Registered number: 07064312

esure Group Holdings Limited

Directors' report and financial statements

For the year ended

31 December 2012

Company Information

Directors	Peter Wood Dame Helen Alexander David Calder Tony Hobson Charles Schrager Peter Ward Stuart Vann Andrew Whitehouse Darren Ogden (appointed 05/11/2012) Anne Richards (appointed 29/11/2012)
Secretary	Carolyn Gibson
Company number	07064312
Registered office	The Observatory Reigate Surrey RH2 0SG
Auditors	KPMG Audit Plc Chartered Accountants & Statutory Auditor 15 Canada Square London E14 5GL

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DIRECTORS' REPORT

The directors present their report and the financial statements for the year to 31 December 2012. In order to comply with the transitional provisions of IFRS 1 in the context of the 3 year IFRSs track record required by the United Kingdom Listing Authority, these accounts present the group's results and financial position for each period previously reported under UK GAAP from incorporation until 31 December 2012. As the group did not commence trading until it acquired esure Holdings Limited on 10 February 2010, there were no transactions in the group before this date.

Principal activities and review of business

The company is the holding company for the esure group of companies, established to write general insurance for private cars and homes. The principal subsidiaries in the group are esure Insurance Limited, which is an authorised United Kingdom insurance company regulated by the Financial Services Authority, esure Services Limited, an authorised insurance intermediary regulated by the Financial Services Authority and esure broker limited, an appointed representative of esure Services Limited.

Results and dividends

The profit for the year, after taxation, amounted to £88.1m (2011: £43.1m).

The directors recommend that no dividend be paid (2011: no dividend).

Review of the business

The personal lines insurance market and motor in particular continues to be highly competitive. Following a period of significant rate increases during 2010 and 2011, the motor market has softened during 2012 with rates falling. During 2012 the group increased motor volumes whilst continuing to focus on the quality of its book.

On the home account the group has delivered a substantial increase in policy volumes during the year as part of its strategy to increase its diversification of earnings.

The directors of the group review the key performance indicators (KPIs) for the business on an ongoing basis, such KPIs being part of the monthly management report, comparing actual performance against plans and prior periods. The main KPIs are:

- gross written premiums;
- the net loss ratio (the ratio of claims incurred excluding claims management expenses, net of reinsurance to earned premiums, net of reinsurance);
- the net expense ratio (the ratio of net insurance expenses, including claims management expenses, to earned premiums, net of reinsurance); and
- the combined operating ratio (the sum of the net loss ratio and the net expense ratio);
- additional services revenue ("ASR") per in force policy (revenue from non-underwritten additional services and underwritten additional insurance products divided by the average number of in-force policies on a rolling 12 month basis); and
- trading profit (earnings before interest, tax, amortisation of acquired intangible assets and non-trading costs.

DIRECTORS' REPORT

Key Performance Indicators

	2012	2011
Net loss ratio	69.2%	68.3%
Net expense ratio	23.6%	25.2%
Combined operating ratio	92.8%	93.5%
ASR per in force policy	£60.6	£54.6
Trading profit	£138.1m	£86.1m

Premiums

	2012	2011
Gross written premium - Total	£515.0m	£499.5m
Gross written premium - Motor	£429.0m	£423.1m
Gross written premium - Home	£86.0m	£76.4m
In force policies - Total	1.75m	1.65m
In force policies - Motor	1.25m	1.21m
In force policies - Home	0.50m	0.44m

Gross written premiums increased from the previous year by 3.1% to £515.0m (2011: £499.5m). Motor gross written premiums increased by 1.4% to £429.0m (2011: £423.1m) and home gross written premiums increased by 12.6% to £86.0m (2011: £76.4m). The growth on motor and home reflects increases in volume, with in-force motor policies increasing by 3.3% to 1.25 million (2011: 1.21million) and in-force home policies increasing by 13.6% to 0.50 million (2011: 0.44 million).

Claims & Expenses

Market claims experience in 2012 will have been impacted by the weather, with 2012 being one of the wettest years on record in the UK impacting both the motor and home insurance markets. In particular, this resulted in a number of flood and storm events that have primarily affected the home market.

During the year the net loss ratio increased by 0.9 percentage points to 69.2% (2011: 68.3%), with both motor and home having been impacted by the adverse weather conditions experienced during the year which were in contrast to the benign conditions experienced during 2011. While this resulted in an increase in the Home net loss ratio of 9.0 percentage points to 64.5% (2011: 55.5%), the motor net loss ratio showed marked improvement of 0.6 percentage points to 70.0% (2011: 70.6%), despite the impact of the weather, demonstrating significant improvement in the underlying performance of the book.

The net expense ratio improved by 1.6 percentage points to 23.6% (2011: 25.2%), reflecting a disciplined approach to cost management and the leverage in the fixed cost base as a result of the growth in net earned premiums.

The operating ratio improved by 0.7 percentage points to 92.8% (2011: 93.5%) driven by the improvement in net expense ratio.

DIRECTORS' REPORT

Additional Services Revenue

ASR per in-force policy increased by 11% to £60.6 (2011: £54.6) largely due to increases in the introduction of new additional insurance products introduced in the latter part of 2011 and during 2012 along with increased instalment income, due to a higher take up of payment by instalment.

Investment Income

The group earns investment income on accumulated technical reserves and supporting capital. Investment income, which is primarily dependant on UK bank interest rates, bond yields and equity values, increased significantly in the year to £39.4.m (2011: £(13.1m)). The fixed income portfolio benefited from holding corporate bonds, where high investor demand for these asset classes drove spreads tighter and prices higher. The group's specialist equity managed fund investments also outperformed the general market indices.

Trading Profit

Trading profit, being earnings before interest, tax, non-trading expenses and amortisation of acquired intangible assets, is management's measure of the overall profitability of the group's operating activities. Trading profit increased by £52.0m to £138.1m (2011: £86.1m). Despite the adverse weather conditions the underwriting result improved by £5.9m to £34.7m (2011: £28.8m) despite the impact of a series of weather events and exceptionally high rainfall. We continue to reserve prudently.

The underlying profit from non-underwritten additional insurance products increased by £4.2m to £58.3m (2011: £54.1m). However, offsetting this were start up losses in esure broker limited of £4.6m (2011: £0.9m) following the continued development of our broker proposition and impairment losses of £2.0m (2011: nil) relating to financial assets reported within other debtors. The profit on investments (including the investment in joint venture) increased by £47.6m to £51.7m (2011: £4.1m).

	Year ended 31 Dec 2012	**Year ended 31 Dec 2011**
	£m	£m
Profit after tax	88.1	43.1
Finance costs	9.2	14.1
Amortisation of acquired intangible assets	5.2	12.3
Non-trading costs	5.2	-
Tax (including share of joint venture tax charge)	30.4	16.6
Trading profit	138.1	86.1

Profit before and after taxation

The consolidated profit before taxation increased by £60.4m to £115.5m (2011: £55.1m). Aside from the increase in trading profit this is largely driven by a £4.9m reduction in finance costs as a result of the early repayment of £32.0m of the group's unsecured loan notes in April 2012 and a reduction in amortisation, partly offset by £5.2m of non-trading costs.

The profit for the year, after taxation, amounted to £88.1m (2011: £43.1m).

Principal risks and uncertainties

The group monitors its material risks on an ongoing basis with quarterly reviews at management, executive and board (Risk, Audit and Investment Committees) level. At the time of writing, the following risks are felt to have the greatest potential to impact adversely the financial results of the group and are therefore engaging most management attention:

- An unplanned deterioration in the loss ratio arising in particular from an inflation of claims costs beyond planned and achievable increases in premiums. Loss ratio risk is managed through regular monitoring and sensitivity testing of the key variables affecting loss performance, including risk mix, pricing relative to the

DIRECTORS' REPORT

market, quote conversion and renewal retention ratios, claims costs, claims frequency and the adequacy of reserves.

- Changes in UK interest rates, market fundamentals or sentiment adversely impacting the return on and market valuation of the investment portfolio. Our investment strategy does not expose the group to material currency risk or the risks arising from active trading of derivatives. The portfolio asset allocation also avoids undue concentration risk or the more volatile or complex asset classes. Market risk is managed through regular monitoring - including the drivers of investment return and value at risk measures, counterparty exposures and interest rate sensitivities.

- The impact of the restriction on using gender-related factors in pricing (which came into force on 21 December 2012) on the ability to price effectively and accurately. These changes, if not managed correctly, could potentially result in an unintended increase in the group's risk profile or result in a loss of market share.

- The outcome of an investigation by the Competition Commission into certain aspects of the UK private motor insurance market, which may lead to market reforms that affect the way that esure sells or prices motor insurance or manages the payment or receipt of fees generated from the appointment of service providers used during the claims process.

- Exposure to actual or attempted financial crime activity in an economic environment which increases the likelihood of such activity. A range of preventative, monitoring and detective controls is in place to combat such activity at the key points of entry - notably policy inception and claims fraud.

- Cost escalation or service degradation/interruption associated with the unforeseen consequences of change. The group undertook a number of change programmes related to its key service dependencies and business processes. These programmes were subject to rigorous project management disciplines.

- The impact from civil litigation reforms, including the implementation of the Legal Aid, Sentencing & Punishment of Offenders Act 2012, and other reforms proposed by Lord Justice Jackson in his review of the civil justice system. There are continuing uncertainties surrounding the likely timing and extent of the implementation of the various reforms.

- The possibility that changes to the institutional framework for financial regulation in the UK, with the re-organisation of the Financial Services Authority into the two new regulatory authorities of the Financial Conduct Authority and the Prudential Regulation Authority could lead to unanticipated changes in the nature of, or policies for, prudential and conduct of business supervision.

- In addition to the above, the group keeps a number of other inherently material risks under close review in its risk register. These include: the failure or degradation of our key platforms, including websites from which the majority of new business is sourced, compromise of corporate data or in particular the personal data with which we are entrusted, the inability to collect amounts due from reinsurers and material performance failures by key suppliers.

Directors

The directors who served during the year were:

Peter Wood

Dame Helen Alexander

David Calder

Tony Hobson

Darren Ogden (appointed 05/11/2012)

Anne Richards (appointed 29/11/2012)

DIRECTORS' REPORT

Charles Schrager

Stuart Vann

Peter Ward

Andrew Whitehouse

Certain directors benefit from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Political and charitable donations

Neither the company nor any of its subsidiaries made any political or disclosable charitable donations or incurred any political expenditure during the year.

Statement of disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Solvency II

We continued to make progress during 2012 towards the implementation of our Solvency II programme but in view of the uncertainty in Europe regarding the implementation date, we have revised certain planning assumptions. The group will continue to work towards obtaining internal model approval.

Employees

The company is committed to ensuring that employees will not receive less favourable treatment on the basis of their actual or perceived age, disability, physical characteristics, race, gender, religion or belief or sexual orientation.

The company seeks to achieve a common awareness amongst staff of corporate objectives, performance and other matters of concern to them as employees. The company has staff incentive arrangements in place and will consult with employees on a regular basis on matters which may affect their interests.

Auditors

Pursuant to a shareholders' resolution, the company is not obliged to reappoint its auditors annually and KPMG Audit Plc will therefore continue in office.

By order of the board

Carolyn Gibson

Company Secretary

7 February 2013

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and parent company financial statements in accordance with UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

• select suitable accounting policies and apply them consistently;

• make judgements and estimates that are reasonable and prudent;

• state whether the group financial statements have been prepared in accordance with IFRSs as adopted by the EU;

• for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and

• prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF eSURE GROUP HOLDINGS LIMITED

We have audited the financial statements of esure Group Holdings Limited for the year ended 31 December 2012 set out on pages 9 to 91. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Generally Accepted Accounting Practice.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2012 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice and the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF eSURE GROUP HOLDINGS LIMITED

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Murray Raisbeck (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

15 Canada Square

London E14 5GL

7 February 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31 Dec 2012 £m	Year ended 31 Dec 2011 £m	Period ended 31 Dec 2010 £m
Gross written premiums		515.0	499.5	409.9
Gross earned premiums	5	511.7	475.2	410.7
Earned premiums, ceded to reinsurers	5	(31.5)	(29.0)	(23.9)
Earned premiums, net of reinsurance	5	480.2	446.2	386.8
Investment income and instalment interest	6	67.9	12.3	43.3
Fees for additional services		44.4	38.4	30.6
Total income		592.5	496.9	460.7
Claims incurred and claims handling expenses		(413.4)	(351.4)	(405.8)
Claims incurred recoverable from reinsurers		64.0	24.1	49.4
Claims incurred, net of reinsurance		(349.4)	(327.3)	(356.4)
Insurance expenses	9	(96.1)	(90.1)	(74.8)
Other operating expenses	9	(29.6)	(19.7)	(23.3)
Total expenses		(475.1)	(437.1)	(454.5)
Negative goodwill arising on business combination	17	-	-	15.7
Share of profit after tax of joint venture	11	7.3	9.4	5.1
Finance costs	12	(9.2)	(14.1)	(12.7)
Profit before tax		115.5	55.1	14.3
Taxation credit / (expense)	13	(27.4)	(12.0)	0.4
Profit attributable to the owners of the parent		88.1	43.1	14.7
Other comprehensive income		-	-	-
Total comprehensive income for the period attributable to owners of the parent		88.1	43.1	14.7
Earnings per share (pence per share)				
- A, B, C and ordinary shares, basic and diluted	15	1.03	0.51	0.19
- Redeemable priority shares, basic and diluted	27	-	-	-

The notes on pages 13 to 88 are an integral part of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 Dec 2012 £m	As at 31 Dec 2011 £m	As at 31 Dec 2010 £m
Assets				
Intangible assets	16	16.6	20.1	28.2
Deferred acquisition costs	22	25.9	23.4	18.7
Property, plant and equipment	18	13.4	14.5	14.3
Investment in joint venture	11	37.6	35.8	33.4
Financial investments	19	779.2	726.4	736.2
Reinsurance assets	20	233.4	172.9	157.8
Insurance and other receivables	19, 21	169.0	150.1	143.0
Cash and cash equivalents	19, 23	39.4	32.5	18.9
Total assets		1,314.5	1,175.7	1,150.5
Equity and liabilities				
Share capital	27	85.2	85.2	85.2
Share premium account		0.0	0.0	-
Retained earnings		145.9	57.8	14.7
Total equity		231.1	143.0	99.9
Liabilities				
Insurance contract liabilities	20	947.4	874.6	866.7
Provisions for liabilities and charges	26	-	-	0.6
Borrowings	19	50.0	83.0	112.4
Insurance and other payables	19, 24	69.4	67.2	69.5
Deferred tax liabilities	25	0.5	1.5	1.4
Derivative financial liabilities	19	0.3	0.4	-
Current tax liabilities		15.8	6.0	-
Total liabilities		1,083.4	1,032.7	1,050.6
Total equity and liabilities		1,314.5	1,175.7	1,150.5

The notes on pages 13 to 88 are an integral part of these financial statements.

The financial statements were approved by the board on 7 February 2013 and signed on its behalf.

