u>

As at 31 December 2016, the Group's solvency coverage above its SCR included an allowance of £3m for a change in the Ogden discount rate to 0%. As a consequence of the discount rate moving to minus 0.75%, the Group's capital position in 2017 will be reduced by £2m.

Dividends

The Group's dividend policy is to target a base dividend of 50% of underlying profit after tax and enhance the base dividend with a further special dividend, if the Group has sufficient capital and distributable reserves, after allowing for an appropriate level of capital coverage of the Group's SCR and future growth opportunities. From 2017, the dividend will be set with reference to the Group's reported profit after tax. The Board remains committed to returning excess capital to shareholders where it does not believe it can utilise retained capital for further profitable growth.

The interim dividend will be paid in October of the relevant financial year and the final dividend in May of the following financial year, in the approximate proportions of one-third and two-thirds respectively.

Segmental Reporting

In 2016, the Group's reportable segments were: Motor underwriting; Home underwriting; Non-underwritten additional services; and Investments. In 2017, the Group will change its reportable segments to Motor and Home to reflect its contribution approach.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 Dec 2016 £m	Year ended 31 Dec 2015 £m
Gross written premiums		655.0	550.3
Gross earned premiums		598.0	532.4
Earned premiums, ceded to reinsurers		(43.1)	(36.8)
Earned premiums, net of reinsurance		554.9	495.6
Investment income and instalment interest		55.7	36.3
Other income	5	36.9	38.1
Total income		**647.5**	**570.0**
Claims incurred and claims handling expenses	14	(509.5)	(409.9)
Claims incurred recoverable from reinsurers	14	74.4	22.3
Claims incurred, net of reinsurance	14	(435.1)	(387.6)
Insurance expenses	6	(113.3)	(97.1)
Other operating expenses	6	(17.7)	(15.7)
Total expenses		**(566.1)**	**(500.4)**
Finance costs		(8.7)	(8.7)
Profit before tax		**72.7**	**60.9**
Taxation expense		(13.2)	(11.0)
Profit from continuing operations, net of tax		**59.5**	**49.9**
Profit from discontinued operations, net of tax	10	**209.7**	**72.0**
Profit attributable to the owners of the parent		**269.2**	**121.9**
Other comprehensive income			
Items that will not be reclassified to profit or loss: Revaluation of land and buildings		0.3	-
Items that are or may be reclassified to profit or loss: Available-for-sale financial assets – change in fair value		1.6	1.0
Total comprehensive income for the year attributable to owners of the parent		**271.1**	**122.9**
Earnings per share (pence per share)			
- ordinary shares, basic		64.6	29.3
- ordinary shares, diluted		64.3	29.3
- underlying earnings per share		19.3	16.4

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 Dec 2016 £m	As at 31 Dec 2015 £m
Assets			
Goodwill and intangible assets	11	12.7	181.5
Deferred acquisition costs		37.8	25.3
Property, plant and equipment		32.5	34.8
Financial investments	12	839.0	728.5
Reinsurance assets	14	291.7	225.2
Insurance and other receivables		245.6	216.7
Cash and cash equivalents	12	25.5	31.9
Total assets		**1,484.8**	**1,443.9**
Equity and liabilities			
Share capital		0.3	0.3
Share premium account		45.4	44.0
Capital redemption reserve		44.9	44.9
Other reserves		2.9	1.0
Retained earnings		178.0	251.1
Total equity		**271.5**	**341.3**
Liabilities			
Insurance contract liabilities	14	1,002.3	886.6
Borrowings	12	122.8	122.6
Insurance and other payables		77.3	72.2
Deferred tax liabilities		3.2	11.6
Derivative financial liabilities	12	1.6	3.3
Current tax liabilities		6.1	6.3
Total liabilities		**1,213.3**	**1,102.6**
Total equity and liabilities		**1,484.8**	**1,443.9**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to owners of the parent					
		Share capital	Share premium	Capital redemption reserve	Other reserves	Retained earnings	Total equity
	Note	£m	£m	£m	£m	£m	£m
At 1 January 2016		**0.3**	**44.0**	**44.9**	**1.0**	**251.1**	**341.3**
Profit for the year		-	-	-	-	269.2	269.2
Other comprehensive income		-	-	-	1.9	-	1.9
Total comprehensive income for the year		**-**	**-**	**-**	1.9	269.2	**271.1**
Transactions with owners:							
Issue of share capital		0.0	1.4	-	-	-	1.4
Share-based payments		-	-	-	-	2.4	2.4
Deferred tax on share-based payments		-	-	-	-	(0.0)	(0.0)
Demerger of Gocompare	10	-	-	-	-	(301.8)	(301.8)
Dividends	5	-	-	-	-	(42.9)	(42.9)
Total transactions with owners		**0.0**	**1.4**	**-**	**-**	**(342.3)**	**(340.9)**
At 31 December 2016		**0.3**	**45.4**	**44.9**	**2.9**	**178.0**	**271.5**

		Attributable to owners of the parent					
		Share capital	Share premium account	Capital redemption reserve	Available-for-sale reserve	Retained earnings	Total equity
	Note	£m	£m	£m	£m	£m	£m
At 1 January 2015		**0.3**	**44.0**	**44.9**	**0.0**	**193.0**	**282.2**
Profit for the year		-	-	-	-	121.9	121.9
Other comprehensive income		-	-	-	1.0	-	1.0
Total comprehensive income for the year		**-**	**-**	**-**	1.0	121.9	**122.9**
Transactions with owners:							
Issue of share capital		0.0	0.0	-	-	-	0.0
Share-based payments		-	-	-	-	2.2	2.2
Deferred tax on share-based payments		-	-	-	-	0.1	0.1
Dividends	5	-	-	-	-	(66.1)	(66.1)
Total transactions with owners		**0.0**	**0.0**	**-**	**-**	**(63.8)**	**(63.8)**
At 31 December 2015		**0.3**	**44.0**	**44.9**	**1.0**	**251.1**	**341.3**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Cash flows from operating activities	**Note**	**£m**	**£m**
Profit after tax for the year		269.2	121.9
Adjustments to reconcile profit after tax to net cash flows:			
- Finance costs		8.7	8.7
- Depreciation and revaluation of property, plant and equipment		3.8	(0.1)
- Amortisation of intangible assets		15.2	13.6
- Share scheme charges		2.4	2.2
- Share of profit after tax of joint venture		-	(2.6)
- Joint venture deemed disposal gain		-	(63.8)
- Non-cash gain on demerger of Gocompare.com		(213.6)	-
- Taxation expense		16.0	12.1
- Total investment return		(20.7)	(6.3)
- Instalment interest		(37.7)	(30.2)
- Loss on the sale of property, plant and equipment		0.5	0.0
Operating cash flows before movements in working capital, tax and interest paid		43.7	55.5
Sales of financial investments		358.1	387.7
Purchases of financial investments		(465.2)	(308.9)
Interest, rent and dividends received less investment management expenses on financial investments		15.9	12.9
Instalment interest received		41.6	31.3
Changes in working capital:			
- Increase in insurance liabilities including reinsurance assets, unearned premium reserves and deferred acquisition costs		36.5	21.7
- Increase in insurance and other receivables		(49.3)	(22.9)
- Increase / (decrease) in trade and other payables including insurance payables		31.8	(4.8)
Taxation paid		(17.0)	(17.7)
Net cash (used) / generated in operating activities		**(3.8)**	**154.8**
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		-	(75.1)
Dividends received from joint venture		-	10.0
Purchase of property, plant and equipment and software		(8.3)	(8.4)
Net cash outflow from the demerger of Gocompare.com		(17.4)	-
Net cash used in investing activities		**(25.7)**	**(73.5)**
Cash flows from financing activities			
Proceeds on issue of Ordinary Shares		1.3	0.0
Interest paid on loans		(8.4)	(8.4)
Gocompare.com debt raise		73.1	-
Dividends paid		(42.9)	(66.1)
Net cash generated from / (used in) financing activities		**23.1**	**(74.5)**
Net (decrease) / increase in cash and cash equivalents		**(6.4)**	**6.8**
Cash and cash equivalents at the beginning of the year		31.9	25.1
Cash and cash equivalents at the end of the year		**25.5**	**31.9**

