Sabre
INSURANCE GROUP

7 April 2020

SABRE INSURANCE GROUP PLC

AUDITED RESULT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

ROBUST PERFORMANCE IN A TURBULENT MARKET
CONTINUED FOCUS ON UNDERWRITING PROFITABILITY OVER GROWTH

Sabre Insurance Group plc (the "Group", or "Sabre"), one of the UK's leading private motor insurance underwriters, reports its audited full year results for the year ended 31 December 2019.

	2019	2018	Change
Gross written premium	**£197.0m**	£210.0m	(£13m)
Net loss ratio	**51.5%**	48.5%	3.0ppts
Expense ratio	**21.9%**	22.1%	(0.2ppts)
Combined operating ratio	**73.4%**	70.6%	2.8ppts
Adjusted profit after tax	**£45.7m**	£50.1m	(£4.4m)
Return on opening SCR	**74.9%**	82.0%	(7.1ppts)
Return on tangible equity	**41.6%**	54.4%	(12.8ppts)
Total dividend per share	**12.8p**	20.0p	(7.2p)
Final ordinary dividend per share	**8.1p**	6.8p	1.3p
Special dividend per share	**-**	6.0p	(6.0p)
Interim dividend per share	**4.7p**	7.2p	(2.5p)
Solvency coverage ratio (pre dividend)	**214%**	213%	1ppt
Solvency coverage ratio (post dividend)	**180%**	161%	19ppts

- Robust financial performance during a very challenging stage of the car insurance market cycle
- Continued disciplined approach to pricing with rate increases in excess of 10% during the year
- Combined operating ratio ('COR') for the year of 73.4% (including £3.3m one-off accrual release from MIB levy)
- Business continuing to be written within our target COR range
- Gross written premium ('GWP') for the full year slightly ahead of expectations at £197m (6.2% lower than 2018)
- Profitability impacted by the lag between applying price increases and these fully covering the emerging claim costs
- Continued strong organic capital generation with a year-end solvency coverage ratio of 214% (pre dividend)
- COVID-19 is not currently expected to generate any significant adverse capital strain, but unforeseeable challenges could emerge. The Board have therefore decided to take a prudent approach to the final dividend and withhold any special dividend until we have greater clarity over the full impact of COVID-19 on the Group and the wider economy
- The Board therefore proposes a final ordinary dividend of 8.1p, in line with the Group's dividend policy, and will defer the declaration of a special dividend
- This brings the total dividend for 2019 to 12.8p, including the interim dividend of 4.7p already paid
- The Board may propose an interim dividend representing the return of surplus capital later in the financial year should the situation become clearer
- Post-dividend solvency ratio of 180%, above our target range of 140-160%

Operational Highlights

- Continued testing and roll-out of innovative new rating factors and data sources to evolve our current models
- Insure2Drive Van, launched in Q4 2018, is performing well
- Maintained very high levels of staff retention, with over 90% of staff survey respondents recommending Sabre as a place to work
- Appointed Goldman Sachs Asset Management in January 2020 to manage investment portfolio within conservative limits

Geoff Carter, Chief Executive Officer of Sabre, said:

"Against the backdrop of on-going turbulent market conditions and industry headwinds, our commitment to underwriting profitability has helped Sabre to both deliver a robust performance in 2019 and, as importantly, ensured business is adequately priced to support profitability in future years. We have been assertive in covering high claim and other cost inflation, applying rate increases in excess of 10% during the year. This action has protected our profit margins and will continue as we move through 2020.

With market price increases apparent in the most recent months there is a possibility that growth opportunities may arise later in 2020 or early in 2021. Whilst it is now likely that COVID-19 will drive a significant, temporary, reduction in claims frequency it is anticipated that other claims pressures will emerge as social distancing continues and then ultimately winds down. This could include delays in sourcing replacement parts, lack of staff and resources in car repair bodyshops, emergence of new claims trends and other operational challenges as our colleagues and business partners work remotely.

We have considered in detail the developing COVID-19 situation, and have modelled a number of reasonably foreseeable scenarios. We are also very aware of the wider economic and societal context within which we are reporting these results.