S R Vann
Director

D Ogden
Director

Registered number: 07064312

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to owners of the parent			
		Share capital	Share premium account	Retained earnings	Total equity
	Notes	£m	£m	£m	£m
Period ended 31 December 2010					
On incorporation	27	0.0	-	-	-
Profit for the period		-	-	14.7	14.7
Total comprehensive income for the period		**-**	**-**	**14.7**	**14.7**
Transactions with owners:					
Issue of share capital	27	85.2	-	-	85.2
Total transactions with owners		85.2	-	-	85.2
At 31 December 2010		**85.2**	**-**	**14.7**	**99.9**
Year ended 31 December 2011					
At 1 January 2011	27	85.2	-	14.7	99.9
Profit for the year		-	-	43.1	43.1
Total comprehensive income for the year		-	-	**43.1**	**43.1**
Transactions with owners:					
Issue of share capital		0.0	0.0	-	0.0
Total transactions with owners		0.0	0.0	-	0.0
At 31 December 2011		**85.2**	**0.0**	**57.8**	**143.0**
Year ended 31 December 2012					
At 1 January 2012	27	85.2	0.0	57.8	143.0
Profit for the year		-	-	88.1	88.1
Total comprehensive income for the year		**-**	**-**	**88.1**	**88.1**
Transactions with owners:					
Issue of share capital		-	-	-	-
Total transactions with owners		-	-	-	-
At 31 December 2012		**85.2**	**0.0**	**145.9**	**231.1**

The notes on pages 13 to 88 are an integral part of this these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 Dec 2012 £m	Year ended 31 Dec 2011 £m	Period ended 31 Dec 2010 £m
Cash flows from operating activities				
Profit after tax for the period		88.1	43.1	14.7
Adjustments to reconcile profit after tax to net cash flows:				
- Finance costs	12	9.2	14.1	12.7
- Depreciation and revaluation of property, plant and equipment	18	2.1	1.5	1.0
- Amortisation and impairment of intangible assets	16	4.0	9.7	9.3
- Unrealised investment (gains) / losses		(24.1)	23.8	(8.6)
- Share of profit after tax of joint venture	11	(7.3)	(9.4)	(5.1)
- Negative goodwill arising on business combination	17	-	-	(15.7)
- Taxation expense / (credit)	13	27.4	12.0	(0.4)
- Interest and dividends receivable on financial investments		(16.6)	(11.5)	(10.1)
- Interest receivable		(28.5)	(25.4)	(21.5)
Operating cash flows before movements in working capital, tax and interest paid		54.3	57.9	(23.7)
Sales of financial investments		538.2	415.8	387.0
Purchase of financial investments		(567.0)	(429.7)	(387.3)
Interest and dividends received on financial investments		16.0	8.6	12.1
Interest received		29.0	25.9	21.1
Changes in working capital:				
- Increase in insurance and other receivables		(21.2)	(24.7)	(55.0)
- Increase in insurance contract liabilities and insurance and other payables		14.3	5.6	49.0
Taxation paid		(18.5)	(6.1)	(3.4)
Net cash generated in operating activities		45.1	53.3	(0.2)
Cash flows from investing activities				
Acquisition of business	17	-	-	(190.1)
Cash acquired on acquisition of business	17	-	-	18.6
Dividends received		5.5	7.0	6.0
Purchase of PPE and software	16, 18	(1.5)	(3.3)	(0.3)
Net cash from investing activities		4.0	3.7	(165.8)
Cash flows used in financing activities				
Proceeds on issue of ordinary shares	27	-	0.0	85.2
Interest paid		(10.2)	(13.4)	(12.3)
Issue / (repayment) of loans	19	(32.0)	(30.0)	112.0
Net cash used in financing activities		(42.2)	(43.4)	184.9
Net increase in cash and cash equivalents		**6.9**	**13.6**	**18.9**
Cash and cash equivalents at the beginning of the period	23	32.5	18.9	0.0
Cash and cash equivalents at the end of the period	**23**	**39.4**	**32.5**	**18.9**

The notes on pages 13 to 88 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

1. General information

esure Group Holdings Limited 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 Holdings Limited group financial information for the year ended 31 December 2012, 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 for the prior year and for the period from the date of incorporation to 31 December 2010. The group did not commence trading until 11 February 2010.

These are the first consolidated financial statements to have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. UK GAAP differs in certain respects from IFRSs, hence when preparing these financial statements, management has amended certain accounting and valuation methods to comply with IFRSs. The disclosures required by IFRS 1 'First-time Adoption of International Financial Reporting Standards' (IFRS 1) concerning the transition from UK GAAP to IFRSs, are given in note 32.

In accordance with IFRS 4 'Insurance Contracts', the group continues to apply the accounting policies previously applied under UK GAAP and the ABI SORP, with the exception that provisions for possible future claims (equalisation provision) are not recognised as these are not permitted under IFRS 4.

These consolidated financial statements have been prepared on a going concern basis. In considering the appropriateness of this assumption, the board has reviewed the group's projections for the next twelve months and beyond, including cash flow forecasts and regulatory capital surpluses. Consequently, the directors believe that the group has adequate resources to continue in operational existence for the foreseeable future.

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 that are measured at fair value. The principal accounting policies adopted are set out below.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

2. Accounting policies (continued)

At the date of approval of these financial statements there were no standards, amendments or interpretations in issue and endorsed by the EU which the group had not adopted. There are a number of standards, and amendments to existing standards which have been endorsed by the EU, but are not mandatory for the year ended 31 December 2012 and have not been early adopted by the group. Where these standards are relevant to the group, management are in the process of evaluating the full impact of these standards and amendments on the consolidated financial statements.

- Effective 1 January 2013: Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities and IFRS 13 Fair Value Measurement
- Effective 1 January 2014: Amendments to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial liabilities, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures

There are a number of standards, amendments and interpretations which have been issued by the IASB but which have not yet been endorsed by the EU thus the date and impact of applying these is uncertain.

Basis of consolidation

Subsidiaries are entities over which the group has the power to govern the financial and operating policies to obtain benefit to the group. Subsidiary companies acquired during the period 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

2. Accounting policies (continued)

Joint ventures

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 ventures' 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 Holdings Limited 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. For each business combination, the group has an option to measure any non-controlling interests in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

2. Accounting policies (continued)

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 and liabilities assumed. 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, with the exception of insurance contracts and operating leases, 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.

Revenue

Gross premiums

Gross written premiums, being the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period, excluding taxes or duties based on premiums, are recognised on the date which the policy commences. Gross written premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods.

Unearned premiums

The proportion of gross written premiums that are to be earned in the accounting period after the balance sheet date are deferred as a provision for unearned premiums. Premiums earned are computed separately for each insurance contract and are recognised as revenue using the daily pro rata method, which is consistent with the incidence of risk assumed over the coverage period of the related policy.

Reinsurance premiums

Reinsurance premiums are recognised and measured in a manner consistent with the related insured contracts issued by the group and the specific terms of each reinsurance contract. Reinsurance premiums are expensed over the period that the reinsurance cover is provided based on the expected pattern of the reinsured risks. The unexpired portion of ceded reinsurance premiums is included in reinsurance assets.

Unearned reinsurance premiums

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts

Fees for additional services

Additional services revenues comprise sales of additional insurance products to motor and home insurance customers; policy administration fees; and legal panel membership fees and fees generated from the appointment of firms used during the claims process, including medical, vehicle repair and car hire suppliers.

Revenue earned on the sale of additional services includes both brokerage fees and commission, where the group has a continuing relationship with the customer, and introducer fees where the group does not have a continuing relationship with the customer.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

2. Accounting policies (continued)

Revenue relating to insurance broking is brought into account at the later of policy inception date or when the policy placement has been completed and confirmed. Where the group has an obligation to provide future services to the customer an element of income relating to the policy is deferred to cover the cost of fulfilling the associated contractual obligation plus a reasonable profit margin. Deferred revenue is credited to the income statement over the period matching the group's obligations to provide those services. Where the group has no contractual obligation to provide future services, the revenue is recognised immediately.

In certain circumstances, where the revenue cannot be reliably measured at the contract or policy inception date, broking fees and commission are recognised on a periodic basis when the consideration becomes due. Rebates of commissions and fees relating to the return of premiums for additional insurance products and services are recognised as they arise.

Administration fees are recognised in the period in which the related administration services are provided. Panel Membership fees are agreed with legal suppliers every six months and recognised on an accruals basis. Other referral fees from credit hire and repair are recognised at the later of the point of invoice or when the policy fees are due.

Investment income and instalment interest

Investment income (including interest received from policyholders who pay by instalment) on assets classified as loans and receivables is recognised in the income statement as it accrues and is calculated by using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees payable or receivable that are an integral part of the instruments yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows.

Investment income also comprises interest and dividend income and net gains (both realised and unrealised) on financial assets classified at fair value through profit or loss, including derivative financial instruments. Dividends are recognised when the right to receive payment is established. For listed securities, this is the date the security is listed as ex-dividend.

Investment income also includes rental income. Rental income represents income arising from operating leases and is recognised on a straight-line basis over the lease term.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognised as deferred income and released to the income statement in equal amounts over the expected useful life of the related asset.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

2. Accounting policies (continued)

Claims and expenses recognition

Gross claims incurred and claims handling expenses

Gross claims include all claims incurred during the year, whether reported or not, less other recoveries, together with related internal and external handling costs that are directly related to the processing and settlement of claims, and any adjustment to claims outstanding from previous years.

Reinsurance claims

Reinsurance claims are recognised and measured in a manner consistent with the related insurance contracts issued by the group and the specific terms of the reinsurance contract.

Finance costs

Finance costs comprise of interest paid which is recognised in the income statement as it accrues and is calculated by using the effective interest rate method. Accrued interest is included within the carrying value of the interest bearing financial liability.

Taxation

Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those enacted or substantively enacted by the reporting date. Current tax assets and liabilities also include adjustments in respect of tax expected to be payable or recoverable in respect of previous periods.

Current tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income and not in the income statement.

Deferred tax

Deferred tax is provided in full using the balance sheet liability method, providing for temporary differences arising between the carrying amount of assets and liabilities for accounting purposes, and the amounts used for taxation purposes. It is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is recovered, using tax rates enacted or substantially enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred tax relating to items recognised outside the income statement is also recognised outside the income statement, either in other comprehensive income or directly in equity as appropriate.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

2. Accounting policies (continued)

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Intangible assets

Goodwill

Goodwill is recognised on business combinations and the acquisition of joint ventures at cost less accumulated impairment losses. Goodwill arising on business combinations is presented in intangible assets. For joint ventures, goodwill is not separately presented but is included in the carrying amount of the investment. Negative goodwill is recognised in the group income statement at the date of acquisition. Positive goodwill is not amortised.

Impairment of goodwill

Goodwill arising on a business combination is tested annually for impairment. An impairment loss is recognised if the carrying amount of the cash generating unit (or units) to which the goodwill is allocated exceeds its recoverable amount. A recognised impairment loss is not reversed.

Goodwill attributed to an investment in a joint venture accounted under the equity method is not tested for impairment separately. The entire carrying amount of the investment is tested for impairment only if there is objective evidence of impairment. A recognised impairment loss may be reversed if conditions subsequently improve.

Intangible assets

Intangible assets acquired are stated at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over their useful lives. For intangible assets that are recognised as part of business combinations, the group makes an assessment of the fair value of the identified intangible assets acquired in the business combination. Intangible assets other than those arising as part of business combinations are recognised as long as it is probable that the expected future economic benefits that are attributable to the asset will flow to the group and its cost can be measured reliably. The group holds no intangible assets with indefinite useful lives other than goodwill. The carrying value of intangible assets with finite useful lives is reviewed at every reporting date for evidence of impairment and the value being written down if any impairment exists. If conditions subsequently improve, the previously recognised impairment may be reversed and credited through the income statement.

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

Customer relationships	5 to 6 years, based on the pattern of consumption of the benefits
Brands	8 to 10 years, on a straight line basis

Software

Purchased software is recognised as an intangible asset, with the carrying value being reviewed at every reporting date for evidence of impairment and the value being written down if any impairment exists. If conditions subsequently improve, the previously recognised impairment may be reversed.

The cost of purchased software is amortised on a straight line basis over the expected useful life of the intangible asset. This has been set between two and five years.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

2. Accounting policies (continued)

Expenditure on research activities is recognised in the income statement as an expense as incurred. Costs associated with the development of software for internal use are capitalised only if the software is technically feasible for sale or use on completion and the group has both the intent and sufficient resources to complete the development. Subsequent expenditure is capitalised only if the cost of the asset can be reliably measured, will generate future economic benefits and there is an ability to use or sell the asset.

The cost of internally generated software is amortised over the expected useful life of the intangible asset on a straight line basis. The expected useful life is between three and five years.

Property, plant and equipment

Property, plant and equipment comprise land and buildings occupied by the group and fixtures, fittings and equipment (including computer hardware). These assets are depreciated over their estimated useful lives after taking into account residual values. Replacement or major inspection costs are capitalised when incurred if it is possible that future economic benefits associated with the item will flow to the entity and the costs can be measured reliably.

Land and buildings are stated at fair value, less subsequent depreciation for buildings. All other assets are stated at cost less depreciation and accumulated impairment. Depreciation is calculated using the straight-line method to write off the cost less residual values of the assets over their economic lives with the exception of freehold land which is not depreciated. The economic lives are as follows:

Fixtures, fittings and equipment	between 3 and 8 years
Freehold buildings	100 years

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

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

Impairment and revaluation of property, plant and equipment

Carrying values are reviewed at each reporting date to determine whether there are any indications of impairment. If any such indications exist, the asset's recoverable amount is estimated and compared to the carrying value. The recoverable amount is the higher of the fair value of the asset, less costs to sell and the asset's value in use. Impairment losses are recognised through the income statement. Impairment may be reversed if conditions subsequently improve and credited through the income statement.

Revaluations of land and buildings are undertaken at least once every three years, with more frequent revaluations occurring where an assessment is made that the carrying amount may differ materially from its fair value. Where a revaluation occurs, any accumulated depreciation at the time of the revaluation is eliminated against the gross carrying amount of the asset.

Increases in the carrying amount arising on the revaluation of group occupied property are credited to revaluation reserves in other comprehensive income.

Decreases that offset the previous increases of the same asset are charged against revaluation surplus directly in other comprehensive income; other decreases are charged to the income statement.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

2. Accounting policies (continued)

Financial assets

Classification

Financial assets falling within the scope of IAS 39 are designated as ‘at fair value through profit or loss’, ‘loans and receivables’ or ‘held for trading’. The group determines the classification of its financial assets at initial recognition. The group does not classify any financial assets as held to maturity or available-for-sale financial assets.

The group's financial assets include cash and cash equivalents, insurance and other receivables and quoted and unquoted financial investments including derivatives.

Initial recognition of financial assets

The group designates on initial recognition its financial assets held for investment purposes (financial investments) at fair value through the profit or loss (FVTPL) with the exception of derivatives, which are classified as held for trading. This is in accordance with the group’s documented investment strategy and is consistent with investment risk being assessed on a portfolio basis. Information relating to investments is provided internally to the group’s directors and key managers on a fair value basis. All other financial assets are classified as loans and receivables.

Subsequent measurement

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised through the income statement.

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

Impairment of financial assets

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

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

Derecognition of financial assets

A financial asset is derecognised when the rights to receive cash flows from that asset have expired or when the group transfers substantially all the risks and rewards of ownership of the financial assets.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

2. Accounting policies (continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, the group has a currently enforceable legal right to offset the recognised amounts and it intends to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the income statement unless required or permitted by any accounting standard or interpretation.

Reinsurance

The group cedes insurance risk in the normal course of business for the purpose of limiting its potential losses from accepting insurance risk. Reinsurance assets represent amounts expected to be recovered from reinsurers in respect of claims incurred under the related insurance contracts and are estimated in a manner consistent with the outstanding claims provision or settled claims under the related insurance contracts.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measureable impact on the amounts that the group will receive from the reinsurer. Any impairment loss is recorded in the income statement.

Insurance receivables

Insurance receivables are recognised when due and are measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost less accumulated impairment losses, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement.

Insurance receivables are derecognised when the derecognition criteria for financial asset, as described in the financial asset accounting policy, have been met.

Deferred acquisition costs (DAC)

Acquisition costs comprise all commission and other acquisition costs arising from the conclusion of insurance contracts. Deferred acquisition costs represent the proportion of acquisition costs incurred that corresponds to the unearned premiums provision at the reporting date, and are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

2. Accounting policies (continued)

Subsequent to initial recognition, DAC assets are amortised over the period in which the related revenues are earned.

DAC assets are derecognised when the obligations under the related insurance contracts are either transferred or settled.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term deposits with original maturities of three months or less.

Insurance contract liabilities

Provision for unearned premiums

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when the contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract.

Unexpired risk provision

At each reporting date the group reviews its unexpired risk and performs a liability adequacy test to determine whether the estimated cost of future claims and deferred acquisition costs exceeds the provision for unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant technical provision. If these estimates show that the carrying amount of the unearned premium is inadequate, the deficiency is recognised in the income statement by setting up a provision for unexpired risk.

Outstanding claims provision

The provision for claims outstanding comprises provisions for the estimated cost of settling all claims incurred but not settled at the balance sheet date including related claims handling expenses, whether reported or not. Anticipated reinsurance recoveries are disclosed separately as assets.

Insurance payables

Insurance payables are recognised when due and measured initially at the fair value of the consideration received. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

Insurance broking debtors and creditors

The group recognises on its balance sheet amounts due to insurers from clients, and money held on behalf of insurers in relation to the insurance transactions that the company handles on behalf of those parties. The cash at bank balances presented in these financial statements represent the aggregation of the money held for the benefit of the company, clients and insurers.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

2. Accounting policies (continued)

Financial liabilities

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

The group's ‘other financial liabilities’ include insurance and other payables and borrowings.

Initial recognition

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

Subsequent measurement

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

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

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification, is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Derivatives

Derivatives are measured at fair value both initially and subsequent to initial recognition. All changes in fair value are recognised in the income statement. Derivatives are presented as assets when the fair values are positive and as liabilities when the fair values are negative.

Hedge accounting

The group does not currently designate any derivatives as hedging instruments.

Share Capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other assets to holders of the financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

2. Accounting policies (continued)

Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the group expects some or all of the expenditure required to settle a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Employee benefits - Pensions

The group contributes to a defined contribution scheme for its employees. The contributions payable to this scheme are charged to the income statement in the accounting period to which they relate.