NOTES TO THE 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 2016, comprising the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and related notes, as well as the comparatives.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

At a General Meeting on 1 November 2016, the Company's shareholders approved the demerger of Gocompare.com plc and on 3 November 2016 the demerger was completed.

Under IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations ("IFRS 5") there is no impact on the prior year financial statements as a result of this demerger other than a change in the presentation of the results and the cash flows of the Gocompare business to discontinued operations. There is no impact on the prior year statement of financial position.

These consolidated financial statements have been prepared on a going concern basis. As detailed in the Strategic Report, the Directors' have assessed the Group's prospects and viability for the three year period to 31 December 2019. Based on this robust assessment, the Directors confirm that they have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least the next 12 months.

These consolidated financial statements have been presented in Sterling and rounded to the nearest hundred thousand. Throughout these consolidated financial statements any amounts which are less than £0.05m are shown by 0.0, whereas a dash (-) represents that no balance exists.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial assets and land and buildings that are measured at fair value at the reporting date. The principal accounting policies adopted are set out below.

New and amended accounting standards adopted with no significant impact on the Group

The Group has applied the following standards and amendments for the first time for its annual reporting period commencing 1 January 2016:

- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception
- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations
- Amendments to IAS 1 Disclosure Initiative
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 27 Equity Method in Separate Financial Statements
- Amendments to IFRSs Annual Improvements to IFRSs 2012-2014 Cycle

The adoption of these amendments did not have any impact on the current or prior periods.

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

The following standards have been issued and are effective for accounting periods ending on or after 31 December 2016 and are expected to have an impact on the Group financial statements.

IFRS 9 Financial Instruments

The new standard is effective for periods beginning on or after 1 January 2018. The Standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The Group's current analysis is that this will not have a material impact on our results with the key changes for the Group being around terminology.

IFRS 15 Revenue from Contracts with Customers

The new standard is effective for periods beginning on or after 1 January 2018. The Standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. The Group's current analysis is that this will not have a material impact on our results.

IFRS 16 Leases

The new standard is effective for periods beginning on or after 1 January 2019. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. This is in contrast to the current standard which differentiates between operating and finance leases. The Group is currently evaluating the impact of the different possible transitional approaches.

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.

Joint ventures

Prior to the acquisition of the outstanding 50% of the ordinary shares of Gocompare on 31 March 2015, the Group's interest in Gocompare was classified under IFRS 11 - *Joint Arrangements* as a joint venture.

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. The Group's interests in jointly controlled entities are accounted for using the equity method of accounting. The Group recognises the cost of the investments which, together with the Group's share of the joint venture's post-acquisition changes to shareholders' funds, is included in the consolidated statement of financial position. The Group's share of post-acquisition profit or loss and other comprehensive income is stated after appropriate adjustments to align the accounting policies of the joint venture with those of the Group. In addition, adjustments are made for the amortisation of separately identifiable intangible assets recognised on acquisition and to eliminate unrealised profits relating to commission charged to esure Group plc by the joint venture. 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. Impairment losses are recognised through the income statement. Impairment may be reversed if conditions subsequently improve and credited through the income statement.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of non-controlling interest in the acquiree, plus if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree. Any gain arising from the difference between the fair value of the Group's pre-existing equity interest and its carrying value is recorded as a deemed disposal gain in the consolidated statement of comprehensive income.

Goodwill is recognised at the date of acquisition as the excess of the cost of the acquisition over the fair value of the identifiable assets acquired, liabilities assumed and any deferred tax asset or liability recognised as part of the business combination according to the requirements of IAS 12 - *Income Taxes*. Where the excess is negative a gain is recognised in the income statement at the date of acquisition.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. All acquisition-related costs are expensed in the income statement when incurred.

3. Critical accounting judgements and estimates

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

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

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

Insurance contract liabilities

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

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

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

4. Segmental information

esure makes value based 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 further opportunities to deliver enhanced customer contribution.

Operating segments

The Group has four 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 underwriting

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.

Home underwriting

This segment incorporates the revenues and expenses directly attributable to the Group's Home insurance underwriting activities.

Non-underwritten additional services

This segment represents the revenue and expenses relating to sales of third party additional insurance products to Motor and Home insurance customers; policy administration fees; instalment interest income; fees generated from the appointment of firms used during the claims process and car hire suppliers.

Investments

This segment represents income from investments (to manage liabilities under insurance contracts and generate return for shareholders).

Segmental revenues, expenses and other information

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

Year ended 31 December 2016	**Motor underwriting £m**	**Home underwriting £m**	**Non-underwritten additional services £m**	**Investments £m**	**Total £m**
Gross written premiums	**563.7**	**91.3**	**-**	**-**	**655.0**
Earned premiums, net of reinsurance	470.6	84.3	-	-	554.9
Investment income	-	-	-	18.1	18.1
Instalment interest income	-	-	37.6	-	37.6
Other income	-	-	36.9	-	36.9
Total income	**470.6**	**84.3**	**74.5**	**18.1**	**647.5**
Net incurred claims	(356.4)	(55.6)	-	-	(412.0)
Claims handling costs	(19.5)	(3.6)	-	-	(23.1)
Insurance expenses	(85.8)	(27.5)	-	-	(113.3)
Other operating expenses	-	-	(14.5)	-	(14.5)
Total expenses	**(461.7)**	**(86.7)**	**(14.5)**	**-**	**(562.9)**
Trading profit	**8.9**	**(2.4)**	**60.0**	**18.1**	**84.6**
Non-trading costs					(0.9)
Amortisation of acquired intangibles					(2.3)
Finance costs					(8.7)
Profit before taxation from continuing operations					**72.7**
Tax expense					(13.2)
Profit after taxation from continuing operations					**59.5**
Net expense ratio	22.4%	36.9%			24.6%
Net loss ratio	75.7%	66.0%			74.2%
Combined operating ratio	**98.1%**	**102.9%**			**98.8%**

The average number of in-force policies during the year ended 31 December 2016 was 2.08m.