We intend to continue to employ all of our colleagues on their full salaries, all of whom are working highly effectively from home, and do not currently believe we will need to take advantage of any of the available Government support. We are seeking to support our smaller suppliers and local stakeholders through this period, and have also offered all colleagues paid leave each week to support NHS or other volunteering.

Our modelling of COVID-19 scenarios does not suggest that we would undermine our capital base in any reasonably foreseeable stressed scenario and that we will continue to be profitable and capital generative. If more extreme scenarios were to occur these would be likely to reduce future years' profitability and dividends.

The situation is, however, rapidly changing and unforeseen challenges and social and economic scenarios could occur.

The Group has an established dividend policy to pay a full year ordinary dividend of 70% of adjusted profit after tax ('PAT'), and to return excess capital to shareholders as appropriate. Notwithstanding the strong cash generation in 2019 and the Group's robust capital position, the Board intends only to propose an ordinary dividend of 8.1p in respect of the full year 2019 at this stage.

Given the unprecedented nature of the response to COVID-19 and uncertainty as to the length of Government restrictions, the Board has determined that it is prudent to withhold any element of special distribution of excess capital. The Board may propose an interim dividend representing the return of surplus capital later in the financial year should the situation become clearer.

Prior to the most recent announcements of restrictions, the intent of the Board was to propose a final ordinary dividend of 8.1 pence per share together with a special dividend of 5.2 pence per share. Including the interim dividend of 4.7 pence per share already paid, the total dividend for the year would have been 18.0 pence per share. This would have equated to approximately 100% of PAT and reflected early uncertainties regarding COVID-19.

Looking ahead, we believe market pricing pressures may be easing, but remain cautious about the uncertain claims and cost inflation environment. This is only exacerbated by the current COVID-19 driven uncertainties. We do, however, remain confident that our strong balance sheet, prudent approach to monitoring and responding to market developments, as well as our resolute focus on underwriting profitability, leaves us well positioned to deliver a continued good performance and to take advantage of growth opportunities as they emerge."

Analyst presentation conference call facility:

Sabre management will host a conference call for analysts today at 9:30am.

Dial in details: +44 20 3936 2999 / Access code: 029644

Presentation slides will be available at https://www.sabreplc.co.uk

A replay will be made available on the Sabre website following the conclusion of the presentation.

This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) No 596/2014

Forward looking statements

This announcement may include statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "projects", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts and involve predictions. Forward-looking statements may and often do differ materially from actual results. Any forward-looking statements reflect Sabre's current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to Sabre's business, results of operations, financial position, prospects, growth or strategies and the industry in which it operates.

Forward-looking statements speak only as of the date they are made and cannot be relied upon as a guide to future performance. Save as required by law or regulation, Sabre disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements in this announcement that may occur due to any change in its expectations or to reflect events or circumstances after the date of this announcement.

The annual report will shortly be available for inspection via the National Storage Mechanism at morningstar.co.uk/uk/NSM and also on the sabre website www.sabreplc.co.uk/investors

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CHIEF EXECUTIVE OFFICER'S REVIEW

2019 was another positive year for Sabre, with these robust results being achieved against the backdrop of turbulent market conditions and ongoing headwinds. This performance reflects the continuing effectiveness of Sabre's proven business model and consistent long-term strategy of focusing on profitability over volume growth.

I am pleased to present the Chief Executive Officer's review for the 2019 financial year. While we routinely assess our long-term objectives, they have remained the same for a number of years and continue to be the basis of our strategy going forward:

- Deliver market-leading underwriting performance;
- Continue to generate strong levels of capital through our profitable underwriting;
- Deliver strong returns to shareholders; and
- Achieved controlled growth across the cycle

2019 proved to be one of the most turbulent periods for UK motor insurance that I can recall - bringing together regulatory, technological and claims management pressures. Despite this, remaining focused on our core principles has allowed us to deliver a robust financial result and ensure the business remains well positioned for future opportunities and challenges. The current COVID-19 uncertainty and rapidly changing situation is only exacerbating the level of turbulence. Our views on this are outlined below.

Our key priority throughout the year has been to ensure we continue to price new business within our target COR range, having set a mid-70%'s target and an 80% ceiling. We have continued to optimise pricing within this range for profitability depending on prevailing market conditions. On an ongoing basis we balance volume and margin to deliver the highest long-term absolute profit.