Leases

Group as a lessor

Leases where the group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Group as a lessee – operating leases

Leases which do not transfer to the group substantially all the risks and benefits incidental to ownership of the leased items are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Contingent rentals are recognised as an expense in the period in which they are incurred.

Share based payments

Equity-settled share-based payments to employees are measured at the grant date at the fair value of the equity instruments (excluding the effect of non-market vesting conditions but including the effect of market vesting conditions) and are not subsequently re-measured.

The fair value of equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the best estimate of the number of awards which will ultimately vest unconditionally with employees. The estimate of the number of awards expected to vest is revised at each reporting date, with any consequential changes to the charge recognised in the income statement.

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

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

The key assumptions concerning the future, and other key sources of estimation uncertainty at each balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

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 and for some types of claims, IBNR claims account for the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by carrying out standard actuarial projections on triangles of number of reported claims; claims paid and incurred claims as at the reporting date for each type of claim.

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims cost. As such, these methods extrapolate the development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, as well as by significant business lines and claim type. Large claims are usually separately addressed, either by being based on the loss adjuster estimates or separately projected in order to reflect their future developments. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claim development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

3. Critical accounting judgements and estimates (continued)

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

Please refer to note 20 for additional details.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flow models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgement is required to establish fair values.

Estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Discount rates are influenced by risk-free interest rates and credit risk.

Changes in assumptions about these factors could affect the reported fair value of the financial instruments. Please refer to note 19 for additional details.

Critical judgements in applying the group's accounting policies

The following are the critical accounting judgements that the directors have made in the process of applying the group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Recognition and measurement of tax assets and liabilities

A deferred tax asset arising on losses carried forward can only be recognised to the extent that it is considered probable that there will be sufficient profits generated in the respective tax jurisdiction in the future to recover the losses. Refer to note 25 for further details.

The measurement of current and deferred tax assets and liabilities requires an assessment to be made of the potential tax consequence of certain items that will only be resolved when agreed by the relevant tax authorities. Assessment of the likely outcome is based on historical experience, professional advice from external advisors, and the current status of any judgmental issues.

Identification and determination of fair value of intangible assets acquired on business combination

On acquiring esure Holdings Limited and an investment in Gocompare.com Holdings Limited (Gocompare), the group recognised intangible assets separately from goodwill as required by IFRS 3 'Business combinations. The valuations were performed using fair value as the standard of value, being the amount for which an asset could be exchanged between knowledgeable, willing parties in an arms length transaction.

The valuation techniques applied to the identified intangible assets were selected based on the nature of the asset and experience of management, being the relief from royalty basis for the brands, the income approach for customer relationships and current cost to recreate for other assets, including an allowance for tax amortisation benefit.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

3. Critical accounting judgements and estimates (continued)

Cashflow projections underlying the valuation were based on management approved forecasts at the date of acquisition. Management judgement was applied in calibrating key inputs to the valuation models including; profit margins, growth rates, persistency, royalty rates, contributory charges and the discount rate.

The useful life of each intangible asset represents management's view of the period over which it expects the associated benefits to be consumed. The amortisation charge is based on the pattern in which management expects the business to consume those benefits. Customer relationships are amortised on the basis of the pattern of consumption of the benefits. All other intangible assets are amortised on a straight line basis.

Useful lives of property, plant and equipment and software

Property, plant and equipment, other than land, and certain intangible assets are depreciated on a straight-line basis to write off the cost less estimated residual value of each asset over their estimated useful lives. The determination of appropriate useful lives requires the use of judgement based on a number of factors, including the expected usage of the asset, expected deterioration and technological obsolescence. Determining the useful lives for the software licences requires particular judgement to be applied as follows:

The useful life of software licences is determined by management at the time the software is acquired and brought into use and is regularly reviewed for appropriateness. The useful life represents management's view of expected benefits over which the group will receive benefits from the software, but not exceeding the licence term. For unique software products, the life is based on historical experience with similar products as well as anticipation of future events which may impact their life such as changes in technology.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

4. Segmental information

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 additional insurance products to motor and home insurance customers; policy administration fees; and legal panel membership fees and fees generated from the appointment of firms used during the claims process, including medical, vehicle repair and car hire suppliers.

Investments

This segment represents income from investments (to manage liabilities under insurance contracts and generate return for shareholders) and a strategic equity holding in a joint venture.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

4. Segmental information (continued)

Segmental revenues, expenses and other information

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

Year ended 31 December 2012	Motor underwriting	Home underwriting	Non-underwritten additional Services	Investments	Total
	£m	£m	£m	£m	£m
Gross written premiums	**429.0**	**86.0**	**-**	**-**	**515.0**
Earned premiums, net of reinsurance	403.2	77.0	-	-	480.2
Investment income	-	-	-	39.4	39.4
Instalment interest income	-	-	28.5	-	28.5
Fees for additional services	-	-	44.4	-	44.4
Total income	**403.2**	**77.0**	**72.9**	**39.4**	**592.5**
Net incurred claims	(282.4)	(49.7)	-	-	(332.1)
Claims handling costs	(15.5)	(1.8)	-	-	(17.3)
Insurance expenses	(74.8)	(21.3)	-	-	(96.1)
Other operating expenses (excl. amortisation of intangibles)	-	-	(21.2)	-	(21.2)
Total Expenses	**(372.7)**	**(72.8)**	**(21.2)**	**-**	**(466.7)**
Share of joint venture profit (gross of tax and amortisation)				12.3	12.3
Trading profit	**30.5**	**4.2**	**51.7**	**51.7**	**138.1**
Amortisation of acquired intangibles					(5.2)
Non-trading costs					(5.2)
Finance costs					(9.2)
Profit before taxation					**118.5**
Tax expense					(30.4)
Profit after taxation					**88.1**
Net expense ratio	22.4%	30.0%			23.6%
Net loss ratio	70.0%	64.5%			69.2%
Combined operating ratio	92.4%	94.5%			92.8%

The average number of in-force policies during the year ended 31 December 2012 was 1.7m.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

4. Segmental information (continued)

Year ended 31 December 2011	Motor underwriting	Home underwriting	Non-underwritten additional Services	Investments	Total
	£m	£m	£m	£m	£m
Gross written premiums	**423.1**	**76.4**	**-**	**-**	**499.5**
Earned premiums, net of reinsurance	379.5	66.7	-	-	446.2
Investment income	-	-	-	(13.1)	(13.1)
Instalment interest income	-	-	25.4	-	25.4
Fees for additional services	-	-	38.4	-	38.4
Total income	**379.5**	**66.7**	**63.8**	**(13.1)**	**496.9**
Net incurred claims	(267.8)	(37.0)	-	-	(304.8)
Claims handling costs	(19.5)	(3.0)	-	-	(22.5)
Insurance expenses	(71.4)	(18.7)	-	-	(90.1)
Other operating expenses (excl. amortisation of intangibles)	-	-	(10.6)	-	(10.6)
Total Expenses	**(358.7)**	**(58.7)**	**(10.6)**	**-**	**(428.0)**
Share of joint venture profit (gross of tax and amortisation)	-	-	-	17.2	17.2
Trading profit	**20.8**	**8.0**	**53.2**	**4.1**	**86.1**
Amortisation of acquired intangibles					(12.3)
Finance costs					(14.1)
Profit before taxation					**59.7**
Tax expense					(16.6)
Profit after taxation					**43.1**
Net expense ratio	24.0%	32.5%			25.2%
Net loss ratio	70.6%	55.5%			68.3%
Combined operating ratio	94.6%	88.0%			93.5%

The average number of in-force policies during the year ended 31 December 2011 was 1.6m.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

4. Segmental information (continued)

Period ended 31 December 2010	**Motor underwriting**	**Home underwriting**	**Non-underwritten additional Services**	**Investments**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Gross written premiums	**355.1**	**54.8**	**-**	**-**	**409.9**
Earned premiums, net of reinsurance	335.6	51.2	-	-	386.8
Investment income	-	-	-	21.8	21.8
Instalment interest income	-	-	21.5	-	21.5
Fees for additional services	-	-	30.6	-	30.6
Total income	**335.6**	**51.2**	**52.1**	**21.8**	**460.7**
Net incurred claims	(291.0)	(46.3)	-	-	(337.3)
Claims handling costs	(16.8)	(2.2)	-	-	(19.0)
Insurance expenses	(60.4)	(14.4)	-	-	(74.8)
Other operating expenses (excl. amortisation of intangibles)	-	-	(7.8)	-	(7.8)
Total expenses	**(368.2)**	**(62.9)**	**(7.8)**	**-**	**(438.9)**
Share of joint venture profit (gross of tax and amortisation)	-	-	-	9.7	9.7
Trading profit	**(32.6)**	**(11.7)**	**44.3**	**31.5**	**31.5**
Amortisation of acquired intangibles					(11.1)
Non-trading costs					(7.0)
Negative goodwill arising on business combinations					15.7
Finance costs					(12.7)
Profit before taxation					**16.4**
Tax expense					(1.7)
Profit after taxation					**14.7**
Net expense ratio	23.0%	32.4%			24.3%
Net loss ratio	86.7%	90.4%			87.2%
Combined operating ratio	109.7%	122.9%			111.5%

The average number of in-force policies during the period ended 31 December 2010 was 1.6m

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

4. Segmental information (continued)

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

Trading profit, being earnings before interest, tax, non-trading expenses and amortisation of acquired intangible assets, is management's measure of the overall profitability of the group's operating activities. The group's segmental trading profit, comprised of motor underwriting, home underwriting, investments and non-underwritten additional services is £138.1m (2011: £86.1m, 2010: £31.5m).

The group's profit after tax is £88.1m (2011: £43.1m, 2010: £14.7m).

The group has incurred non-trading costs of £5.2m in 2012 primarily relating to potential corporate transactions. The group incurred non- trading costs of £7.0m in 2010 in relation to the acquisition of the esure Holdings Limited group.

Segmental profit drivers

Motor and Home underwriting

The performance of the Motor and Home underwriting segments is measured by reference to a number of Key Performance Indicators, 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 net earned premiums. For the year ended 31 December 2012, the Motor underwriting net loss ratio was 70.0% (2011: 70.6%, 2010: 86.7%) and the Home underwriting net loss ratio was 64.5% (2011: 55.5%, 2010: 90.4%). The total net loss ratio was 69.2% (2011: 68.3%, 2010: 87.2%).

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 2012, the net expense ratio was 23.6% (2011: 25.2% 2010: 24.3%) giving a combined operating ratio of 92.8% (2011: 93.5%, 2010: 111.5%).

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

Additional services

The performance of additional services (inclusive of add-ons underwritten by the group 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 2012, revenue per IFP was £60.6 (2011: £54.6, 2010: £46.2).

All additional services revenue is generated in the UK.

Statement of Financial Position

The assets and liabilities of the group are managed 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 10.

Reconciliation of segmental reporting to IFRSs statement of comprehensive income

The group's segmental reporting presents amortisation of acquired intangible assets separately from other operating expenses. The group's share of joint venture profit is presented before tax and amortisation.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

5. Earned premiums, net of reinsurance

	Year ended 31 Dec 2012 £m	Year ended 31 Dec 2011 £m	Period ended 31 Dec 2010 £m
Gross written premiums	515.0	499.5	409.9
Change in unearned premium provision	(3.3)	(24.3)	0.8
Premium revenue arising from insurance contracts issued	511.7	475.2	410.7
Written premiums, ceded to reinsurers	(32.8)	(29.9)	(24.9)
Change in unearned premium provision	1.3	0.9	1.0
	(31.5)	(29.0)	(23.9)
Earned premiums, net of reinsurance	480.2	446.2	386.8

6. Investment income and instalment interest

	Year ended 31 Dec 2012 £m	Year ended 31 Dec 2011 £m	Period ended 31 Dec 2010 £m
Interest income on financial investments at FVTPL	16.6	11.4	9.7
Interest income on cash deposits	0.4	0.1	0.1
Investment expenses	(1.7)	(0.8)	(1.1)
Fair value gains on derivative financial instruments	2.5	(0.2)	0.4
Gains / (losses) on financial investments at FVTPL	21.5	(23.8)	12.0
Dividend income	-	0.1	0.4
Rental income	0.1	0.1	0.3
Total investment income	39.4	(13.1)	21.8
Instalment interest	28.5	25.4	21.5
Total investment income and instalment interest	67.9	12.3	43.3

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

7. Employee benefit expense

	Year ended 31 Dec 2012 £m	Year ended 31 Dec 2011 £m	Period ended 31 Dec 2010 £m
Wages and salaries	42.5	39.6	34.9
Social security costs	4.1	4.0	3.3
Pension costs	2.4	2.2	1.8
Total employee benefit expense	49.0	45.8	40.0

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

	Year ended 31 Dec 2012	Year ended 31 Dec 2011	Period ended 31 Dec 2010
Operations	1,192	1,126	1,059
Support	346	305	282
	1,538	1,431	1,341

8. Directors' remuneration

	Year ended 31 Dec 2012 £m	Year ended 31 Dec 2011 £m	Period ended 31 Dec 2010 £m
Emoluments	1.8	1.2	2.3
Contributions to defined contribution pension scheme	0.1	0.0	0.0
	1.9	1.2	2.3

Remuneration of the highest paid director	Year ended 31 Dec 2012 £m	Year ended 31 Dec 2011 £m	Period ended 31 Dec 2010 £m
Emoluments	0.9	0.8	1.9
Contributions to defined contribution pension scheme	-	-	-
	0.9	0.8	1.9

During 2012, no retirement benefits were accruing to any director (2011: 0, 2010: 1) in respect of defined benefit pension schemes and retirement benefits were accruing to 3 directors (2011: 2, 2010: 1) in respect of defined contribution pension schemes. Aggregate contributions paid by the company in respect of directors' qualifying services were £92,000 (2011: £47,000, 2010: £22,000).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

9. Insurance and other operating expenses

	Year ended 31 Dec 2012 £m	Year ended 31 Dec 2011 £m	Period ended 31 Dec 2010 £m
Acquisition of insurance contracts	52.3	47.6	34.3
Movement in DAC	(2.5)	(4.7)	1.7
Administration	46.3	47.2	38.8
Insurance expenses	96.1	90.1	74.8
Other operating expenses	29.6	19.7	23.3

10. Profit after tax

Profit after tax is stated after charging:

	Year ended 31 Dec 2012 £m	Year ended 31 Dec 2011 £m	Period ended 31 Dec 2010 £m
Employee benefits expense (note 7)	49.0	45.8	40.0
Depreciation of property, plant and equipment	1.3	1.5	1.0
Amortisation of intangible assets	4.0	6.7	9.3
Impairment of intangible assets	-	3.0	-
Operating lease payments	3.2	3.1	2.6
Auditor's remuneration:			
Fees for audit services			
Group	0.2	0.2	0.2
Subsidiaries	0.0	0.0	0.0
Total audit fees	**0.2**	**0.2**	**0.2**
Fees for non-audit services			
Audit related assurance services	0.1	0.0	0.0
Tax compliance services	0.1	0.0	0.0
Corporate finance transactions	0.8	-	0.1
Other non-audit services	0.3	0.1	0.1
Total non-audit fees	**1.3**	**0.1**	**0.2**
Total Group auditor remuneration	**1.5**	**0.3**	**0.4**

Amortisation arises on software, acquired brands and customer relationships. The impairment charge relates to the First Alternative motor intangible asset and is classified in other operating expenses. Amortisation charged is recorded within insurance expenses and other operating expenses.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

11. Investment in joint venture

Joint venture

At 31 December 2012 the group owns 50% of the ordinary share capital and has a 50% interest in Gocompare.com Holdings Limited (Gocompare), an internet based price comparison business. On 1 April 2010 an option held to acquire a 50% interest in Gocompare was exercised. After this date the group received 50% of all dividends paid and has a 50% interest in the net assets. With effect from 1 April 2010, the interest has been accounted for as a joint venture under the equity method of accounting.

The following represents the group's share of assets, liabilities, revenue and results of the joint venture that is included in the consolidated statement of financial position and income statement:

	31 Dec 2012 £m	31 Dec 2011 £m	31 Dec 2010 £m
Assets recoverable in more than one year	24.2	25.9	29.1
Assets recoverable in less than one year	19.1	17.0	10.5
Total assets	43.3	42.9	39.6
Payables: amounts falling due less than one year	5.7	7.1	6.2
Payables: amounts falling due after one year	-	0.0	0.0
Total liabilities	5.7	7.1	6.2
Net assets	37.6	35.8	33.4
Share of reported revenue	52.7	54.5	37.9
Share of reported expenses	(40.5)	(37.1)	(27.8)
Amortisation of intangible assets recognised on application of the equity method	(2.0)	(3.2)	(2.4)
Adjustment to eliminate unrealised profits	0.1	(0.2)	(0.2)
Share of profit before tax	10.3	14.0	7.5
Taxation expense	(3.0)	(4.6)	(2.4)
Share of profit after tax	7.3	9.4	5.1

Gocompare is part of a VAT group of which each member is jointly and severally liable. The VAT group's liability at 31 December 2012 was £1.4m (2011: £1.6m, 2010: £1.3m). The VAT group is external to esure Group Holdings Limited and esure Group Holdings Limited is not liable in respect of the VAT group.