The Group generated a trading profit of £24.5m (2015: £20.2m) on its discontinued operation (Gocompare.com) prior to the Demerger on 3 November 2016. An analysis of the discontinued operation is presented in Note 10.

Year ended 31 December 2015	**Motor underwriting £m**	**Home underwriting £m**	**Non-underwritten additional services £m**	**Investments £m**	**Total £m**
Gross written premiums	**461.0**	**89.3**	**-**	**-**	**550.3**
Earned premiums, net of reinsurance	413.0	82.6	-	-	495.6
Investment income	-	-	-	6.1	6.1
Instalment interest income	-	-	30.2	-	30.2
Other income	-	-	38.1	-	38.1
Total income	**413.0**	**82.6**	**68.3**	**6.1**	**570.0**
Net incurred claims	(315.1)	(51.4)	-	-	(366.5)
Claims handling costs	(18.0)	(3.1)	-	-	(21.1)
Insurance expenses	(73.2)	(23.9)	-	-	(97.1)
Other operating expenses	-	-	(13.2)	-	(13.2)
Total expenses	**(406.3)**	**(78.4)**	**(13.2)**	**-**	**(497.9)**
Trading profit	**6.7**	**4.2**	**55.1**	**6.1**	**72.1**
Non-trading costs					(0.2)
Amortisation of acquired intangibles					(2.3)
Finance costs					(8.7)
Profit before taxation from continuing operations					**60.9**
Tax expense					(11.0)
Profit after taxation from continuing operations					**49.9**
Net expense ratio	22.1%	32.7%			23.8%
Net loss ratio	76.3%	62.2%			74.0%
Combined operating ratio	**98.4%**	**94.9%**			**97.8%**

The average number of in-force policies during the year ended 31 December 2015 was 1.99m.

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

Trading profit from continuing operations, being earnings before interest, tax, non-trading expenses and amortisation of acquired intangible assets, is management's measure of the overall profitability of the Group's operating activities. The Group's segmental trading profit, comprising of Motor underwriting, Home underwriting, Investments and Non-underwritten additional services £84.6m (2015: £72.1m).

The Group's profit in respect of continuing operations after tax is £59.5m (2015: £49.9m).

The Group incurred non-trading costs of £0.9m in 2016 of which £0.4m related to share-based payments in respect of the long service and one-off awards and £0.2m related to stamp duty and legal fees in respect of the new Manchester lease. The Group incurred non-trading costs of £0.2m in 2015 however this comprised of a charge in relation to share-based payments in respect of the long service and one-off awards of £1.5m, which was offset by a £1.3m upwards revaluation of the Group's land and buildings.

Segmental profit drivers

Motor and Home underwriting

The performance of the Motor and Home underwriting segments is measured by reference to a number of performance metrics, including in-force policies and the combined operating ratio.

Profitability of segmental underwriting activities is measured by reference to the net loss ratio, being net incurred claims as a percentage of earned premiums, net of reinsurance. For the year ended 31 December 2016, the Motor underwriting net loss ratio was 75.7% (2015: 76.3%) and the Home underwriting net loss ratio was 66.0% (2015: 62.2%). The total net loss ratio was 74.2% (2015: 74.0%).

The overall profitability of the Group's underwriting activities is measured by reference to the combined operating ratio, being the net expense ratio (net insurance expenses plus claims handling costs as a percentage of earned premiums, net of reinsurance) plus the net loss ratio. For the year ended 31 December 2015, the net expense ratio was 24.6% (2015: 23.8%) giving a combined operating ratio of 98.8% (2015: 97.8%).

In order to get a holistic view of the contribution from Motor and Home underwriting it is also necessary to consider the impact of additional service revenue.

All Motor and Home underwriting income is generated in the UK.

Additional services

The performance of additional services (inclusive of underwritten additional insurance products that are reported within the Motor underwriting segment), is measured by reference to revenue per in-force policy (''IFP'') on a rolling 12 month basis; at 31 December 2016, revenue per IFP was £51.07 (2015: £51.70).

Investments

The performance of investments is measured by reference to gross investment return on invested assets. For the year ended 31 December 2016, this was 2.2% (2015: 0.8%). In addition, the Group received income from its investment in IMe Law Limited.

Statement of financial position

The assets and liabilities of the Group are reported on an aggregated consolidated basis. They are not allocated to reportable segments and are reported on the same basis as disclosed in the consolidated statement of financial position on page 3.

5. Other income

	Year ended 31 Dec 2016 £m	Year ended 31 Dec 2015 £m
Continuing operations		
Fees for additional services	36.9	38.1
Total other income	36.9	38.1

6. Insurance and other operating expenses

	Year ended 31 Dec 2016 £m	Year ended 31 Dec 2015 £m
Acquisition of insurance contracts	75.4	52.2
Change in deferred acquisition costs	(12.5)	2.7
Administration	50.4	42.2
Insurance expenses	113.3	97.1
Other operating expenses	17.7	15.7

During the year ended 31 December 2016, a reclassification of £0.1m is included within other operating expenses in relation to a revaluation of the Group's land and buildings (2015: £1.3m credit).

7. Dividends

A 2016 interim dividend per share of 3.0p (£12.5m) was declared by the Board of Directors in August 2016 (2015: interim dividend per share of 4.2p, £17.5m). Subsequent to the year end, a 2016 final dividend per share of 10.5p (£43.9m) was declared by the Board of Directors (2015: final dividend per share of 7.3p, £30.3m).

8. Earnings per share

Basic

Basic earnings per share is calculated by dividing the earnings attributable to the owners of the Group and the weighted average of Ordinary Shares in issue during the period, excluding Ordinary Shares held as employee trust shares. A calculation is also shown based on the earnings from continuing operations attributable to the owners of the Group.

Diluted

Diluted earnings per share is calculated by dividing the earnings attributable to the owners of the Group by the weighted average of Ordinary Shares in issue during the period adjusted for any dilutive potential Ordinary Shares. A calculation is also shown based on the earnings from continuing operations attributable to the owners of the Group.