In 2019 the optimal point was slightly higher than our long term mid-70%'s target, and as market pricing conditions improve, we will look to move back slightly lower in the range ahead of taking volume growth.

This is always the most profitable approach. We are very comfortable with the margin we achieved in 2019 prices, and in early 2020 are taking the opportunity to enhance this as we witness pricing improving in the market.

Throughout the year we continued to view claims inflation as being within a 7.5% to 8.5% range, but also identified additional emerging cost pressures, outlined later in this review. Because of this, we have been assertive in pushing through rate increases, in line with our policy of treating volume as an output, not a target. These rate increases have exceeded 10% year-on-year. We believe this is an appropriately prudent position given our view of cost inflation and should maintain our COR within our target range. Within our market segment we do not see any evidence of claims inflation easing or envisage this changing in the near future, and see good reasons for continuing to apply significant price increases in 2020.

Despite this level of rate increases, 2019 GWP came in slightly better than expected, at 6.2% lower than the prior year. This suggests either market rates were starting to harden or that competitors are moving away from the more non-standard / higher premium sectors which we typically serve.

As we anticipated would be the case during the softer part of the market cycle, our policy count has decreased while our average premium has increased. This is in line with the position we outlined in our IPO prospectus, where in a soft market we tend to become less competitive in the lower-premium areas of the market, which can become significantly under-priced, while generally maintaining a strong hold on our core, higher-premium business.

Profitability came in modestly behind expectations, primarily driven by the lag between applying price increases and these fully covering the emerging claim costs. This is an almost inevitable sequence of events in periods of very rapid claims inflation. This impact was partly mitigated by a one-off accrual release of £3.3m from the MIB levy.

COVID-19

We are very conscious of the fast-changing situation and are focused on our colleagues' welfare, wider societal impacts and on ensuring continued high quality service to customers, claimants and brokers.

Having implemented our contingency plan we now have almost all of our colleagues working, highly efficiently, from home, and are monitoring the effectiveness of our key suppliers' contingency arrangements.

We have considered the developing COVID-19 situation in detail, and have modelled a number of reasonably foreseeable scenarios. We are also aware of the wider economic and societal context within which we are reporting these results.

We intend to continue to employ all of our colleagues on their full salaries and currently do not believe we will need to take advantage of any of the available Government support. We are also seeking to support our smaller suppliers and local stakeholders through this period, and have offered all colleagues paid leave each week to support NHS or other volunteering.

Our modelling of COVID-19 scenarios does not suggest that we would undermine our capital base in any reasonably foreseeable stressed scenario, and shows that it is likely that we will continue to be profitable and capital generative. One such stressed scenario is the loss of 50% of our premium income during 2020. If such stressed scenarios were to occur these would be likely to reduce future years' profitability and dividends.

We would currently anticipate a significant, temporary, reduction in claims frequency, but as social distancing continues and then ultimately winds down this may be balanced by short-term increases in claims costs such as a lack of availability of replacement parts and of staff within car body shops, new claim trends emerging and increased propensity to claim by financially stretched individuals. In addition, we would expect operational pressures to emerge for us and our key partners driven by remote working.

We are also aware that some financially stretched customers may struggle to continue to pay premiums. We are supporting customers by taking a more flexible approach to risk changes or claims events, and are also looking to support essential workers by prioritising their claims. We also fully support the principles outlined by the ABI in mid-March.

The situation, however, continues to evolve and unforeseen challenges and social and economic scenarios could occur.

Dividend

As outlined at last year's results presentation we maintain a capital range in order to allow us to support the total dividend across the market cycle, allowing us to take advantage of growth opportunities and cover unanticipated cost increases.

As at end 2019 our capital had reached 214% of our capital requirements as a result of our ongoing profitability, and significantly exceeded our preferred range of 140 to 160%.

Looking forward we believe that growth opportunities requiring capital may emerge in later 2020 or possibly early 2021, but there is also a risk of further cost pressures, including the impacts of COVID-19.

The Group has an established dividend policy to pay a full year ordinary dividend of 70% of adjusted profit after tax ('PAT'), and to return excess capital to shareholders as appropriate. Notwithstanding the strong cash generation in 2019 and the Group's robust capital position, the Board intends only to propose an ordinary dividend of 8.1p in respect of the full year 2019 at this stage.