Goodwill and amortisation

Goodwill of £20.8m arose on acquisition of the 50% interest in Gocompare on 1 April 2010. Intangible assets relating to customer relationships, internally generated software and brands with a fair value of £10.8m (total value £21.6m, of which the group has a 50% interest) were recognised on application of the equity method. Amortisation of £2.0m was included as part of the esure Group Holdings Limited share of profit after tax of the joint venture in the year ended 31 December 2012 (2011: £3.2m, 2010: £2.4m).

There were no indicators of impairment of the investment in the joint venture in the periods reported and as a result no impairment testing was performed on goodwill and intangible assets.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

12. Finance costs

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

	Year ended 31 Dec 2012 £m	Year ended 31 Dec 2011 £m	Period ended 31 Dec 2010 £m
Interest expense on subordinated loan notes (see note 19)	9.5	9.5	8.4
Interest expense on unsecured loan notes (see note 19)	(0.3)	4.6	4.3
	9.2	14.1	12.7

13. Taxation

	Year ended 31 Dec 2012 £m	Year ended 31 Dec 2011 £m	Period ended 31 Dec 2010 £m
Current taxes on income for the reporting period	28.3	11.9	3.4
Total current tax	28.3	11.9	3.4
Deferred tax for the reporting period	(0.8)	0.2	(3.6)
Effect of change in tax rate	(0.1)	(0.1)	(0.2)
Total deferred tax	(0.9)	0.1	(3.8)
Taxation expense / (credit)	**27.4**	**12.0**	**(0.4)**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

13. Taxation (continued)

The tax rate used for the calculations is the corporate tax rate of 24.5% (2011: 26.5%, 2010: 28%) payable by the corporate entities in the UK on taxable profits under tax law in that jurisdiction. The rates used are those that apply to the year the tax charge or credit is expected to materialise.

The expense / (credit) for the year can be reconciled to the profit per the income statement as follows:

	Year ended 31 Dec 2012	Year ended 31 Dec 2011	Period ended 31 Dec 2010
	£m	£m	£m
Profit before taxation	115.5	55.1	14.3
Taxation calculated at 24.5% (2011: 26.5%, 2010: 28%)	28.3	14.6	4.0
Effect of expenses that are not deductible	1.3	(2.0)	2.0
Unrelieved tax losses	-	(0.1)	-
Adjustments in relation to the current tax of prior years	(0.3)	-	(0.8)
Non taxable Income	(1.8)	(0.4)	(5.4)
Change in tax rate	(0.1)	(0.1)	(0.2)
Taxation expense / (credit)	**27.4**	**12.0**	**(0.4)**

Factors affecting the tax charge for future periods

The main rate of corporation tax reduced from 26% to 24% with effect from 1 April 2012. It has also been announced that the rate will be reduced to 23% with effect from 1 April 2013 and to 21% with effect from 1 April 2014.

Other than the enacted changes, the effects of the announced changes are not reflected in the financial statements for the year ended 31 December 2012 as they are not substantively enacted at the balance sheet date. The potential effect of these rate changes is a decrease in the deferred tax liability by an amount which is not expected to be material.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

14. Dividends

No dividends were declared in 2012, 2011 or 2010 by esure Group Holdings Limited.

15. Earnings Per Share

	Year ended 31 Dec 2012	Year ended 31 Dec 2011	Period ended 31 Dec 2010
	£m	£m	*£m*
Profit after taxation	88.1	43.1	14.7
Weighted average number of shares – basic (see below)	8,518,315,000 A, B, C and ordinary shares	8,518,283,750 A, B, C and ordinary shares	7,561,272,378 A, B, C and ordinary shares
Unadjusted earnings per share – basic (pence per share)	1.03	0.51	0.19
Weighted average number of shares – diluted	8,518,315,000 A, B, C and ordinary shares	8,518,283,750 A, B, C and ordinary shares	7,561,272,378 A, B, C and ordinary shares
Unadjusted earnings per share – diluted (pence per share)	1.03	0.51	0.19

Please refer to note 27 for a description of the distribution rights of each type of share in issue.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

16. Intangible assets

	Software £m	Acquired brands £m	Customer relationships £m	Total £m
Cost				
On incorporation	-	-	-	-
On acquisition of esure Holdings Limited	1.7	24.2	11.3	37.2
Additions in the period	0.3	-	-	0.3
Disposals in the period	-	-	-	-
As at 31 December 2010	2.0	24.2	11.3	37.5
Additions in the year	1.6	-	-	1.6
Disposals in the year	-	-	-	-
As at 31 December 2011	3.6	24.2	11.3	39.1
Additions in the year	0.5	-	-	0.5
Disposals in the year	-	-	-	-
As at 31 December 2012	4.1	24.2	11.3	39.6
Accumulated amortisation and impairment				
On incorporation	-	-	-	-
On acquisition of esure Holdings Limited	-	-	-	-
Charge for the period	0.7	2.9	5.7	9.3
As at 31 December 2010	0.7	2.9	5.7	9.3
Charge for the year	0.7	2.9	3.1	6.7
Impairment loss	-	3.0	-	3.0
As at 31 December 2011	1.4	8.8	8.8	19.0
Charge for the year	0.8	1.8	1.4	4.0
As at 31 December 2012	2.2	10.6	10.2	23.0
Net book value				
As at 31 December 2010	1.3	21.3	5.6	28.2
As at 31 December 2011	2.2	15.4	2.5	20.1
As at 31 December 2012	1.9	13.6	1.1	16.6

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

16. Intangible assets (continued)

The acquired brands intangible asset represents the First Alternative, Sheilas' Wheels and esure brands. The Sheilas' Wheels and esure brands were acquired by the group as part of the acquisition of esure Holdings Limited and were fair valued at the date of acquisition in accordance with the requirements of IFRS 3.

The customer relationships intangible asset represents customer relationships acquired by the group as part of the acquisition of esure Holdings Limited and were fair valued at the date of acquisition in accordance with the requirements of IFRS 3.

Impairment testing on intangible assets

The group tests intangible assets with finite useful lives for impairment where there are indicators that their carrying value may be impaired.

Software

There were no indicators of impairment in the periods reported and as a result no impairment testing was performed.

Brands

First Alternative (FA)

Given the length of time since acquiring the brand and the decline in business volumes associated with the FA motor brand, the group considered it appropriate to conduct impairment reviews in the years ended 31 December 2011 and 31 December 2010. The decline was largely due to a strategic decision to cease actively marketing the brand with a consequent reduction in policy volumes. The recoverable amount of the FA brand was determined from value in use calculations derived from financial plans approved by the board. The key assumptions used in the value in use calculations were net loss ratios (56.7% after three years), net expense ratios (variable over time), growth rates in premiums (negative 15% after three years) and discount rates that reflect the current market assessment of the time value of money and risks specific to the business (8%).

Following a reassessment of the relationship between fixed costs of operating the brand and the net expense ratio at 31 December 2011, the intangible asset was fully impaired and an impairment loss of £3.0m was recognised.

Sheilas' Wheels and esure

There were no indicators of impairment in the periods reported and as a result no impairment testing was performed.

Customer relationships

There were no indicators of impairment in the periods reported and as a result no impairment testing was performed.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

17. Acquisition of esure Holdings Limited by esure Group Holdings Limited

On 11 February 2010 esure Group Holdings Limited acquired 100% of the ordinary and preference share capital and voting rights of esure Holdings Limited. The preference shares were subsequently converted to ordinary shares. esure Group Holdings Limited was a new holding company which acquired the existing holding company, esure Holdings Limited.

The total consideration for the acquisition was £190.1m in cash and a one for one share exchange of management shares in esure Holdings Limited for shares in esure Group Holdings Limited. Conditions applying to the issued shares meant that, in general, the individuals concerned were required to remain in the employment of the group for between two to six years from the date that the shares were issued otherwise the shares would not vest. These shares in esure Group Holdings Limited were valued at nil at the date of the business combination (see note 27).

A number of adjustments were made to the esure Holdings Limited accounting policies in order to ensure consistency with IFRSs. The book values presented of the identifiable assets and liabilities acquired are the IFRSs book values at the date of acquisition.

	IFRSs book values	Fair value adjustments	Fair values at date of acquisition
Assets	**£m**	**£m**	**£m**
Intangible assets	5.9	31.3	37.2
Other financial investments	766.0	-	766.0
Property, plant and equipment	14.2	1.1	15.3
Reinsurance assets	112.8	-	112.8
Cash and cash equivalents	18.6	-	18.6
Other assets	152.5	(1.3)	151.2
Total assets	**1,070.0**	**31.1**	**1,101.1**
Liabilities			
Insurance contract liabilities	(814.6)	-	(814.6)
Other liabilities	(73.3)	(7.4)	(80.7)
Total Liabilities	**(887.9)**	**(7.4)**	**(895.3)**
Net assets	**182.1**	**23.7**	**205.8**
Negative goodwill on acquisition			(15.7)
Cost of acquisition			**190.1**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

17. Acquisition of esure Holdings Limited by esure Group Holdings Limited (continued)

The negative goodwill on acquisition of £15.7m arose as a result of uncertainties surrounding the value of the Sheilas' Wheels brand, esure brand and customer relationships at the time of acquisition. The fair value attributed by esure Group Holdings Limited to the intangible assets at the date of acquisition, based on esure Group Holdings Limited expectations at that time regarding the future cash flows associated with these assets, is set out in note 16.

The fair value adjustments made are explained below:

Revaluation

At the date of acquisition, the fair value of land and buildings was revised upwards from the last value reported at 31 December 2009.

Acquired intangible assets – brands and customer relationships

As required under IFRS 3, internally generated intangible assets, being brands and customer relationships, have been recognised at fair value on acquisition of esure Holdings Limited.

The negative goodwill arising has been credited to the income statement and is classified as negative goodwill arising on business combination.

Other assets and liabilities - deferred tax

The deferred tax impact of the adjustments made have been taken account of in the reduction of deferred tax assets classified as other assets and an increase in deferred tax liabilities classified as other liabilities in the disclosure.

Insurance contract liabilities

Management estimated that there was no significant variance between the IFRSs book values of the insurance contract liabilities and their fair value at the date of the business combination.

In order to maintain consistency of presentation the fair value of obligations assumed for providing future insurance coverage are presented on a gross basis (i.e. as unearned premium provision and DAC) in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

18. Property, plant and equipment

	Land and buildings £m	Fixtures and Fittings £m	Total £m
Cost			
On incorporation	-	-	-
Acquired on acquisition of esure Holdings Limited	12.6	2.7	15.3
Additions in the period	-	0.0	0.0
As at 31 December 2010	12.6	2.7	15.3
Additions in the year	-	1.7	1.7
Disposals in the year	-	-	-
As at 31 December 2011	12.6	4.4	17.0
Additions in the year	-	1.0	1.0
Revaluation of land and buildings	(1.2)	-	(1.2)
Disposals in the year	-	-	-
As at 31 December 2012	11.4	5.4	16.8
Accumulated depreciation			
On incorporation	-	-	-
Charge for the period	0.1	0.9	1.0
As at 31 December 2010	0.1	0.9	1.0
Charge for the year	0.1	1.4	1.5
As at 31 December 2011	0.2	2.3	2.5
Charge for the year	0.2	1.1	1.3
Revaluation of land and buildings	(0.4)	-	(0.4)
As at 31 December 2012	-	3.4	3.4
Carrying amount			
As at 31 December 2010	12.5	1.8	14.3
As at 31 December 2011	12.4	2.1	14.5
As at 31 December 2012	11.4	2.0	13.4

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

18. Property, plant and equipment (continued)

Owner-occupied properties are stated at their revalued amounts, as assessed by qualified external valuers every three years, all with recent relevant experience. These values are assessed in accordance with the relevant parts of the current RICS Valuation Standards in the UK (“Red Book”). More frequent revaluations are performed by management to assess that the carrying amount does not materially differ from its fair value.

This assessment, on the basis of existing use value and in accordance with UK Valuation Standard 1.3, is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction, after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses and any other characteristics of the property that would cause its market value to differ from that needed to replace the remaining service potential at least cost. The valuation assessment adopts market-based evidence and is in line with guidance from the International Valuation Standards Committee and the requirements of IAS 16, Property, Plant and Equipment.

Independent valuations were performed as at 31 December 2010 and 31 December 2012. At other reporting dates where a revaluation has been made, management has assessed the fair value of the freehold land and buildings using market indices to calculate the fair value.

The group assessed that there was no material difference between the carrying value and market value at 31 December 2011 and as a result, no revaluation was performed.

If land and buildings were held under the cost model, land and buildings would have a carrying value at 31 December 2012 of £12.2m (31 December 2011: £12.4m, 31 December 2010: £12.5m).

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for the year ended 31 December 2012

19. Financial assets and liabilities

19.1 Financial assets

	As at 31 Dec 2012 £m	As at 31 Dec 2011 £m	As at 31 Dec 2010 £m
Financial investments designated as FVTPL:			
Shares and other variable-yield securities and units in unit trusts	29.4	38.4	75.3
Debt securities and other fixed income securities	617.0	438.2	237.6
Deposits with credit institutions	132.4	249.6	422.9
Financial investments held for trading:			
Derivative financial instruments	0.4	0.2	0.4
Financial investments at FVTPL	779.2	726.4	736.2
Loans and receivables:			
Insurance and other receivables (note 21)	144.0	126.8	118.6
Cash and cash equivalents (note 23)	39.4	32.5	18.9
Total financial assets	962.6	885.7	873.7

Financial investments are held to support the group's insurance activities and may be required to be realised in order to meet the obligations arising out of those activities at any time. On that basis, the investments are deemed to be recoverable within 12 months.

Of the financial investments and cash above, £365.2m have a credit rating of AAA as at 31 December 2012 (2011: £381.3m, 2010: £555.3m), £99.5m have a credit rating of AA (2011: £98.5m, 2010: £57.5m), £229.7m have a credit rating of A (2011: £167.8m, 2010: £38.5m) and £58.1m have a credit rating of BBB (2011: £40.3m, 2010: £9.5m). The shares and other variable yield securities, units in unit trusts and derivative financial instruments as shown above are not subject to credit rating.

Derivative financial instruments, at fair value through profit or loss

To eliminate as far as possible the effect of exchange rate fluctuations on the value of investments denominated in currencies other than Sterling, the group has purchased over-the-counter forward currency contracts. The group also uses government bond futures as a mechanism to adjust investment portfolio duration. The group's exposure to currency risk is set out in note 19.3 a (iii).

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for the year ended 31 December 2012

19.2 Financial liabilities

	As at 31 Dec 2012 £m	As at 31 Dec 2011 £m	As at 31 Dec 2010 £m
Financial liabilities at FVTPL:			
Derivative financial instruments	0.3	0.4	-
Other financial liabilities:			
Borrowings (see below)	50.0	83.0	112.4
Other financial liabilities included as part of insurance and other payables (note 24)	22.8	19.8	21.4
Total financial liabilities	73.1	103.2	133.8

Borrowings	As at 31 Dec 2012 £m	As at 31 Dec 2011 £m	As at 31 Dec 2010 £m
Subordinated loan notes	50.0	50.0	50.0
Unsecured loan notes	-	33.0	62.4
Total borrowings	50.0	83.0	112.4

Derivative financial instruments are due within one year. All of the subordinated loan note liability at 31 December 2012, 31 December 2011 and 31 December 2010 was due in more than one year. Of the unsecured loan notes liability at 31 December 2010, £0.4m was due within one year and £62m was due in more than one year. A payment of £30m was made in October 2011 and the loan was fully repaid in April 2012. Of the unsecured loan notes liability at 31 December 2011, £31m was payable in more than one year and the remainder was payable in less than one year.

Subordinated Loan Notes

On 11 February 2010, esure Finance Limited, a wholly owned subsidiary undertaking, created and issued 50,000,000 unsecured perpetual subordinated loan notes of £1 each (the “Perpetual Loan Notes”). The interest rate is 18.9% per annum, paid annually.

The Perpetual Loan Notes are listed on the Channel Islands’ Stock Exchange.

The group has developed and applied a fair value methodology in respect of gross exposures of loans measured at amortised cost. The methodology incorporates the projected cash flows for each class of liability, discounted by reference to yields for similar traded instruments, adjusted to reflect the credit risk and structure of the underlying instrument.

Under this methodology the fair value of the perpetual subordinated loan notes is £57.1m (2011: £57.2m, 2010: £59.0m).