The difference between the basic and diluted weighted average number of shares outstanding during the year, being 2,009,742 (2015: 1,202,953), relates to the dilutive potential of the share-based payment arrangements.

Basic and diluted earnings per Ordinary Share

	Year ended 31 Dec 2016	**Year ended 31 Dec 2015**
Profit after taxation (£m)	269.2	121.9
Weighted average number of Ordinary shares (million) – basic	416.6	415.5
Earnings per share – basic (pence per share)	**64.6**	**29.3**
Weighted average number of Ordinary shares (million) – diluted	418.6	416.7
Earnings per share – diluted (pence per share)	**64.3**	**29.3**

Continuing operations earnings per share

	Year ended 31 Dec 2016	**Year ended 31 Dec 2015**
Profit from continuing operations, net of tax (£m)	59.5	49.9
Weighted average number of Ordinary shares (million) – basic	416.6	415.5
Earnings per share – basic (pence per share)	**14.3**	**12.0**
Weighted average number of Ordinary shares (million) – diluted	418.6	416.7
Earnings per share – diluted (pence per share)	**14.2**	**12.0**

Discontinued operations earnings per share

	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Profit from discontinued operations, net of tax (£m)	209.7	72.0
Weighted average number of Ordinary shares (million) – basic	416.6	415.5
Earnings per share – basic (pence per share)	**50.3**	**17.3**
Weighted average number of Ordinary shares (million) – diluted	418.6	416.7
Earnings per share – diluted (pence per share)	**50.1**	**17.3**

Underlying earnings per share

In 2016, as a result of the demerger of Gocompare.com plc the Group recognised costs relating to the transaction and a non-cash gain on demerger and, in 2015, as a result of the acquisition of the outstanding 50% of the share capital of Gocompare on 31 March 2015, the Group recognised a joint venture deemed disposal gain and amortisation relating to the intangible assets arising on the application of IFRS 3. In order to reflect better the Group's performance for the period and its dividend paying capacity, an additional underlying earnings per share calculation is presented below. The reported profit after tax for each period is adjusted for the Group's non-cash gain on demerger under IFRIC 17 (31 December 2016: £213.6m; 31 December 2015: £nil), the joint venture deemed disposal gain (31 December 2016: £nil; 31 December 2015: £63.8m), the costs relating to the demerger (31 December 2016: £14.5m; 31 December 2015: £nil) and amortisation of acquired intangibles, from continuing and discontinued operations, net of the deferred tax credit associated with the amortisation (31 December 2016: £10.4m; 31 December 2015: £10.1m). The number of shares is set at the number of Ordinary Shares in issue at the reporting date.

	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Profit after taxation (£m)	269.2	121.9
Adjustments net of taxation (£m)	(188.7)	(53.7)
Underlying profit after tax (£m)	80.5	68.2
Number of shares (million) – basic	417.9	416.9
Underlying earnings per share (pence per share)	**19.3**	**16.4**

9. Taxation

The tax rate used for the calculations is the Corporation Tax rate of 20.00% (2015: 20.25%) payable by the corporate entities in the UK on taxable profits under tax law in that jurisdiction.

10. Demerger of Gocompare.com

The demerger was effected by the Group making an interim in-specie distribution of Gocompare.com shares to shareholders. Following approval of the demerger by shareholders but, before the approval of the demerger dividend by the Board, Gocompare.com plc drew down debt of £75m under a term loan facility and paid a cash dividend to the Group of £73.3m.

Gocompare has been presented as a discontinued operation with all income and expenses shown as a single line in the statement of comprehensive income. The demerger is considered a distribution of non-cash assets to owners and, as such, falls under IFRIC 17 which requires a revaluation to fair value. A non-cash gain of £213.6m, based on the fair value of the assets at demerger (based on the share price on the date of demerger), is therefore recorded in the statement of comprehensive income. There is no impact on the prior year financial statements as a result of this demerger other than a change in the presentation of the results in the statement of comprehensive income and the cash flows of the Gocompare business to discontinued operations – the notes reflect the transfer of individual line items to discontinued operations.

The following tables summarise the performance of Gocompare.com from 1 January 2016 to the demerger on 3rd November 2016 and for the year ended 31 December 2015.

	Period ended 3 Nov 2016 £m	**Year ended 31 Dec 2015 £m**
Investment return	0.0	0.2
Fees for additional services	113.1	84.1
Total income	**113.1**	**84.3**
Other operating expenses	(88.6)	(67.6)
Share of joint venture profit	-	3.5
Trading profit	**24.5**	**20.2**
Amortisation of acquired intangibles	(11.1)	(10.4)
Fees associated with the demerger of Gocompare.com	(14.5)	-
Deemed disposal/demerger gain	213.6	63.8
Share of joint venture tax	-	(0.5)
Profit before tax	212.5	73.1
Taxation expense	(2.8)	(1.1)
Profit after tax from discontinued operations	**209.7**	**72.0**

The following table analyses the cash flows relating to the discontinued operation included in the consolidated cash flow statement from 1 January to the demerger on 3 November 2016 and for the year ended 31 December 2015.

	Period ended 3 Nov 2016 £m	**Year ended 31 Dec 2015 £m**
Net cash generated from operating activities	26.8	18.6
Net cash used by investing activities	(1.1)	(1.1)
Net increase in cash and cash equivalents	**25.7**	**17.5**

All statement of financial position items are, post demerger, derecognised from the statement of financial position with the net assets at demerger being shown as a single movement in the statement of changes in equity of £301.8m being the valuation of the distribution to shareholders. The non-cash gain of £213.6m is recorded as an increase in goodwill and intangible assets immediately prior to demerger. There is no impact on the prior year statement of financial position.

The following schedule details the assets and liabilities of the demerged group:

	3 Nov 2016
	£m
Assets	
Goodwill and intangible assets	372.0
Property, plant and equipment	1.4
Other receivables	21.2
Cash and cash equivalents	17.4
Total assets	**412.0**
Liabilities	
Other payables	29.2
Current tax liabilities	2.2
Deferred tax liabilities	5.7
Borrowings	73.1
Total liabilities	**110.2**
Net assets	**301.8**

11. Goodwill and intangible assets

	Goodwill	Software	Acquired brands	Customer relationships	Total
	£m	£m	£m	£m	£m
Cost					
As at 1 January 2015	-	7.5	24.2	11.3	43.0
Acquisition of Gocompare	127.7	1.2	40.9	10.2	180.0
Additions in the year	-	1.8	-	-	1.8
As at 31 December 2015	127.7	10.5	65.1	21.5	224.8
Additions in the year	-	4.8	-	-	4.8
Disposals in the year	-	0.2	-	-	0.2
Demerger of Gocompare	(127.7)	(1.7)	(40.9)	(10.2)	(180.5)
As at 31 December 2016	-	13.8	24.2	11.3	49.3
Accumulated amortisation and impairment					
As at 1 January 2015	-	3.5	15.1	11.1	29.7
Amortisation for the year	-	1.2	8.4	4.0	13.6
As at 31 December 2015	-	4.7	23.5	15.1	43.3
Amortisation for the year	-	2.3	9.0	4.3	15.6
Disposals in the year	-	(0.2)	-	-	(0.2)
Demerger of Gocompare	-	(1.1)	(12.9)	(8.1)	(22.1)
As at 31 December 2016	-	5.7	19.6	11.3	36.6
Net book value					
As at 31 December 2015	127.7	5.8	41.6	6.4	181.5
As at 31 December 2016	-	8.1	4.6	-	12.7

Goodwill of £127.7m as at 31 December 2015 relates to goodwill arising on the acquisition of Gocompare by the Group.