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19.2 Financial liabilities (continued)

Unsecured loan notes

On 11 February 2010, esure Finance Limited, a wholly owned subsidiary undertaking, created and issued 62m unsecured loan notes of £1 each (the "Loan Notes"). The interest rate was 7% per annum, paid annually. The loan was fully repaid in April 2012.

The Loan Notes were listed on the Channel Islands' Stock Exchange.

The group did not breach any of their loan agreements during the term of the loan.

19.3 Financial risk management objectives

The group is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from insurance policies as they fall due. The most important components of this financial risk are market risk (including interest rate risk, equity price risk and currency risk), credit risk and liquidity risk. At 31 December 2012, the group had no direct exposure to Eurozone sovereign debt or to the economies of Greece, Ireland, Italy, Portugal, or Spain.

(a) Market risk

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The market risks that the group primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk. In addition the group's investments are also subject to credit risk arising from the counterparty exposure to the issuers of debt securities.

The group manages financial risk by virtue of its risk management framework, incorporating the group's risk appetite and setting an appropriate investment strategy.

The majority of investments held are listed and traded on the UK and other recognised stock exchanges. The group has a defined investment strategy and market risk policy which sets limits on the group's exposure by setting, where applicable, duration, issuer and concentration limits for each asset class.

The Board is responsible for setting the investment strategy, defining the risk appetite and appointing investment managers. The day to day management of investments is delegated to the investment fund managers and monitored by the Investment Committee. The Committee recommends investment strategies, guidelines and policies in line with the Board approved risk appetite.

Investment Committee meetings are held at least quarterly. At these, directors and senior managers representing the group companies meet to discuss investment return and concentration across the group.

(i) Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities. The Investment Committee balances the portfolio of investments to manage the exposure to interest rate risk. In addition to the extent that claims inflation is correlated to interest rates, liabilities to policyholders are exposed to interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

19.3 Financial risk management objectives (continued)

The group monitors interest rate risk on a regular basis by calculating the mean duration of key elements of the investment portfolio and of the liabilities to policyholders under insurance contracts. The mean duration is an indicator of the sensitivity of the assets and liabilities to changes in current interest rates. The mean duration of the technical liabilities is determined by means of projecting expected cash flows using standard actuarial claims projection techniques. Asset allocation decisions made by the Investment Committee give due consideration to the duration and profile of liabilities to avoid any significant mismatch in the asset and liability profiles. In order to preserve capital and to reduce the risk of an investment loss due to interest rate movements, it is acceptable for the duration of the asset portfolio, from time to time, to be shorter, but not longer than the average duration of the liabilities. The group also uses government bond futures as a mechanism to adjust investment portfolio duration.

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. For an increase/decrease of 100 basis points in interest yields the profit before tax for the period would decrease/increase by £7.1m (2011: £5.8m, 2010: £5.3m).

(ii) Equity price risk

The group is exposed to equity securities price risk as a result of its holdings in equity investments, classified as financial assets at FVTPL. Exposures to individual companies and to equity shares in aggregate are monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes.

Equity exposure is through managed equity funds, which are primarily invested in listed equity securities.

If equity market indices had increased/decreased by 10%, the profit for the year would increase/decrease by £2.9m (2011: £3.8m, 2010: £7.5m).

(iii) Currency risk

The group has some exposure to currency risk in respect of certain investments denominated in currencies other than Sterling. The most significant currency to which the group is exposed is the Euro. The group seeks to mitigate the risk by the use of forward contracts and other derivates matching the estimated foreign currency denominated assets with liabilities denominated in the same currency. As a result, there is negligible exposure to currency risk. The group has no designated hedging contracts.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

19.3 Financial risk management objectives (continued)

(b) Credit risk

Credit risk is the risk that a counterparty will not be able to pay amounts in full when due in accordance with the term of the contract, causing the group to incur a financial loss.

Key areas where the group is exposed to credit risk are:

- credit instruments held within the investment portfolio;
- other amounts due from investment counterparties;
- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from policyholders;
- subrogation and salvage recoveries plus amounts due from claims suppliers.

Reinsurance is used to manage insurance risk. This does not, however, discharge the group's liability as primary insurer. If a reinsurer fails to pay a claim, the group remains liable for the payment to the policyholder.

The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract. In addition, management assesses the creditworthiness of all reinsurers by reviewing credit grades provided by rating agencies and other publicly available financial information. An analysis of reinsurers by Standard & Poor's (S&P) and A.M. Best ratings is produced and reviewed on a monthly basis.

The group manages the levels 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.

The assets bearing credit risk are summarised below, together with an analysis by credit rating:

	31 Dec 2012	31 Dec 2011	31 Dec 2010
	£m	£m	£m
Derivative financial instruments	0.4	0.2	0.4
Debt securities	617.0	438.2	237.6
Deposits with credit institutions	132.4	249.6	422.9
Insurance receivables, other debtors and salvage and subrogation assets	161.1	141.7	136.4
Reinsurance assets	233.4	172.9	157.8
Cash at bank and in hand	39.4	32.5	18.9
	1,183.7	1,035.1	974.0
AAA	365.2	387.0	560.5
AA	196.1	163.0	112.8
A	367.1	301.9	154.5
BBB	58.1	40.3	9.5
Below BBB or not rated	38.8	1.3	0.7
Assets not subject to credit rating	158.4	141.6	136.0
	1,183.7	1,035.1	974.0

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

19.3 Financial risk management objectives (continued)

Assets not subject to credit rating are primarily due from policyholders. Owing to the high number of individual policyholders through which the group has minimal individual exposure, the overall risk of default to the group is considered to be insignificant.

The analysis by credit rating illustrates a slight reduction in credit quality over the period under review, with a lower proportion of assets rated AAA in 2011 and 2012 compared to 2010. This primarily reflects the following factors:

- a general decrease in the rating environment over recent years due to the economic climate;
- a strategic decision to reduce investments in sovereign debt and increase investments in corporate debt securities, to both reduce exposure to specific sovereign territories and increase investment yields; and
- the addition in 2012 of a relatively small new investment fund which predominantly invests in high yield, sub-investment grade corporate bonds.

No credit limits were exceeded during the period and no financial assets are past due but not impaired at the reporting date. During the year £2.0m (2011: £nil, 2010: £nil) was charged to other operating expenses in the consolidated income statement in respect of financial assets classified as other debtors that were past due and impaired; the following table gives the analysis by age:

	£m
Not due	0.7
0 to 30 days past due	0.7
31 to 60 days past due	0.6
	2.0

(c) Liquidity risk

Liquidity risk is the risk that the group, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure them only at excessive cost. The primary liquidity risk of the group is the obligation to pay claims to policyholders as they fall due. Due to the nature of the business the cash flows are such that the liquidity risk has only to be considered for catastrophe type events.

The table below analyses the contractual maturity of the group’s financial liabilities, outstanding claims and financial assets.

The analysis of non-derivative financial liabilities and assets is based on the remaining period at the balance sheet date to the contractual maturity date. The analysis of claims outstanding is based on the expected dates on which the claims will be settled.

The amounts disclosed in the tables represent undiscounted cash flows and include payments of both principal and interest:

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for the year ended 31 December 2012

19.3 Financial risk management objectives (continued)

The amounts disclosed in the table represent undiscounted cash flows and include payments of both principal and interest:

	Less than 1 year	Between 1 and 5 years	More than 5 years	Total	Carrying value
	£m	£m	£m	£m	£m
Financial assets, salvage and subrogation assets and reinsurers' share of claims outstanding					
At 31 December 2012					
Derivative financial instruments	0.4	-	-	0.4	0.4
Debt securities and other fixed income securities	138.6	447.6	74.5	660.7	617.0
Deposits with credit institutions	132.4	-	-	132.4	132.4
Cash at bank and in hand	39.4	-	-	39.4	39.4
Insurance receivables, other debtors and salvage and subrogation assets	159.9	1.2	-	161.1	161.1
Financial assets	**470.7**	**448.8**	**74.5**	**994.0**	**950.3**
Reinsurers' share of outstanding claims	21.9	141.0	56.8	219.7	219.7
Financial assets and reinsurers' share of claims outstanding	**492.6**	**589.8**	**131.3**	**1,213.7**	**1,170.0**
Financial and insurance liabilities					
At 31 December 2012					
Borrowings	-	50.0	-	50.0	50.0
Derivative financial instruments	0.3	-	-	0.3	0.3
Insurance and other payables	22.8	-	-	22.8	22.8
Financial liabilities	23.1	50.0	-	73.1	73.1
Claims outstanding	220.7	354.4	116.7	691.8	691.8
Financial and insurance liabilities	**243.8**	**404.4**	**116.7**	**764.9**	**764.9**

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for the year ended 31 December 2012

19.3 Financial risk management objectives (continued)

	Less than 1 year	Between 1 and 5 years	More than 5 years	Total	Carrying value
	£m	£m	£m	£m	£m
Financial assets, salvage and subrogation assets and reinsurers' share of claims outstanding					
At 31 December 2011					
Derivative financial instruments	0.2	-	-	0.2	0.2
Debt securities and other fixed income securities	188.3	233.0	43.9	465.2	438.2
Deposits with credit institutions	249.6	-	-	249.6	249.6
Cash at bank and in hand	32.5	-	-	32.5	32.5
Insurance receivables, other debtors and salvage and subrogation assets	140.8	0.9	-	141.7	141.7
Financial assets	**611.4**	**233.9**	**43.9**	**889.2**	**862.2**
Reinsurers' share of outstanding claims	4.0	143.6	12.9	160.5	160.5
Financial assets and reinsurers' share of claims outstanding	**615.4**	**377.5**	**56.8**	**1,049.7**	**1,022.7**
Financial and insurance liabilities					
At 31 December 2011					
Borrowings	12.7	107.7	-	120.4	83.0
Derivative financial instruments	0.4	-	-	0.4	0.4
Insurance and other payables	19.8	-	-	19.8	19.8
Financial liabilities	**32.9**	**107.7**	**-**	**140.6**	**103.2**
Claims outstanding	265.3	326.2	30.8	622.3	622.3
Financial and insurance liabilities	**298.2**	**433.9**	**30.8**	**762.9**	**725.5**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

19.3 Financial risk management objectives (continued)

	Less than 1 year	Between 1 and 5 years	More than 5 years	Total	Carrying value
	£m	£m	£m	£m	£m
Financial assets, salvage and subrogation assets and reinsurers' share of claims outstanding					
At 31 December 2010					
Derivative financial instruments	0.4	-	-	0.4	0.4
Debt securities and other fixed income securities	70.9	139.6	43.1	253.6	237.6
Deposits with credit institutions	422.2	-	-	422.2	422.9
Cash at bank and in hand	18.9	-	-	18.9	18.9
Insurance receivables, other debtors and salvage and subrogation assets	135.3	1.1	-	136.4	136.4
Financial assets	**647.7**	**140.7**	**43.1**	**831.5**	**816.2**
Reinsurers' share of outstanding claims	4.0	136.9	5.3	146.2	146.2
Financial assets and reinsurers'' share of claims outstanding	**651.7**	**277.6**	**48.4**	**977.7**	**962.4**
Financial and insurance liabilities					
At 31 December 2010					
Borrowings	13.8	152.5	-	166.3	112.4
Insurance and other payables	21.4	-	-	21.4	21.4
Financial liabilities	**35.2**	**152.5**	**-**	**187.7**	**133.8**
Claims outstanding	273.1	331.8	31.3	636.2	636.2
Financial and insurance liabilities	**308.3**	**484.3**	**31.3**	**823.9**	**770.0**

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for the year ended 31 December 2012

19.3 Financial risk management objectives (continued)

(d) Capital management

The group maintains a capital structure consistent with the group's risk profile and the regulatory and 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 risks inherent in the business;
- to maintain financial strength to support business growth;
- to satisfy the requirements of its policyholders and regulators;
- to retain financial flexibility by maintaining strong liquidity and access to a range of capital markets.

The group manages as capital all items that are eligible to be treated as capital for regulatory purposes. This includes equity, allowing for regulatory adjustments, unsecured subordinated loan notes, and mark to model based valuation of the group's interest in Gocompare.

Insurance entities within the group are regulated by the Financial Services Authority (FSA) and the group and those regulated entities are subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held in addition to assets held to back the insurance liabilities. The group manages capital in accordance with these rules and has embedded in its monitoring framework the necessary tests to ensure continuous and full compliance with such regulations. Both the group and the regulated entities within it have complied with all externally imposed capital requirements throughout the year.

(e) Fair value estimation

In accordance with IFRS 7 financial instruments held at FVTPL have been categorised into a fair value measurement hierarchy as follows:

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

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

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

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

- Quoted prices for similar (i.e. not identical) assets in active markets;
- Quoted prices for identical or similar assets in markets that are not active, the prices are not current, or price quotations vary among market makers, or in which little information is released publically;
- Inputs that are derived principally from, or corroborated by, observable market data by correlation;
- For forward foreign exchange contracts, the use of observable forward exchange rates at the balance sheet date, with the resulting value discounted back to present value; and
- Other techniques, such as discounted cash flow analysis, which consider on a prudent basis the likely realisable value.

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19.3 Financial risk management objectives (continued)

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

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

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. The group holds Level 3 equity securities of £17.8m at 31 December 2012 (2011: £13.2m), representing an investment in a managed fund. Although the fair value is calculated using simple models and extrapolation techniques by reference to the observable market prices of the underlying assets, the fund was closed to new investment during 2011 and hence reclassified from level 2 to level 3. During the year ended 31 December 2012 £4.7m was credited to the income statement in respect of Level 3 financial assets (2011: £7.6m charged).

At 31 December 2012 and 31 December 2011, the majority of investments held by the fund classified at Level 3 are listed investments. Therefore, no sensitivity analysis has been performed due to the nature of the investments.

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

At 31 December 2012	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
	£m	**£m**	**£m**	**£m**
Financial assets				
Assets at FVTPL:				
Derivative financial instruments	-	0.4	-	0.4
Equity securities	-	11.6	17.8	29.4
Debt securities	84.7	532.3	-	617.0
Deposits with credit institutions	132.4	-	-	132.4
Total financial assets at FVTPL	217.1	544.3	17.8	779.2
Financial liabilities				
Derivative financial instruments	-	0.3	-	0.3
Total financial liabilities at FVTPL	-	0.3	-	0.3

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19.3 Financial risk management objectives (continued)

At 31 December 2011	Level 1	Level 2	Level 3	Total fair value
	£m	£m	£m	£m
Financial assets				
Assets at FVTPL:				
Derivative financial instruments	-	0.2	-	0.2
Equity securities	-	25.2	13.2	38.4
Debt securities	59.3	378.9	-	438.2
Deposits with credit institutions	249.6	-	-	249.6
Total financial assets at FVTPL	308.9	404.3	13.2	726.4
Financial liabilities				
Derivative financial instruments	-	0.4	-	0.4
Total financial liabilities at FVTPL	-	0.4	-	0.4

At 31 December 2010	Level 1	Level 2	Level 3	Total fair value
	£m	£m	£m	£m
Financial assets				
Assets at FVTPL:				
Derivative financial instruments	-	0.4	-	0.4
Equity securities	30.4	44.9	-	75.3
Debt securities	24.4	213.2	-	237.6
Deposits with credit institutions	422.9	-	-	422.9
Total financial assets at FVTPL	477.7	258.5	-	736.2
Financial liabilities				
Derivative financial instruments	-	-	-	-
Total financial liabilities at FVTPL	-	-	-	-

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20. Reinsurance assets and insurance contract liabilities

20.1 Insurance risk

Insurance risk arises from the inherent uncertainties as to the occurrence, amount and timing of insured events that could lead to significant individual or aggregated claims in terms of quantity or value. These would include significant weather related events and large personal injury claims. The Board is responsible for setting the overall underwriting strategy and defining the risk appetite, with monitoring delegated to the Pricing Committee. The group uses excess of loss reinsurance contracts to mitigate insurance risk, essentially by reducing exposure to large individual claims or aggregated losses from single events.

Underwriting and pricing risk

The group underwrites general insurance business for private cars and homes in the UK apart from Northern Ireland. The book consists of a large number of individual policies spread across the whole geographic area which helps to minimise concentration risk especially in terms of weather related risks. As well as pricing the group has additional controls in place to segment the market and restrict access to its products to those segments it wishes to underwrite. Further systems and controls are in place to mitigate application fraud risk.

The group has systems and management information in place to continually monitor underwriting performance and pricing adequacy through the Pricing Committee. Detailed statistical analyses of performance by rating factor ensure that the group is well-placed to react very quickly to any external factors or market trends.

Claims management risk

The group employs a variety of strategies to ensure the correct claims are paid in a timely manner and reserve provisions made on a case by case basis to reflect the group’s future liabilities.