Included in acquired brands and customer relationships are the Gocompare brand and the Gocompare customer relationships recognised on application of IFRS 3 to the acquisition of Gocompare. The Gocompare brand had an estimated fair value at the date of acquisition of £40.9m and was being amortised on a straight-line basis over its estimated useful economic life of five years. The Gocompare customer relationships had an estimated fair value at the date of acquisition of £10.2m and was being amortised on a straight-line basis over its estimated useful economic life of two years.

12. Financial assets and liabilities

12.1 Financial assets

	As at 31 Dec 2016	As at 31 Dec 2015
	£m	**£m**
Financial investments designated as fair value through profit or loss:		
Shares and other variable-yield securities and units in unit trusts	39.3	39.3
Debt securities and other fixed income securities	394.5	497.9
Deposits with credit institutions	209.3	188.8
Financial investments held for trading:		
Derivative financial instruments	0.1	0.1
Financial investments at fair value through profit or loss	**643.2**	**726.1**
AFS financial assets:		
Debt securities and other fixed income securities	192.6	-
Shares in unquoted equity investments	3.2	2.4
Loans and receivables:		
Insurance and other receivables	198.2	174.1
Cash and cash equivalents	25.5	31.9
Total financial assets	**1,062.7**	**934.5**

Of the financial investments and cash above, £300.9m have a credit rating of AAA as at 31 December 2016 (2015: £297.0m), £204.8m have a credit rating of AA (2015: £132.1m), £155.5m have a credit rating of A (2015: £173.9m) and £160.8m have a credit rating of BBB or below, or are not rated (2015: £115.7m). The shares and other variable yield securities, units in unit trusts and derivative financial instruments as shown above are not subject to credit rating.

Available for sale financial assets

In 2016, in order to refine and enhance asset and liability matching for capital management purposes, the Group has designated some financial investments as available for sale. Any movements in the fair value of these assets is accounted for in Other Comprehensive Income, reducing the volatility in the Statement of Comprehensive Income. These assets have a longer average duration of 2.6 years (2015: less than one year) and therefore show an increased sensitivity to interest rates.

12.2 Financial liabilities

	As at 31 Dec 2016	As at 31 Dec 2015
	£m	£m
Financial liabilities held for trading:		
Derivative financial instruments	1.6	3.3
Other financial liabilities:		
Borrowings: 10 year Subordinated Notes	122.8	122.6
Insurance and other payables	17.1	15.2
Total financial liabilities	**141.5**	**141.1**

The £125m 10 year Subordinated Notes were issued by esure Group plc on 19 December 2015 at the rate of 6.75% per annum, with payments made biannually. Directly attributable fees were £2.9m. A payment of £8.4m was made in the year ended 31 December 2015.

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.

12.3 Capital management and regulation

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

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

Solvency II is the new solvency framework implemented on 1 January 2016 as the capital adequacy regime for the European insurance industry. It establishes a set of EU-wide capital requirements and risk management standards with the aim of increasing protection for policyholders. The Group is regulated by the Prudential Regulation Authority ("PRA") on both a Group basis and, for the Group's principal underwriter, esure Insurance Limited, on a solo basis.

The esure Board has considered the risk appetite of the Group as part of the Own Risk and Solvency Assessment process under Solvency II. The esure Board believe an appropriate level of capital coverage of its Solvency Capital Requirement ("SCR") to be in the region of 130-150%. The capital surplus above the SCR provides sufficient headroom to absorb adverse capital events and should enable the Group to continue to meet its regulatory capital requirements. It is expected that the Group will initially operate in the middle to upper end of the range, providing flexibility to fund further profitable growth.

The Group's dividend policy is to target a base dividend of 50% of underlying profit after tax and enhance the base dividend with a further special dividend, if the Group has sufficient capital and distributable reserves, after allowing for an appropriate level of capital coverage of the Group's SCR and future growth opportunities. The Board remains committed to returning excess capital to shareholders where it does not believe it can utilise retained capital for further profitable growth.

Refer to page 13 for further information about the Group's draft and unaudited 31 December 2016 Solvency II capital position.

12.4 Fair value estimation

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.

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 Fair Value Measurement, the Group classifies all debt securities as Level 2 assets with the exception of Government backed securities which are classified as Level 1 unless they are illiquid.

There have been no changes in respect of the categorisation of debt securities between Levels 1 and 2 during the period (2015: £nil).

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 £3.2m as at 31 December 2016 (2015: £2.4m), representing an investment in an unquoted equity investment which has been valued using a discounted cash flow valuation model.

Under IFRS 13, land and buildings with a carrying value of £12.9m (2015: £12.9m) are classified as Level 3 assets. Owner-occupied properties are stated at their revalued amounts, as assessed by qualified external valuers annually, all with recent relevant experience. These values are assessed in accordance with the relevant parts of the current RICS Valuation Standards in the UK (''Red Book''). The valuer's opinion of fair value was primarily derived using comparable recent market transactions on arm's length terms. No sensitivity analysis has been performed due to the nature of the valuation.