These include:

- A well resourced and expertly trained staff with, from the end of 2012, the benefit of the latest image and workflow technology to control paper flow and procedures to enhance efficiency and effectiveness;
- The group manages its own network of motor repairers, achieving a 90% deployment rate to manage costs down and quality and service levels up;
- Comprehensive anti-fraud strategies to triage claims to specialist units from ‘low impact’ personal injury claims to the Special Investigation Unit (‘SIU’) who combat the larger fraud rings; and
- The ‘Direct Claimant Services’ team is a dedicated unit offering an extensive range of services directly to ‘not at fault’ third parties, to avoid excessive credit hire costs and legal fees in relation to injury compensation.

A sophisticated set of performance metrics ensures the indemnity spend is well controlled and claims handling expenses optimised.

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for the year ended 31 December 2012

20.1 Insurance risk (continued)

Reinsurance

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

Currently the group has in place non-proportional excess of loss reinsurance programmes for its motor and home underwriting activities. These cover both individual large losses and accumulation losses arising from natural and other catastrophe events. Motor reinsurance treaties are in place covering all years in which the group has underwritten motor policies. At the present time 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 availability of reinsurance in the market.

Counterparty credit risk is a key consideration when the group enters into reinsurance treaties. The minimum credit rating that the Group requires for participation in its reinsurance programmes is Standard & Poor's A- or the A.M. Best equivalent. There are internal policies on the level of ceded premium by credit rating, and the financial security of reinsurers is continually monitored in accordance with the group's insurance and credit risk policies (see note 19).

Reserving risk

Reserving risk is the risk that insufficient funds have been set aside to settle and handle claims as the amounts fall due. The group analyses and projects historical claims development data and uses a number of actuarial techniques to both test and forecast claims provisions. In addition the group also provides data to external actuaries who assess the adequacy of the group's claims provisions.

Apart from historical analyses the group also takes into account changes in risk profile and underwriting policy conditions, changes in legislation or regulation and changes in other external factors.

The claims provision is sensitive to the number and cost of large motor claims which have been incurred but not reported and reserved. Typically the group would expect a number of large claims from expired risks to be identified in the future, either from being newly reported or from existing claims increasing in magnitude. The claims provision allows for an expected level of such claims.

Claims subject to periodic payment orders (PPO) are a significant area of uncertainty relating to the claims provision at 31 December 2012. For known PPOs and claims which have been identified as likely PPO awards, cash flow projections are carried out in order to estimate an ultimate cost on a gross and net of reinsurance basis. The cash flow projections were undertaken on a discounted basis.

In addition the Ministry of Justice has been reviewing the discount rate used in the calculation of damage awards in bodily injury and fatal claims for some time. At the date these financial statements were approved the discount rate used in these calculations remained at 2.5%. However, while individual case reserves have been established by applying this current discount rate, an allowance has been made within the total reserves to reflect an assumed reduction of one percentage point.

The group's policy is to hold sufficient provisions, including those to cover claims which have been incurred but not reported (IBNR) to meet all liabilities as they fall due. Apart from that part of the provisions relating to PPOs, claims provisions are not discounted. The directors remain satisfied that the outstanding claims reserves included in these financial statements provide an appropriate margin over projected ultimate claims costs.

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for the year ended 31 December 2012

20.2 Analysis of recognised amounts:

	As at 31 Dec 2012 £m	As at 31 Dec 2011 £m	As at 31 Dec 2010 £m
Gross			
- Claims outstanding (before deduction of salvage and subrogation) and claims handling expenses	691.8	622.3	636.2
- Unearned premiums	255.6	252.3	228.0
- Unexpired risk provision	-	-	2.5
Total insurance liabilities, gross	947.4	874.6	866.7
Recoverable from reinsurers			
- Claims outstanding	219.7	160.5	146.2
- Unearned premiums	13.7	12.4	11.6
Total reinsurers' share of insurance liabilities	233.4	172.9	157.8
Net			
- Claims outstanding (before deduction of salvage and subrogation) and claims handling expenses	472.1	461.8	490.0
- Unearned premiums	241.9	239.9	216.4
- Unexpired risk provision	-	-	2.5
Total insurance liabilities, net	714.0	701.7	708.9
Recoverable within one year (gross)	476.7	517.6	501.1
Recoverable more than one year (gross)	470.7	357.0	365.6

Reinsurance Assets	As at 31 Dec 2012 £m	As at 31 Dec 2011 £m	As at 31 Dec 2010 £m
Reinsurers' share of insurance liabilities	233.4	172.9	157.8
Total assets arising from reinsurance contracts	233.4	172.9	157.8
Recoverable within one year	35.6	16.2	15.4
Recoverable more than one year	197.8	156.7	142.4

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

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

	As at 31 Dec 2012 £m	As at 31 Dec 2011 £m	As at 31 Dec 2010 £m
Claims outstanding (before deduction of salvage and subrogation) and claims handling	472.1	461.8	490.0
Salvage and subrogation	(17.1)	(14.9)	(17.8)
Claims outstanding and claims handling expenses	455.0	446.9	472.2

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

20.3 Sensitivity of recognised amounts to changes in assumptions

The following table shows the impact of a 1% variation in the loss ratio on profit or loss and shareholders' equity after tax as at 31 December 2012:

	Accident year									
	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Net loss ratio	65%	64%	64%	71%	68%	87%	96%	83%	69%	84%
Impact of 1% variation (£m)	1.4	1.9	2.1	2.0	2.4	3.2	3.9	3.4	3.5	3.6

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

20.4 Claims development tables

The development of insurance liabilities provides a measure of the group's ability to estimate the ultimate value of claims.

Tables (a) and (b) illustrate how the group's estimate of total claims incurred for each accident year has developed over the past 10 years, including a reconciliation to the claims liability reported in the consolidated balance sheet. esure Group Holdings Limited acquired esure Holdings Limited on 11 February 2010. The estimated claims disclosed in the tables prior to the date of acquisition are those of esure Holdings Limited.

Table (c) expresses the development of net incurred claims by reference to the loss ratio for each accident year over the past 10 years.

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for the year ended 31 December 2012

20.4 Claims development tables (continued)

(a) Insurance claims – gross ultimate claims (£m)

Accident year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	TOTAL
Ultimate gross earned premium	189.5	262.2	288.8	276.7	335.9	447.1	544.3	479.1	488.7	511.7	3,824.0
Booked claims costs:											
- At end of reporting year	146.1	190.9	222.0	225.8	289.2	399.1	540.2	475.3	392.7	442.0	
- One year later	136.9	197.4	212.8	220.5	268.8	398.2	535.3	416.8	355.7		
- Two years later	130.8	196.3	207.5	219.7	242.0	407.5	536.6	399.0			
- Three years later	124.2	183.5	194.0	207.9	233.0	399.9	549.8				
- Four years later	122.4	173.5	187.4	205.5	232.9	382.9					
- Five years later	120.3	168.0	186.6	203.4	229.4						
- Six years later	122.1	166.7	186.0	215.4							
- Seven years later	121.8	166.8	188.2								
- Eight years later	121.6	166.6									
- Nine years later	120.9										
Current estimate of cumulative claims	120.9	166.6	188.2	215.4	229.4	382.9	549.8	399.0	355.7	442.0	3,049.9
Cumulative payments to date	(120.4)	(166.5)	(178.4)	(186.2)	(211.7)	(349.3)	(453.3)	(324.9)	(225.0)	(185.1)	(2,400.8)
Liability recognised in the consolidated statement of financial position											649.1
Reserve in respect of prior periods											11.3
Provision for claims handling costs											14.3
Salvage and subrogation											17.1
Total reserve included in the consolidated statement of financial position											691.8

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

20.4 Claims development tables (continued)

(b) Insurance claims – net ultimate claims (£m)

Accident year	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**TOTAL**
Ultimate net earned premium	180.4	248.3	276.5	263.9	321.4	424.1	514.9	452.1	459.7	480.2	3,621.5
Booked claims costs:											
- At end of reporting year	133.6	178.2	203.1	208.5	270.9	374.5	510.3	446.8	360.1	401.0	
- One year later	127.1	180.0	198.6	204.3	254.9	373.8	495.0	392.5	317.3		
- Two years later	124.6	178.3	194.6	203.1	227.0	372.0	495.0	374.6			
- Three years later	120.9	168.5	185.1	193.7	220.0	371.7	495.1				
- Four years later	118.7	160.8	179.5	188.2	223.5	367.6					
- Five years later	117.2	159.2	176.3	187.1	219.8						
- Six years later	117.3	158.7	175.6	187.0							
- Seven years later	117.2	158.6	175.6								
- Eight years later	117.3	158.3									
- Nine years later	117.2										
Current estimate of cumulative claims	117.2	158.3	175.6	187.0	219.8	367.6	495.1	374.6	317.3	401.0	2,813.5
Cumulative payments to date	(116.8)	(158.2)	(175.1)	(181.2)	(207.2)	(348.8)	(453.3)	(324.6)	(225.0)	(182.8)	(2,373.0)
Liability recognised in the consolidated statement of financial position											440.5
Reserve in respect of prior periods											0.2
Provision for claims handling costs											14.3
Claims outstanding and claims handling expenses											455.0
Salvage and subrogation											17.1
Total reserve included in the consolidated statement of financial position											472.1

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

20.4 Claims development tables (continued)

(c) Insurance claims – net loss ratio development

Accident year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Booked loss ratio:										
- At end of reporting year	74%	72%	73%	79%	84%	88%	99%	99%	78%	84%
- One year later	71%	73%	72%	77%	79%	88%	96%	87%	69%	
- Two years later	69%	72%	70%	77%	71%	88%	96%	83%		
- Three years later	67%	68%	67%	73%	69%	88%	96%			
- Four years later	66%	65%	65%	71%	70%	87%				
- Five years later	65%	64%	64%	71%	68%					
- Six years later	65%	64%	64%	71%						
- Seven years later	65%	64%	64%							
- Eight years later	65%	64%								
- Nine years later	65%									

20.5 Movements in insurance liabilities and reinsurance assets

(a) Claims reported and claims handling expenses (£m)

The movements in claims reported, excluding claims handling expenses, both gross and net of reinsurance (RI), are shown below:

	2012			2011			2010		
	Gross	RI	**Net**	Gross	RI	**Net**	Gross	RI	**Net**
Total at beginning of period	592.5	(160.5)	**432.0**	607.3	(146.2)	**461.1**	-	-	**-**
On acquisition of esure Holdings Limited	-	-	**-**	-	-	**-**	566.1	(102.2)	**463.9**
Cash paid for claims settled in year	(328.2)	4.8	**(323.4)**	(346.2)	9.8	**(336.4)**	(354.8)	5.4	**(349.4)**
Change arising from:									
Current year claims	442.0	(41.0)	**401.0**	392.8	(32.6)	**360.2**	403.5	(23.8)	**379.7**
Prior year claims	(45.9)	(23.0)	**(68.9)**	(61.4)	8.5	**(52.9)**	(7.5)	(25.6)	**(33.1)**
Total at end of year	660.4	(219.7)	**440.7**	592.5	(160.5)	**432.0**	607.3	(146.2)	**461.1**
Provision for claims handling costs	14.3	-	**14.3**	14.9	-	**14.9**	11.1	-	**11.1**
Salvage and subrogation	17.1	-	**17.1**	14.9	-	**14.9**	17.8	-	**17.8**
Total reserve per balance sheet	691.8	(219.7)	**472.1**	622.3	(160.5)	**461.8**	636.2	(146.2)	**490.0**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

20.5 Movements in insurance liabilities and reinsurance assets (continued)

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

	2012			2011			2010		
	Gross	RI	**Net**	Gross	RI	**Net**	Gross	RI	**Net**
Claims incurred	396.1	(64.0)	**332.1**	331.4	(24.1)	**307.3**	396.0	(49.4)	**346.6**
Claims handling expenses	17.3	-	**17.3**	22.5	-	**22.5**	19.0	-	**19.0**
Release of unexpired risk provision	-	-	**-**	(2.5)	-	**(2.5)**	(9.2)	-	**(9.2)**
Claims incurred and claims handling expenses	413.4	(64.0)	**349.4**	351.4	(24.1)	**327.3**	405.8	(49.4)	**356.4**

(b) Provisions for unearned premiums and unexpired insurance risks (£m)

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

	2012			2011			2010		
	Gross	RI	**Net**	Gross	RI	**Net**	Gross	RI	**Net**
Unearned premium provision									
At beginning of period	252.3	(12.4)	**239.9**	228.0	(11.6)	**216.4**	-	-	**-**
On acquisition of esure Holdings Limited	-	-	**-**	-	-	**-**	228.8	(10.6)	**218.2**
Premiums written in the period	515.0	(32.8)	**482.2**	499.5	(29.8)	**469.7**	409.9	(24.9)	**385.0**
Premiums earned in the period	(511.7)	31.5	**(480.2)**	(475.2)	29.0	**(446.2)**	(410.7)	23.9	**(386.8)**
At end of year	255.6	(13.7)	**241.9**	252.3	(12.4)	**239.9**	228.0	(11.6)	**216.4**
Unexpired risk provision									
At beginning of period			**-**			**2.5**			**-**
On acquisition of esure Holdings Limited			**-**			**-**			**11.7**
Increase in the period			**-**			**-**			**-**
Release in the period			**-**			**(2.5)**			**(9.2)**
At end of year			**-**			**-**			**2.5**

The unexpired risk provision related to motor insurance contracts for which the group expected to pay claims in excess of the related unearned premium provision.

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for the year ended 31 December 2012

21 Insurance and other receivables

	As at 31 Dec 2012 £m	As at 31 Dec 2011 £m	As at 31 Dec 2010 £m
Insurance receivables	142.1	126.7	118.4
Prepayments and accrued income	7.9	8.4	6.6
Other debtors	1.9	0.1	0.2
Salvage and subrogation assets	17.1	14.9	17.8
Total insurance and other receivables	169.0	150.1	143.0

Insurance receivables and other debtors are financial assets classified as loans and receivables. For more details see note 19, which includes the ageing of these loans and receivables.

The directors believe the carrying value of these financial assets approximates their fair value. A £2.0m provision for bad or doubtful debts has been included as part of insurance receivables. For more details, see note 19.

All insurance receivables and other receivables are recoverable within one year, aside from £1.2m of salvage and subrogation assets which are recoverable in more than one year (2011: £0.9m, 2010: £1.1m).

22 Deferred acquisition costs

Movement in the deferred acquisition costs asset are as follows:

Deferred Acquisition Costs	31 Dec 2012 £m	31 Dec 2011 £m	31 Dec 2010 £m
At beginning of period	23.4	18.7	-
On acquisition of esure Holdings Limited	-	-	20.4
Movement during the period	2.5	4.7	(1.7)
At 31 December	25.9	23.4	18.7

Deferred acquisition costs are recoverable within one year.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

23 Cash and cash equivalents

	31 Dec 2012 £m	31 Dec 2011 £m	31 Dec 2010 £m
Cash at bank and in hand	39.4	32.5	18.9
Total	39.4	32.5	18.9

24 Insurance and other payables

	31 Dec 2012 £m	31 Dec 2011 £m	31 Dec 2010 £m
Insurance payables	13.6	9.7	12.0
Accrued expenses	34.3	35.7	40.2
Social security and other taxes	9.2	10.1	9.4
Deferred income	12.3	11.7	7.9
	69.4	67.2	69.5

Insurance and other payables include financial liabilities of £22.8m (2011: £19.8m, 2010: £21.4m) classified as other financial liabilities.

Insurance payables and accrued expenses principally comprise amounts outstanding for suppliers and ongoing costs. The average credit period taken for invoiced trade purchases is 7.0 days (2011: 6.2 days, 2010: 5.0 days). The directors consider that the carrying amount of insurance and other payables approximates their fair value. All insurance and other payables are due within one year aside from government grants.

Included within deferred income is £0.6m in government grants (2011: £0.5m, 2010: nil). This is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

25 Deferred tax assets and liabilities

The following are the deferred tax assets and liabilities recognised by the group and movements thereon during the current and prior periods.

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As at 31 Dec 2012 £m	As at 31 Dec 2011 £m	As at 31 Dec 2010 £m
Deferred tax assets	4.0	3.6	5.0
Deferred tax liabilities	(4.5)	(5.1)	(6.4)
Net deferred tax liabilities	(0.5)	(1.5)	(1.4)

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

	Year ended 31 Dec 2012 £m	Year ended 31 Dec 2011 £m	Period ended 31 Dec 2010 £m
At 1 January	(1.5)	(1.4)	-
Acquisition of subsidiary (note 17)	-	-	(5.2)
Income statement credit / (charge) (note 13)	0.8	(0.2)	3.6
Effect of change in tax rate	0.2	0.1	0.2
At 31 December	(0.5)	(1.5)	(1.4)

The deferred tax rate used is 23.25% (2011: 25.25%, 2010: 27%).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

25 Deferred tax assets and liabilities (continued)

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

	Accelerated capital allowances	Unrelieved losses	Deferred acquisition costs	Claims handling reserve	Short term employee benefits	Lease incentive	Expense Reallocation	Total
Deferred tax assets	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
On incorporation	-	-	-	-	-	-	-	-
On acquisition of esure Holdings Limited	1.3	-	2.6	-	0.1	-	0.3	4.3
(Charged) / credited to the income statement	(0.3)	1.3	(0.3)	-	0.0	0.0	(0.0)	0.7
At 31 December 2010	1.0	1.3	2.3	-	0.1	0.0	0.3	5.0
Brought forward as at 1 January 2011	1.0	1.3	2.3	-	0.1	0.0	0.3	5.0
(Charged) / credited to the income statement	(0.0)	(1.3)	0.5	0.1	(0.0)	0.1	(0.8)	(1.4)
At 31 December 2011	1.0	-	2.8	0.1	0.1	0.1	(0.5)	3.6
Brought forward as at 1 January 2012	1.0	-	2.8	0.1	0.1	0.1	(0.5)	3.6
(Charged) / credited to the income statement	(0.0)	-	0.6	(0.0)	(0.1)	(0.0)	(0.1)	0.4
At 31 December 2012	1.0	-	3.4	0.1	-	0.1	(0.6)	4.0

Deferred tax assets are recognised in 2010 for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

There is an unrecognised deferred tax asset on land and buildings of £5.4m at 31 December 2012 (2011: £5.5m, 2010: £5.6m).

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for the year ended 31 December 2012

25 Deferred tax assets and liabilities (continued)

Deferred tax liabilities	Derivatives £m	Software £m	Intangible assets £m	Claims equalisation reserve £m	Onerous lease £m	Total £m
On incorporation	-	-	-	-	-	-
On acquisition of esure Holdings Limited	-	(0.1)	(8.8)	(0.6)	-	(9.5)
(Charged) / credited to the income statement	(0.1)	0.1	2.5	0.6	-	3.1
At 31 December 2010	(0.1)	(0.0)	(6.3)	-	-	(6.4)
Brought forward as at 1 January 2011	(0.1)	(0.0)	(6.3)	-	-	(6.4)
(Charged) / credited to the income statement	0.1	0.0	1.7	(0.5)	-	1.3
At 31 December 2011	-	-	(4.6)	(0.5)	-	(5.1)
Brought forward as at 1 January 2012	-	-	(4.6)	(0.5)	-	(5.1)
(Charged) / credited to the income statement	-	-	1.2	(0.6)	(0.0)	0.6
At 31 December 2012	-	-	(3.4)	(1.1)	(0.0)	(4.5)

26 Provisions for other liabilities and charges

Contractual Dispute

The group had made provision for the anticipated legal costs associated with a contractual dispute as at 31 December 2010 of £0.6m. During 2011, this dispute was resolved and the provision released in the year.

There were no provisions for other liabilities and charges as at 31 December 2012.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

27 Share capital

	Ordinary shares £m	Share premium £m	Total £m
On incorporation	0.0	-	0.0
Shares issued during the period	85.2	-	85.2
Balance at 31 December 2010	85.2	-	85.2
Shares issued during the year	0.0	0.0	0.0
Balance at 31 December 2011	85.2	0.0	85.2
Shares issued during the year	-	-	-
Balance at 31 December 2012	85.2	0.0	85.2

During the period ended 31 December 2010, esure Group Holdings Limited issued 9,990,000 A Ordinary shares of 1p each, 8,232,038 B Ordinary shares of 1p each, 14,985,000 C Ordinary shares of 1p each, 8,485,014,000 Ordinary shares of 1p each and 1,000 Redeemable priority return shares of 1p each. At 31 December 2010, this was the share capital in issue.

During the year ended 31 December 2011, esure Group Holdings Limited issued 92,962 B Ordinary shares of 1p each. At 31 December 2011, esure Group Holdings Limited had in issue 9,990,000 A Ordinary shares of 1p each, 8,325,000 B Ordinary shares of 1p each, 14,985,000 C Ordinary shares of 1p each, 8,485,014,000 Ordinary shares of 1p each and 1,000 Redeemable priority return shares of 1p each.

No shares were issued in the year ended 31 December 2012. At 31 December 2012, esure Group Holdings Limited had in issue 9,990,000 A Ordinary shares of 1p each, 8,325,000 B Ordinary shares of 1p each, 14,985,000 C Ordinary shares of 1p each, 8,485,014,000 Ordinary shares of 1p each and 1,000 Redeemable priority return shares of 1p each. All shares are fully paid.

A Ordinary

The shares have attached to them full voting rights; dividend rights of any further profits available after the payments to the Priority Return Shareholders pro-rata to the paid up amount upon each such share held provided that (before a listing, sale or liquidation) any profits distributed in respect of these shares shall be allocated amongst the holders of these shares at 30% of the sum available to the A Shareholders pro-rata of the number of A Ordinary Shares held by each A Shareholder; return of capital rights of any further amounts available after payments to the Priority Return Share holders pro-rata to the paid up amount upon each such share held provided that (before a listing, sale or liquidation) any profits distributed in respect of these shares shall be allocated amongst the holders of these shares at 30% of the sum available to the A Shareholders pro-rata to the number of A Ordinary Shares held by each A Shareholder; they do not confer any rights of redemption.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

27 Share capital (continued)

B Ordinary

The shares have attached to them full voting rights; dividend rights of any further profits available after the payments to the Priority Return Shareholders pro-rata to the paid up amount upon each such share held provided that (before a listing, sale or liquidation) any profits distributed in respect of these shares shall be allocated amongst the holders of these shares at 10% of the sum available to the B Shareholders pro-rata to the number of B Ordinary Shares held by each B Shareholder; return of capital rights of any further amounts available after payments to the Priority Return Shareholders pro-rata to the paid up amount upon each such share held provided that (before a listing, sale or liquidation) any profits distributed in respect of these shares shall be allocated amongst the holders of these shares at 10% of the sum available to the B Shareholders pro-rata to the number of B Ordinary Shares held by each B Shareholder; they do not confer any rights of redemption.

C Ordinary

The shares have attached to them full voting rights; dividend rights of any further profits available after the payments to the Priority Return Shareholders pro-rata to the paid up amount upon each such share held provided that (before a listing, sale or liquidation) any profits distributed in respect of these shares shall be allocated amongst the holders of these shares at 60% of the sum available to the C Shareholders pro-rata to the number of C Ordinary Shares held by each C Shareholder; return of capital rights of any further amounts available after payments to the Priority Return Shareholders pro-rata to the paid up amount upon each such share held provided that (before a listing, sale or liquidation) any profits distributed in respect of these shares shall be allocated amongst the holders of these shares at 60% of the sum available to the C Shareholders pro-rata to the number of C Ordinary shares held by each C Shareholder; they do not confer any rights of redemption.

Ordinary

The shares have attached to them no voting rights unless the business of any general meeting or class meeting of the holders of Ordinary Shares includes a resolution for the winding up of the company, or for the appointment of an administrator or the approval of a voluntary arrangement, or a reduction in the capital of the company and/or a resolution altering, varying or abrogating any of the special rights and/or privileges attaching to the Ordinary Shares; dividend rights of any further profits available after the payments to the Priority Return Shareholders pro-rata to the paid up amount upon each such share; return of capital rights of any further amounts available after payments to the Priority Return Shareholders pro-rata to the paid up amount upon each such share held; they do not confer any rights of redemption.

Redeemable Priority Return

The shares have attached to them no voting rights unless the business of any general meeting or class meeting of the holders of the Priority Return Shares includes a resolution for the winding up of the company, or for the appointment of an administrator or the approval of a voluntary arrangement, or a reduction in the capital of the company and/or a resolution altering, varying or abrogating any of the special rights and/or privileges attaching to the Priority Return Shares; dividend rights; the priority payment of an amount equal to the priority return on each Priority Return Share held by them less any part of the priority return previously paid in respect of each such share by the distribution of profits; capital distribution (including on winding up) rights of priority payment of an amount equal to the priority return on each Priority Return Share held by them less any part of the priority return previously paid in respect of each such share by the distribution of profits or a return of capital; they confer rights of redemption of an amount equal to the priority return in respect of each such share less any part of the priority return previously paid in respect of each such share by the distribution of profits or a return of capital.

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27 Share capital (continued)

Share Based Payments

As part of the group reorganisation carried out on 11 February 2010, A Ordinary Shares were issued to certain directors and employees of the group. At that date, certain directors and employees were also invited to subscribe for B Ordinary Shares. In addition, further B Ordinary Shares were issued to employees in April 2010, June 2010, November 2011 and December 2011. A full description of shares issued and the rights of these share classes is set out above.

A proportion of the A Ordinary Shares and B Ordinary Shares include certain restrictions over the ownership of these shares, in general requiring the individuals to remain in the employment of the group for a period of between two and six years from the date the shares were acquired before the full ownership rights vest with the individual. Where a holder of the A Ordinary Shares or B Ordinary Shares leaves the employment of the group, any shares held which have not yet vested are required to be relinquished by the individual.

The B Ordinary Shares also include a ratchet mechanism whereby the relative share of the total proceeds from an exit event (as defined by the articles of association) attributable to the B Ordinary Shares increases as the exit value (as defined by the articles of association) increases above certain thresholds.

The conditions attaching to those A Ordinary Shares with restrictions meet the definition of service conditions for the purposes of share-based payments. The conditions attaching to those B Ordinary Shares with restrictions meet the definition of performance conditions for the purpose of share-based payments.

The fair value of the share-based payment attaching to the A Ordinary shares was determined using a binomial pricing model, taking into account the impact of the ownership restrictions on the current price of the share for IFRS 2 purposes and expected increases value over the vesting period.

The fair value of the share-based payment attaching to the B Ordinary shares was determined using a binomial pricing model, taking into account the impact of the ownership restrictions on the current price of the share for IFRS 2 purposes and expected increases value over the vesting period. In addition, Monte Carlo simulation techniques were applied to determine the expected impact on the fair value of the share-based payment arising from the ratchet mechanism.

The fair value of the share-based payment attaching to the A Ordinary shares and the share-based payment attaching to the B Ordinary shares were estimated to be nil. As such, no share-based payment charge has been recognised in the income statement.

The ratchet mechanism attached to the B Ordinary shares was amended in November 2011, thus representing a modification as defined by IFRS 2.The incremental fair value of the modification was determined as the difference between the fair value of the modified awards less the fair value of the original awards, both measured at the date of modification. In each case the fair value was calculated using a binomial option pricing model together with Monte Carlo simulation techniques with regard to the expected impact on the fair value of the share-based payment arising from the amended ratchet mechanism. As a result of these calculations, it was determined that the modification of the share-based payments resulted in no incremental fair value.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

28 Commitments

(a) Pension capital commitments

The group contributes to a Group Personal Pension defined contribution scheme available to all staff of which 782 (2011: 812, 2010: 841) employees participate in the scheme.

The pension cost charge for the period represents contributions payable by the group to the scheme and amounted to £2.4m (2011: £2.2m, 2010: £1.8m). There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

(b) Capital commitments

The group has entered into the following contracts for assets which have not been provided for at the balance sheet date:

	As at 31 Dec 2012 £m	As at 31 Dec 2011 £m	As at 31 Dec 2010 £m
Fixed asset acquisitions contracted for but not provided in these consolidated financial statements	0.3	0.2	1.4

(c) Operating lease commitments – where the group is a lessee

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 Dec 2012 £m	As at 31 Dec 2011 £m	As at 31 Dec 2010 £m
Not later than 1 year	3.2	3.2	3.2
Later than 1 year and no later than 5 years	13.1	13.0	12.8
Later than 5 years	7.3	10.6	14.0
	23.6	26.8	30.0

(d) Operating lease commitments – where the group is a lessor

The future aggregate minimum lease payments receivable under non-cancellable operating leases are as follows:

	As at 31 Dec 2012 £m	As at 31 Dec 2011 £m	As at 31 Dec 2010 £m
Not later than 1 year	0.1	0.1	0.2
Later than 1 year and no later than 5 years	0.2	0.4	0.5
Later than 5 years	-	-	-
	0.3	0.5	0.7

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

29 Group subsidiary companies

esure Group Holdings Limited has the following principal subsidiaries as at 31 December 2012:

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

esure Group Holdings Limited and esure Finance Limited were incorporated on 3 November 2009 as the acquiring entities for the business combination that took place on 10 February 2010 and these companies commenced trading on that date. Prior to this esure Holdings Limited was the 100% parent entity of the esure group.

esure broker limited was incorporated on 8 December 2010 under the name Sheilas' Wheels Driving Academy Limited. On 6 May 2011 the company name was changed to esure broker limited.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

30 Related party transactions

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

a) Commissions and fees receivable for introducing insurance business:

The group receives commissions and fees for customer introduction services provided to Gocompare for introducing insurance business. The value of transactions during the period to 31 December 2012 was £0.1m (2011: £0.1m, 2010: £0.1m). The amount receivable at 31 December 2012 is nil (2011: £0.1m, 2010: £0.1m)

These transactions arise in the normal course of business through fixed fees, and are based on arm's length arrangements.

b) Commissions and fees payable for introducing insurance business:

The group pays commissions and fees for customer introduction services provided by Gocompare for introducing insurance business. The value of transactions during the period to 31 December 2012 was £6.2m (2011: £7.1m, 2010: £5.3m). The amount payable at 31 December 2012 is £0.2m (2011: £0.4m, 2010: £0.5m)

These transactions arise in the normal course of obtaining insurance business through brokerages, and are based on arm's length arrangements.

c) Transactions with shareholders, subsidiaries, associates and joint ventures

The following transactions took place with shareholders, subsidiaries, associates and joint ventures:

- Interest due in respect of a loan facility provided to Gocompare. The loan was repaid in full during 2010.
- One of the directors had a beneficial part ownership interest in restaurants which had been used by the group for corporate events and entertaining purposes.
- Fees in respect of services provided by employees of Penta Capital LLP in their capacity as non-executive directors of the group.

	Year ended 31 Dec 2012 £m	**Year ended 31 Dec 2011 £m**	**Period ended 31 Dec 2010 £m**
Value of transactions during the period:			
Gocompare	-	-	0.1
Restaurants	0.1	0.1	-
Penta Capital LLP	0.1	0.1	0.0
	0.2	0.2	0.1
Amount payable at the balance sheet date:			
Gocompare	-	-	-
Restaurants	-	-	-
Penta Capital LLP	0.0	0.1	0.0
	0.0	0.1	0.0

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

30 Related party transactions (continued)

d) Other transactions

REAL Digital International Limited, is a supplier of the group to which one of the company's directors made a commercial loan. The loan was repaid prior to 31 December 2010. Invoices payable to REAL Digital International Limited amounted to £1.6m during the period ended 31 December 2010 of which £0.2m remained due at 31 December 2010.

e) Compensation of key management personnel

The key management personnel are considered to be the directors. Please refer to note 8 for details of the directors' remuneration.

31 Ultimate controlling party

The company is a private limited company incorporated in England and Wales, which is controlled by Tosca Penta Investments LP and Peter Wood.

32 Restatement of prior periods to IFRSs

This is the first full year that esure Group Holdings Limited has presented consolidated financial statements under IFRSs. The following disclosures are required in the year of transition. The last consolidated financial statements prepared under UK GAAP were for the period ended 31 December 2011; however the date of transition to IFRSs is deemed to be the date of incorporation (3 November 2009). As the date of incorporation is taken to be the date of transition, no transition tables have been prepared for the opening balance sheet as there are no adjustments required.