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

At 31 December 2016	Level 1	Level 2	Level 3	Total fair value
	£m	£m	£m	£m
Financial assets				
Assets at FVTPL:				
Derivative financial instruments	-	0.1	-	0.1
Equity securities	39.3	-	-	39.3
Debt securities	106.8	287.6	-	394.5
Deposits with credit institutions	-	209.3	-	209.3
Total financial assets at FVTPL	**146.1**	**497.0**	**-**	**643.2**
AFS financial assets:				
Debt securities	107.2	85.5	-	192.6
Unquoted equity securities	-	-	3.2	3.2
Total AFS financial assets	**107.2**	**85.5**	**3.2**	**195.8**
Land and buildings	**-**	**-**	**12.9**	**12.9**
Financial liabilities				
Derivative financial instruments	-	1.6	-	1.6
Total financial liabilities at FVTPL	**-**	**1.6**	**-**	**1.6**

At 31 December 2015	Level 1	Level 2	Level 3	Total fair value
	£m	£m	£m	£m
Financial assets				
Assets at FVTPL:				
Derivative financial instruments	-	0.1	-	0.1
Equity securities	39.3	-	-	39.3
Debt securities	87.4	410.5	-	497.9
Deposits with credit institutions	-	188.8	-	188.8
Total financial assets at fair value	**126.7**	**599.4**	**-**	**726.1**
AFS financial assets:				
Unquoted equity securities	**-**	**-**	**2.4**	**2.4**
Land and buildings	**-**	**-**	**12.9**	**12.9**
Financial liabilities				
Derivative financial instruments	-	3.3	-	3.3
Total financial liabilities at fair value	**-**	**3.3**	**-**	**3.3**

14. Reinsurance assets and insurance contract liabilities

14.1 Analysis of recognised amounts

	As at 31 Dec 2016 £m	As at 31 Dec 2015 £m
Gross		
Claims outstanding (before deduction of salvage and subrogation recoveries) and claims handling expenses	672.9	614.2
Unearned premiums	329.4	272.4
Total insurance liabilities, gross	**1,002.3**	**886.6**
Recoverable from reinsurers		
Claims outstanding	271.1	209.3
Unearned premiums	20.6	15.9
Total reinsurers' share of insurance liabilities	**291.7**	**225.2**
Net		
Claims outstanding (before deduction of salvage and subrogation recoveries) and claims handling expenses	401.8	404.9
Unearned premiums	308.8	256.5
Total insurance liabilities, net	**710.6**	**661.4**
Due within one year (gross)	546.4	503.3
Due in more than one year (gross)	455.9	383.3

Reinsurance Assets	As at 31 Dec 2016 £m	As at 31 Dec 2015 £m
Reinsurers' share of insurance liabilities	291.7	225.2
Total assets arising from reinsurance contracts	**291.7**	**225.2**
Expected to be recovered within one year	39.0	28.4
Expected to be recovered in more than one year	252.7	196.8

Amounts due from reinsurers in respect of claims already paid by the Group on the contracts that are reinsured are included in insurance and other receivables (note 21). No reinsurance assets have been impaired.

(a) Insurance claims – gross ultimate claims

Accident year	2007	2008	2009	20010	2011	2012	2013	2014	2015	2016	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Ultimate gross earned premium	335.9	447.1	544.3	479.1	488.7	511.7	526.1	528.7	532.4	598.0	4,992.0
Estimate of ultimate gross claims costs:											
- At end of reporting year	289.2	399.1	540.2	475.3	392.7	442.0	439.5	456.1	457.2	534.6	
- One year later	268.8	398.2	535.3	416.8	355.7	399.8	386.9	442.4	446.1		
- Two years later	242.0	407.5	536.6	399.0	331.5	369.2	374.6	440.2			
- Three years later	233.0	399.9	549.8	380.6	309.7	355.9	368.9				
- Four years later	232.9	382.9	534.0	371.8	304.9	347.6					
- Five years later	229.4	381.3	534.1	369.9	294.4						
- Six years later	228.0	379.7	523.8	369.3							
- Seven years later	227.8	372.4	523.4								
- Eight years later	226.6	370.8									
- Nine years later	224.3										
Current estimate of cumulative claims	224.3	370.8	523.4	369.3	294.4	347.6	368.9	440.2	446.1	534.6	3,919.6
Cumulative payments to date	(220.8)	(364.9)	(510.8)	(367.8)	(285.9)	(325.8)	(319.8)	(343.4)	(321.6)	(262.4)	(3,323.2)
Liability recognised in the consolidated statement of financial position											596.4
Reserve in respect of prior periods											23.5
Provision for claims handling costs											12.5
Salvage and subrogation											40.5
Total reserve included in the consolidated statement of financial position											**672.9**

(b) Insurance claims – net ultimate claims

Accident year	2007	2008	2009	20010	2011	2012	2013	2014	2015	2016	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Ultimate gross earned premium	321.4	424.1	514.9	452.1	459.7	480.2	489.2	490.8	495.6	554.9	4,682.9
Estimate of ultimate gross claims costs:											
- At end of reporting year	270.9	374.5	510.3	446.8	360.1	401.0	404.7	423.8	423.1	450.8	
- One year later	254.9	373.8	495.0	392.5	317.3	356.7	357.9	394.8	396.3		
- Two years later	227.0	372.0	495.0	374.6	296.4	331.9	345.9	391.4			
- Three years later	220.0	371.7	495.1	363.9	285.0	326.3	340.4				
- Four years later	223.5	367.6	494.5	360.9	284.5	325.6					
- Five years later	219.8	366.3	492.7	358.6	281.8						
- Six years later	218.3	364.7	489.5	358.6							
- Seven years later	217.5	362.1	489.4								
- Eight years later	216.6	361.0									
- Nine years later	216.4										
Current estimate of cumulative claims	216.4	361.0	489.4	358.6	281.8	325.6	340.4	391.4	396.3	450.8	3,611.7
Cumulative payments to date	(214.4)	(360.5)	(489.3)	(356.9)	(279.6)	(317.9)	(319.2)	(342.8)	(321.5)	(262.4)	(3,264.57)
Liability recognised in the consolidated statement of financial position											347.2
Reserve in respect of prior periods											1.6
Provision for claims handling costs											12.5
Salvage and subrogation											40.5
Total net reserve included in the consolidated statement of financial position											**401.8**

(c) Insurance claims - net loss ratio development

Accident year Estimate of ultimate loss ratio:	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
- At end of reporting year	84%	88%	99%	99%	78%	84%	83%	86%	85%	81%
- One year later	79%	88%	96%	87%	69%	74%	73%	80%	80%	
- Two years later	71%	88%	96%	83%	64%	69%	71%	80%		
- Three years later	68%	88%	96%	80%	62%	68%	70%			
- Four years later	70%	87%	96%	80%	62%	68%				
- Five years later	68%	86%	96%	79%	61%					
- Six years later	68%	86%	95%	79%						
- Seven years later	68%	85%	95%							
- Eight years later	67%	85%								
- Nine years later	67%									

14.3 Movement in insurance liabilities and reinsurance assets

(a) Claims reported in the financial statements and claims handling expenses

The movements in claims reported, including claims handling expenses, both gross and net of reinsurance, are shown below:

	2016			2015		
	Gross	**Reinsurers share**	**Net**	**Gross**	**Reinsurers share**	**Net**
	£m	£m	£m	£m	£m	£m
At 1 January	567.6	(209.3)	358.3	562.7	(194.4)	386.3
Cash paid for claims settled in year	(434.3)	12.6	(421.7)	(383.8)	7.4	(376.4)
Change arising from:						
Current year claims	534.6	(83.7)	450.9	457.2	(34.1)	423.1
Prior year claims	(48.0)	9.3	(38.7)	(68.5)	11.8	(56.7)
Total at end of year	619.9	(271.1)	348.8	567.6	(209.3)	358.3
Provision for claims handling costs	12.5	-	12.5	12.6	-	12.6
Salvage and subrogation	40.5	-	40.5	34.0	-	34.0
Total reserve per statement of financial position	**672.9**	**(271.1)**	**401.8**	**614.2**	**(209.3)**	**404.9**

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

	Year ended 31 Dec 2016			Year ended 31 Dec 2015		
	Gross	**Reinsurers share**	**Net**	**Gross**	**Reinsurers share**	**Net**
	£m	£m	£m	£m	£m	£m
Claims incurred	486.6	(74.4)	412.2	388.8	(22.3)	366.5
Claims handling expenses	22.9	-	22.9	21.1	-	21.1
Claims incurred and claims handling expenses	**509.5**	**(74.4)**	**435.1**	**409.9**	**(22.3)**	**387.6**

During 2016, the Group continued to experience favourable development of prior accident year reserves (£38.7m reduction in prior year claims reserves in the year ended 31 December 2016), but to a lesser extent than during the year ended 31 December 2015 (£56.7m reduction in prior year claims reserves in the year ended 31 December 2015).

(b) Provisions for unearned premiums

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

	2016			2015		
	Gross	**Reinsurers share**	**Net**	**Gross**	**Reinsurers share**	**Net**
	£m	£m	£m	£m	£m	£m
Unearned premium provision						
At beginning of the year	272.4	(15.9)	256.5	254.4	(14.9)	239.5
Premiums written in the year	655.0	(47.8)	607.2	550.3	(37.8)	512.5
Premiums earned in the year	(598.0)	43.1	(554.9)	(532.3)	36.8	(495.5)
At end of year	**329.4**	**(20.6)**	**308.8**	**272.4**	**(15.9)**	**256.5**

15. Related party transactions

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

a) Commissions and fees receivable for introducing insurance business:

Prior to the acquisition of Gocompare on 31 March 2015 (after which Gocompare was part of the Group), the Group received commissions and fees for customer introduction services provided to Gocompare for introducing insurance business. The value of transactions during the period to 31 March 2015 was £0.0m. The amount receivable as at 31 March 2015 was £0.0m.

These transactions arose in the normal course of business through fixed fees, and were based on arm's length arrangements. Post demerger these transactions are included as transactions with shareholders and are disclosed below.

b) Commissions and fees payable for introducing insurance business:

Prior to the acquisition of Gocompare on 31 March 2015 (after which Gocompare was part of the Group), the Group paid commissions and fees for customer introduction services provided by Gocompare for introducing insurance business. The value of transactions during the period to 31 March 2015 was £1.6m. The amount payable as at 31 March 2015 was £0.5m.

These transactions arose in the normal course of obtaining insurance business through brokerages, and were based on arm's length arrangements. Post demerger these transactions are included as transactions with shareholders and are disclosed below.

c) Transactions with shareholders

The following transactions took place with shareholders and entities under common control:

- One of the Directors has a beneficial part ownership interest in two companies which leased office space from the Group. The company also charged the Group for travel expenses incurred by employees of the Group.

- Eight of the Directors hold shares in Gocompare post demerger which pays commissions and charges fees for introducing insurance business.

- One of the Directors has a beneficial part ownership interest in a restaurant which has been used by the Group for corporate events and entertaining purposes.

	Year ended 31 Dec 2016 £m	Year ended 31 Dec 2015 £m
Value of income / (expense) for the year:		
Lease of office space net of travel expenses charged	0.2	0.2
Net fees charged by Gompare.com Ltd	(1.6)	See 15.a
Restaurants	(0.1)	(0.1)
Total (expense) / income for the year	(1.5)	0.1
Amount receivable / (payable) at the year end:		
Lease of office space net of travel expenses charged	0.1	0.1
Net fees payable to Gompare.com Ltd	(0.7)	See 15.b
Restaurants	(0.0)	-
Total amount (payable) / receivable at the year end	(0.6)	0.1

d) Compensation of key management personnel

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

16. Subsequent events

On 27 February 2017, the Lord Chancellor changed the Ogden discount rate from plus 2.5% to minus 0.75%, effective 20 March 2017. As at 31 December 2016, the Group's reserve margin included an allowance for a change in the discount rate to 0%. The impact on the Group's performance from a change in the discount rate is outlined below:

	2016		2017
	Discount rate (plus 2.5% to 0%)	**Discount rate** (plus 2.5% to minus 0.75%)	**Impact from 2016**
	£m	£m	£m
Gross reserves (£m)	56.3	88.3	32.0
Reserves, net of reinsurance (£m)	1.8	2.5	0.7
Profit after tax (£m)	nil	0.6	0.6

The Group has not adjusted its 2016 financial position to take into account the discount rate moving to minus 0.75%, beyond the 0% allowed for within its reserve margin as at 31 December 2016. The effect is immaterial on profit after tax.

17. Risk management

The Board is responsible for prudent oversight of esure Group, ensuring that it is conducted in accordance with sound business principles and with applicable law and regulation. This encompasses responsibility to articulate and monitor adherence to quantifiable and measurable statements of the Board's risk appetite. The Board also ensures that measures are in place to provide effective and objective assurance on the identification, management control and acceptance.

Principal risks and uncertainties

The Directors consider that the following are the principal risks facing esure group, focusing on those that would threaten the business model, future performance or solvency of the Group.

Insurance Risk		
Key elements	**Definition**	**Mitigation**
• Pricing and underwriting • Reserve • Catastrophe • Reinsurance	Insurance Risk is the most material risk for the Group. It represents the uncertainty in the profitability of the business written due to variability in the value and timing of claims and premium rates – this can impact historic (reserve risk) as well as	There is strong and regular monitoring in place of the external environment to understand and react to the changing market, ensuring that we are well placed to benefit from any developments.

	future exposures (underwriting and catastrophe). There is some uncertainty within the market in terms of the rating environment and potential legal changes through the government consultation on Ogden discount rate and whiplash reforms.	There is a strong claims management process that ensures that there is strong customer service, management of claims costs and management information to understand claims trends. There is a robust monitoring process in place that tests the key variables affecting loss performance, including loss ratios, risk mix, pricing, quote conversion, renewal retention ratios, claims costs, claims frequency and the adequacy of reserves. There is use of external data to support our analysis of risk exposure for underwriting and catastrophe risk. There is a prudent approach to reserving risk with a risk appetite to hold a margin above the actuarial best estimate. The Group's actuarial function analyses and projects historical claims development data and uses a number of actuarial techniques to both test and forecast claims provisions. In addition, independent external actuaries assess the adequacy of the Group's reserves. There is reinsurance in place to protect the business from large losses and Catastrophe events; there are risk appetite metrics set against the level of coverage as well as the creditworthiness of reinsurers and concentration risk – these are monitored prior to finalisation of any contract and on an ongoing basis to ensure that it remains in line with our risk appetite.
Market Risk		
Key elements	**Definition**	**Mitigation**
• Interest rate • Spread • Equity • Default • Liquidity	There are moderate levels of Market risk taken by the Group. It represents the uncertainty in the financial position due to fluctuations in the level and in the volatility of market prices of assets and liabilities. There is some increased uncertainty within the market following Brexit and other macro economic uncertainties.	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. As part of this, the Group considers the matching of the investment portfolio with its insurance liabilities to mitigate and manage this risk.