The group has applied IFRS 1 in preparing these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

32.1 Reconciliation of UK GAAP Equity to IFRSs Equity as at 31 December 2010:

	UK GAAP 31 Dec 2010	Adjustments	IFRSs 31 Dec 2010
	£m	£m	£m
Assets			
Intangible assets	11.0	17.2	28.2
Property, plant and equipment	15.7	(1.4)	14.3
Investment in joint venture	35.0	(1.6)	33.4
Insurance and other receivables and deferred acquisition costs	153.3	8.4	161.7
Financial investments	736.2	-	736.2
Reinsurance assets	157.8	-	157.8
Deferred tax	2.3	(2.3)	-
Cash and cash equivalents	18.9	-	18.9
Total assets	1,130.2	20.3	1,150.5
Equity and liabilities			
Ordinary shares	85.2	-	85.2
Share premium account	0.0	-	0.0
Retained earnings	14.1	0.6	14.7
Total equity	99.3	0.6	99.9
Liabilities			
Insurance liabilities	848.8	17.9	866.7
Insurance and other payables and provisions for liabilities and charges	69.7	0.4	70.1
Deferred tax	-	1.4	1.4
Borrowings	112.4	-	112.4
Total liabilities	1,030.9	19.7	1,050.6
Total equity and liabilities	1,130.2	20.3	1,150.5

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

32.2 Analysis of adjustments to the Balance sheet as at 31 December 2010:

	Revaluation of land and buildings	Deferred acquisition costs and CHR	Reclassification of expenses associated with additional services revenue	Internal software development costs capitalised	Reclassification of salvage and subrogation assets	Short term employee benefits	IAS 32 Deferred tax on derivatives	Reversal of amortisation of goodwill on joint venture	Lease incentive	IFRS 3 accounting for acquisition of eHL	Reclassification of purchased software	Intangible assets recognised on application of equity method to Gocompare	Total Adjustments
Note	a	d	e	f	g	h	j	k	l	m	n	o	
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Assets													
Intangible assets	-	-	-	0.1	-	-	-		-	15.8	1.3	-	17.2
Property, plant and equipment	(0.1)	-	-	-	-	-	-		-	-	(1.3)	-	(1.4)
Investment in joint venture	-	(0.2)	-	-	-	-	-	1.2	-	-	-	(2.6)	(1.6)
Insurance and other receivables and deferred acquisition costs	-	(8.2)	(1.3)	-	17.9	-	-	-	-		-	-	8.4
Financial investments	-	-	-	-	-	-	-	-	-	-	-	-	-
Reinsurance assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-	-		-	-	-	-	-
Total assets	(0.1)	(8.4)	(1.3)	0.1	17.9	-	-	1.2	-	15.8	-	(2.6)	22.6
Equity and liabilities													
Ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium account	-	-	-	-	-	-	-	-	-	-	-	-	-
Retained earnings	(0.1)	(6.2)	(0.9)	0.0	-	(0.2)	(0.1)	1.2	(0.1)	9.5	-	(2.6)	0.6
Total equity	(0.1)	(6.2)	(0.9)	0.0	-	(0.2)	(0.1)	1.2	(0.1)	9.5	-	(2.6)	0.6

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

32.2 Analysis of adjustments to the Balance sheet as at 31 December 2010 (continued):

	Revaluation of land and buildings	Deferred acquisition costs and CHR	Reclassification of expenses associated with additional services revenue	Internal software development costs capitalised	Reclassification of salvage and subrogation assets	Short term employee benefits	IAS 32 Deferred tax on derivatives	Reversal of amortisation of goodwill on joint venture	Lease incentive	IFRS 3 accounting for acquisition of eHL	Reclassification of purchased software	Intangible assets recognised on application of equity method to Gocompare	Total Adjustments
Note	a	d	e	f	g	h	j	k	l	m	n	o	
Liabilities													
Derivative financial liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
Insurance liabilities	-	-	-	-	17.9	-	-	-	-	-	-	-	17.9
Insurance and other payables	-	-	-	-	-	0.3	-	-	0.1	-	-	-	0.4
Deferred tax	-	(2.2)	(0.4)	0.1	-	(0.1)	0.1	-	(0.0)	6.3	-	-	3.7
Borrowings	-	-	-	-	-	-	-	-	-	-	-	-	
Current income tax liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	-	(2.2)	(0.4)	0.1	17.9	0.2	0.1	-	0.1	6.3	-	-	22.0
Total equity and liabilities	(0.1)	(8.4)	(1.3)	0.1	17.9	-	-	1.2	-	15.8	-	(2.6)	22.6

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

32.3 Reconciliation of loss on ordinary activities after tax for the period ended 31 December 2010:

	Note	Period ended 31 Dec 2010 £m
Profit on ordinary activities after tax reported under UK GAAP		14.1
Revaluation of land and buildings	a	(0.1)
Reversal of claims equalisation reserve	c	(2.0)
Deferred acquisition costs and claims handling reserve	d	0.7
Reclassification of expenses associated with additional services revenue	e	0.0
Internal software development costs capitalised	f	(0.3)
Deferred tax	j	2.7
Amortisation of intangible assets arising in IFRS 3 accounting for esure Holdings Limited acquisition	m	(8.1)
Reversal of amortisation of goodwill arising on joint venture and on acquisition of esure Holdings Limited	k,m	1.5
Lease incentive	l	(0.1)
Short term employee benefits	h	(0.0)
Negative goodwill arising on acquisition	m	15.7
Transaction fees expensed on acquisition	m	(7.0)
Recognition and amortisation of intangibles arising on application of equity method to interest in Gocompare	o	(2.4)
Profit on ordinary activities after tax reported under IFRSs		14.7

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

32.4 Reconciliation of UK GAAP Equity to IFRSs Equity as at 31 December 2011:

	UK GAAP 31 Dec 2011	Adjustments	IFRSs 31 Dec 2011
	£m	£m	£m
Assets			
Intangible assets	7.1	13.0	20.1
Property, plant and equipment	16.8	(2.3)	14.5
Investment in joint venture	39.2	(3.4)	35.8
Insurance and other receivables and deferred acquisition costs	167.7	5.8	173.5
Financial investments	726.4	-	726.4
Reinsurance assets	172.9	-	172.9
Deferred tax	1.0	(1.0)	-
Cash and cash equivalents	32.5	-	32.5
Total assets	1,163.6	12.1	1,175.7
Equity and liabilities			
Ordinary shares	85.2	-	85.2
Share premium account	0.0	-	0.0
Retained earnings	61.2	(3.4)	57.8
Total equity	146.4	(3.4)	143.0
Liabilities			
Derivative financial liabilities	0.4	-	0.4
Insurance liabilities	861.4	13.2	874.6
Insurance and other payables	66.4	0.8	67.2
Deferred tax	-	1.5	1.5
Borrowings	83.0	-	83.0
Current income tax liabilities	6.0	0.0	6.0
Total liabilities	1,017.2	15.5	1,032.7
Total equity and liabilities	1,163.6	12.1	1,175.7

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

32.5 Analysis of adjustments to the Balance sheet as at 31 December 2011:

	Revaluation of land and buildings	Reversal of Claims Equalisation Reserve	Deferred acquisition costs and CHR	Reclassification of expenses associated with additional services revenue	Reclassification of salvage and subrogation assets	Short term employee benefits	Reclassification of deferred tax	Reversal of amortisation of goodwill on joint	Lease incentive	IFRS 3 accounting for acquisition of eHL	Reclassification of purchased software	Intangible assets recognised on application of equity method to Gocompare	Total Adjustments
Note	a	c	d	e	g	h	i	k	l	m	n	o	
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Assets													
Intangible assets	-	-	-	-	-	-	-	-	-	10.8	2.2	-	13.0
Property, plant and equipment	(0.1)	-	-	-	-	-	-	-	-	-	(2.2)	-	(2.3)
Investment in joint venture	-	-	(0.3)	-		-	-	2.8	-	-	-	(5.9)	(3.4)
Insurance and other receivables and deferred acquisition costs	-	-	(10.8)	1.7	14.9	-	-	-	-	-	-	-	5.8
Financial investments	-	-	-	-	-	-	-	-	-	-	-	-	-
Reinsurance assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax	-	-	-	-	-	-	(1.0)	-	-	-	-	-	(1.0)
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	(0.1)	-	(11.1)	1.7	14.9	-	(1.0)	2.8	-	10.8	-	(5.9)	12.1
Equity and liabilities													
Ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium account	-	-	-	-	-	-	-	-	-	-	-	-	-
Retained earnings	(0.1)	1.6	(8.8)	1.3	-	(0.2)	-	2.8	(0.4)	6.3	-	(5.9)	(3.4)
Total equity	(0.1)	1.6	(8.8)	1.3	-	(0.2)	-	2.8	(0.4)	6.3	-	(5.9)	(3.4)
Liabilities													
Derivative financial liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
Insurance liabilities	-	(2.2)	0.5	-	14.9	-	-	-	-	-	-	-	13.2
Insurance and other payables	-	-	-	-	-	0.3	-	-	0.5	-	-	-	0.8
Deferred tax	-	0.6	(2.8)	0.4	-	(0.1)	(1.0)	-	(0.1)	4.5	-	-	1.5
Borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-
Current income tax liabilities	-	-	-	-	-	-	-	-	-	0.0	-	-	0.0
Total liabilities	-	(1.6)	(2.3)	0.4	14.9	0.2	(1.0)	-	0.4	4.5	-	-	15.5
Total equity and liabilities	(0.1)	-	(11.1)	1.7	14.9	-	(1.0)	2.8	-	10.8	-	(5.9)	12.1

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

32.6 Reconciliation of loss on ordinary activities after tax for the year ended 31 December 2011:

esure Group Holdings Limited	**Note**	**Year ended 31 Dec 2011 £m**
Profit on ordinary activities after tax reported under UK GAAP		47.0
Reversal of claims equalisation reserve	c	2.2
Deferred acquisition costs and claims handling reserve	d	(1.5)
Reclassification of expenses associated with additional services revenue	e	1.3
Internal software developments costs capitalised	f	(0.1)
Deferred tax	j	1.3
Amortisation of intangible assets arising in IFRS 3 accounting for esure Holdings Limited acquisition	m	(5.3)
Reversal of amortisation of goodwill arising on joint venture and on acquisition of esure Holdings Limited	k, m	1.9
Lease incentive	l	(0.4)
Short term employee benefits	h	0.0
Recognition and amortisation of intangibles arising on application of equity method to interest in Gocompare	o	(3.3)
Profit on ordinary activities after tax reported under IFRSs		43.1

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

32.7 Adjustments made under IFRSs

Below is a summary of the adjustments made to convert esure Group Holdings Limited from UK GAAP to IFRSs:

a) Revaluation of land and buildings

Under the group's adopted IFRSs accounting policies, land and buildings are subject to a fair value adjustment at each reporting date. The change in accounting policy has resulted in adjustments to carrying value at 31 December 2008 and 31 December 2009.

b) Fair valuing of the option to acquire shares in Gocompare

Under IAS 39 an option held to acquire 50% of the shares in Gocompare was subject to a fair value adjustment up to the date of acquisition of esure Holdings Limited. As a result, the IFRSs book value of financial investments held by esure Holdings at the date of acquisition was £31.7m greater than reported under UK GAAP, and the fair value adjustments required at the date of acquisition were £31.7m less.

c) Reversal of Claims Equalisation Reserve

Under UK GAAP, a claims equalisation reserve was provided for. However provisions for possible future claims (equalisation provision) are not permitted under IFRS 4.

d) Deferred acquisition costs and claims handling reserve

The following change in accounting policy has been made. In order to show the correct technical result under UK GAAP certain intra-group transactions were not eliminated in the consolidated financial statements under UK GAAP. Applying IFRSs, upon elimination, acquisition costs that were previously deferred are recognised as an expense, including deferred acquisition costs relating to expenses incurred to the joint venture. Additionally, a claims handling reserve is recognised in respect of expenses previously attributed to a non insurance risk carrying entity at the consolidated level. The change in accounting policy has resulted in adjustments to the profit or (loss) on ordinary activities after tax reported under IFRSs.

e) Reclassification of expenses associated with additional services revenue

During 2011, the group adopted a new approach for allocating expenses to activities generating additional services revenue. A reclassification has been made to state prior year figures on the same basis. There is a resulting impact to deferred acquisition costs.

f) Internal software developments costs capitalised

Under IAS 38, internally developed software must be capitalised if it meets the recognition criteria.

g) Reclassification of salvage and subrogation assets

Under IFRSs, insurance contract liabilities are stated gross of salvage and subrogation recoveries, which are recognised as an asset.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

32.7 Adjustments made under IFRSs (continued)

h) Short term employee benefits

Under IFRSs, a provision for short term employee benefits must be accrued for at each reporting date.

i) Reclassification of deferred tax

Deferred tax arising under UK GAAP has in certain cases been reclassified as a result of the net tax position changing.

j) Recognition of deferred tax arising on adjustments made

Certain measurement differences have given rise to deferred tax assets and liabilities not previously recognised under UK GAAP. The impact of these is given for each balance sheet item. The reconciliation of the income statement provides each item gross and therefore an adjustment is also included to take account of the deferred tax arising separately.

k) Reversal of amortisation of goodwill on joint venture

Amortisation arising as a result of entering into a joint venture has been reversed as goodwill is not amortised under IFRSs.

l) Lease incentive

The accounting treatment for a lease incentive held by the group has altered under IFRSs in order to be accounted for over the length of the lease, rather than the non-cancellable period after which the lease can be re-negotiated.

m) IFRS 3 accounting for acquisition of esure Holdings Limited

By adopting IFRS 3 in accounting for the acquisition of esure Holdings Limited, a number of adjustments have arisen, primarily to recognise acquired intangible assets at fair value. As a result of the recognition of the intangibles acquired, negative goodwill arises on the acquisition and this has been recognised in the income statement at the date of acquisition.

n) Reclassification of purchased software

In accordance with the requirements of IAS 38, purchased software has been reclassified as an intangible asset.

o) Recognition and amortisation of intangibles arising on application of equity method to interest in Gocompare

In accordance with the requirements of IAS 28 and IAS 31, intangible assets for customer relationships, brands and internally generated software have been recognised on application of the equity method to the interest held in Gocompare. A further adjustment for the amortisation of these intangible assets has been recorded.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

32.7 Adjustments made under IFRSs (continued)

p) Reclassification of income and expenditure associated with policy and administration fees from additional services

Policy administration fees (2011: £13.5m, 2010: £10.9m) were classified within earned premiums when preparing financial statements under UK GAAP. This revenue is classified as fees from additional services in the consolidated financial statements. Related expenditure (2011: £3.3m, 2010: £2.6m) has been reclassified to other expenses from insurance expenses.

32.8 Adjustments made under IFRSs to cashflows

The consolidated statement of cashflows has been adjusted to reflect the above IFRSs conversion adjustments. There have been no changes to the overall cash result, however the presentation of a statement of cashflows on an IFRSs basis has resulted in the reclassification of certain items compared to the presentation under UK GAAP.

PARENT COMPANY BALANCE SHEET

	Notes	As at 31 Dec 2012 £m	As at 31 Dec 2011 £m
Fixed assets			
Investments	4	85.1	85.1
Current assets			
Debtors	5	0.2	0.0
Cash at bank		2.1	0.1
		2.3	0.1
Creditors : amounts falling due within one year	6	(1.4)	(0.0)
Net current assets		0.9	0.1
Total assets less current liabilities		86.0	85.2
Capital and reserves			
Share capital	7	85.2	85.2
Share premium account		0.0	0.0
Profit and loss account		0.8	0.0
Shareholders' funds – all equity	8	86.0	85.2

The notes on pages 90 to 91 form part of these financial statements

These financial statements were approved by the board on 7 February 2013 and signed on its behalf.

S R Vann
Director

D Ogden
Director

Registered number: 07064312

Notes to the parent company financial statements

Parent company accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements except as noted below.

1. Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

The financial statements have been prepared on a going concern basis. In considering the appropriateness of this assumption, the board has reviewed the company's projections for the next twelve months and beyond, including cash flow forecasts. Consequently, the directors believe that the company has adequate resources to remain a going concern for the foreseeable future.

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

The financial statements do not include a cash flow statement because the company is exempt from the requirement to prepare such a statement under FRS 1 (revised). The cash flows of the company are included in the consolidated group cash flow statements of esure Group Holdings Limited.

The parent company audit fee is not disclosed in these financial statements as it is disclosed in the consolidated financial statements for esure Group Holdings Limited above at note 10.

2 Investments

Shares in group undertakings are stated in the balance sheet at cost.

3 Taxation

The charge for taxation is based on the profit for the year.

4 Fixed asset investments

	As at 31 Dec 2012 £m	As at 31 Dec 2011 £m
Shares in group undertakings	85.1	85.1

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

	Country of incorporation	Class of shares held
Esure Finance Limited	England and Wales	Ordinary

Notes to the parent company financial statements

5 Debtors

	As at 31 Dec 2012 £m	As at 31 Dec 2011 £m
Due within one year		
Amounts owed by group undertakings	0.2	-
Other debtors	0.0	0.0
	0.2	0.0

6 Creditors:

Amounts falling due within one year

	As at 2012 £m	As at 31 Dec 2011 £m
Amounts owed to group undertakings	0.3	0.0
Other creditors	1.1	0.0
	1.4	0.0

7 Share capital

Full details of the company's share capital are included in the consolidated financial statements of esure Group Holdings Limited above at note 27.

8 Reconciliation of movement in shareholders' funds

	Year ended 31 Dec 2012 £m	Year ended 31 Dec 2011 £m
Profit/(loss) for the year	0.8	(0.0)
Shares issued during the year	-	0.0
Share premium on shares issued (net of expenses)	-	0.0
Opening shareholders' funds	85.2	85.2
Closing shareholders' funds	86.0	85.2

9 Ultimate controlling party

The company is a private limited company incorporated in England and Wales, which is controlled by Tosca Penta Investments LP and Peter Wood.