		Oversight of the Group's investment strategy and the associated liquidity risk is undertaken by the Investment Committee. Our investment strategy does not expose the Group to material currency risk or the risks arising from active trading of derivatives. The Group manages the level of investment counterparty credit risk it accepts by placing limits on its exposure to a single counterparty or groups of counterparties, and on geographical counterparties and geographical segments. Such risks are subject to regular review within the Investment Committee. The Group continues to monitor its liquidity risk by considering the Group's operating cash flows, stressed for catastrophe scenarios, dividend payouts, liquidity strains and investment strategy to mitigate this risk.
Financial and Solvency Risk		
Key elements	**Definition**	**Mitigation**
• Financial reporting • Solvency position	The risk that inaccurate financial estimates or judgements could misrepresent our financial or solvency position and change key strategic decisions. The preparation of financial information requires management to make judgements, estimates and assumptions where the actual outcome may differ from these estimates.	The Group reviews financial estimates and underlying assumptions on an ongoing basis, taking into account changes in underwriting conditions, changes in legislation or regulation, and market movements. The Group has strong governance in place to provide oversight of the financial estimates and judgements as well as the solvency position being monitored on a regular basis. In addition, independent external actuaries assess the adequacy of the Group's technical provisions. The oversight of the Group's material financial estimates and judgements resides with the Audit Committee. As part of the ORSA process the Group considers the longer term solvency position and the risks that its faces.
Operational Risk		
Key elements	**Definition**	**Mitigation**
• Business processes • IT systems and disaster recovery	The risk that there is a financial loss or reputational damage due to inadequate or failures with	Ownership and management of the operational risks sits with the first line business functions. There

• Data security and cyber risk • Infrastructure risk and business continuity • Financial Crime and Fraud • Outsourcing • Distribution	processes, people or systems – either within the Group or within material partners.	are also specialist teams that reside within the business functions that provide expertise and support, including for business continuity, IT disaster recovery, fraud and financial crime and cyber risk. Oversight, support and challenge are provided by the second line Risk function which works closely with the first line business and specialist functions. Operational risk identification, assessment and management are embedded within management processes. These processes are supported by the second line Risk team, including the annual risk and control self assessment. The Group has a robust Governance and Risk Framework in place which provides an effective structure within which operational risks are identified, measured and managed. It ensures that there is clear ownership for risks with effective reporting and escalation mechanisms, supporting management oversight and decision making.
Legal, Regulatory and Conduct Risk		
Key elements	**Definition**	**Mitigation**
• Legal and Political Risk • Conduct and Compliance Risk • Regulatory Risk	The Group operates in a regulated environment therefore there is a risk of reputational or financial damage driven by regulatory or legal intervention.	There is a low appetite for this risk and this is reflected in management decision making, with close monitoring of key risk indicators. Board oversight is ensured by upward reporting of a suite of customer and conduct risk appetite statements and measures. The Group continues to monitor legal and regulatory developments in the UK and Europe, through our close relationship with our regulators (the FCA and PRA) and other official bodies and the use of proactive risk management tools and processes to mitigate our exposure to regulatory risk. Our culture and tone from the top ensures the interests of our customers and their fair treatment is paramount.

		We have a strong governance framework and our Conduct Risk and Customer Committee reviews all aspects of our customer service.

18. Statutory information

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2016 or 2015 but is derived from those accounts. Statutory accounts for 2015 have been delivered to the registrar of companies, and those for 2016 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Glossary of terms

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

"Board" means the board of Directors of the Company from time to time.

"Business" means the business of the Group.

"Company" means esure Group plc, a company incorporated in England and Wales with registered number 7064312 whose registered office is The Observatory, Castlefield Road, Reigate, Surrey RH2 0SG.

"Defaqto" is a leading independent financial research company in the UK.

"Flood Re" is a not-for-profit flood reinsurance fund, owned and managed by the insurance industry.

"Footprint expansion" means the Group's underwriting initiative to quote competitively for more customers

"Gocompare.com" is a company incorporated in England and Wales with registered number 6062003 whose registered office is Unit 6, Imperial Courtyard, Newport, Gwent NP10 8UL.

"Group" or "esure Group" means the Company and its subsidiaries.

"IFRS" means International Financial Reporting Standards.

"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.

"SFCR" means Solvency and Financial Condition Report

"the Notes" means the £125 million 6.75% ten year tier two Subordinated Notes issued on 19 December 2014.

Alternative performance metrics

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 understand the Group's performance better.

Additional Services Revenue ("ASR")

(1) **"Non-underwritten additional insurance products"** is the commission margins for the Group generated from sales of such products.

(2) **"Policy administration fees and other income"** is the income received as a result of administration charges, e.g. as a result of mid-term alterations to policy details by the policy holder and cancellation charges. Other income includes introduction fees where the Group does not have a continuing relationship with the customer.
(3) **"Claims income"** is the income generated by the Group from the appointment of firms used during the claims process, including car hire and medical suppliers. This also includes legal panel membership fees from Scotland.
(4) **"Non-underwritten additional services"** is the total income from the Group's non-underwritten additional services reporting segment.
(5) **"Underwritten additional insurance products"** is the revenue calculated by deducting the Group's claims costs associated with is underwritten additional insurance products from the gross written premiums relating to these products in a particular period.
(6) **"Non-underwritten additional services trading profit"** is the total non-underwritten additional services income less the total associated expenses.

"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.

"Loss ratio" means claims incurred net of reinsurance as a percentage of earned premiums, net of reinsurance.

"In-force policies" means the number of live policies as at 31 December.

"Net Promoter Score™" is an index that measures the willingness of customers to recommend a company's products or services to others.

"Trading profit" is earnings before interest, tax, non-trading expenses and amortisation of acquired intangible assets.

"Underlying profit" means management's measure of profitability adjusted for items that do not impact the Group's dividend capacity. In 2016, adjustments were made for: the non-cash disposal gain on Demerger; the amortisation of acquired intangible assets; and the fees associated with the Demerger. In 2015, adjustments were made for: the joint venture deemed disposal gain; and the amortisation of acquired intangible assets.