Given the unprecedented nature of the response to COVID-19 and uncertainty as to the length of Government restrictions, the Board has determined that it is prudent to withhold any element of special distribution of excess capital. The Board may propose an additional interim dividend representing the return of surplus capital later in the financial year should the situation become clearer. In taking this decision, the Board has considered recent industry communications from the Prudential Regulation Authority and the European Insurance and Occupational Pensions Authority, and concluded that the payment of a final ordinary dividend would be prudent and does not fall outside of the Group's risk appetite.

Prior to the most recent announcements of restrictions, the intent of the Board was to propose a final ordinary dividend of 8.1 pence per share together with a special dividend of 5.2 pence per share. Including the interim dividend of 4.7 pence per share already paid, the total dividend for the year would have been 18.0 pence per share. This would have equated to approximately 100% of PAT and reflected early uncertainties regarding COVID-19.

Our capital coverage post this payment remains at a strong 180%, which is above our usual preferred operating range of 140-160%.

Our strategy

Sabre has had a consistent strategy over many years, which is to focus on underwriting private motor insurance in the UK, where we have established a strong market position, naturally biased toward the specialist, higher premium customers. Our success will continue to be underpinned by several core trading principles:

- Maintaining market-leading underwriting performance through a disciplined and actuarially-driven pricing strategy
- Expanding our extensive and proprietary dataset combined with investment in data enrichment
- Retaining a broad underwriting footprint while maintaining a bias toward the specialist, higher premium segments
- Utilising our robust and effective claims management function to ensure a firm but fair approach to claims
- Effectively leveraging our diversified, multi-channel distribution network
- Using our streamlined operating model to control expenses efficiently
- Ensuring prudent case reserving and a consistent portfolio reserving approach
- Maintaining a conservative approach to risk management through the use of reinsurance, a simple and low risk investment strategy and prudent solvency coverage ratio.
- Providing high class customer service and efficient claims handling

Underlying these principles is our core belief that in a risk-taking business, volume must be treated as an output of disciplined underwriting and should never be a target. This means we are happy to accept as much growth as we can handle operationally in attractive parts of the market cycle, but conversely must be prepared to maintain our size, or contract, where we do not believe we can write business at the required level of profitability.

To support this strategy, we target a COR across our book in a range around mid-70%'s, with a ceiling of 80%. At any point in the market cycle we will be seeking to optimise profits by writing business at the most appropriate point in this range.

While we remain agnostic about the mix of business we underwrite and the proportion from each distribution channel, we will continue to seek to benefit from attracting a higher percentage of the specialist, higher premium section of the market compared to mainstream motor insurers.

Strategic developments

One of the contributing factors toward Sabre's success has been that we continue to operate within our well defined trading principles and will only seek to launch new initiatives where we are confident that they can add meaningful value. For the foreseeable future this will mean that we focus on opportunities to expand our footprint for things "with engines, wheels and that stay on the ground".

We remain fully committed to the broker market, and cherish the strong relationships we enjoy. We believe that our technical pricing and claims expertise when aligned to brokers' marketing, customer management and retail pricing expertise will continue to prove to be a winning combination and a competitive advantage.

In 2019 we reviewed a number of "InsurTech" opportunities, but to date have not identified any that can combine strong, differentiated, customer demand with our current required ways of working (broadly being able to utilize our sophisticated rating models and remaining in full control of the underlying net premium). I am, however, very pleased to confirm that we have been able to agree a trading agreement with Saga. We believe that Saga's customer focus and differentiated marketing will complement the distribution through our existing brokers.

Our direct van product was launched in late 2018 and has now rolled out to most of the major price comparison websites. It is generating pleasing business volumes at our target profitability. We monitor customer feedback closely and are pleased with the service levels being provided both by our own staff and outsourced partners.

Following a review of the telematics market we concluded that our direct telematics offering was unlikely to be able to generate acceptable returns at meaningful volumes. We therefore withdrew the DriveSmart product in 2019, but maintain a small market presence in telematics via specialist brokers. We will continue to

monitor the market as technology and distribution opportunities evolve. This development will not have any meaningful impact on our financial results, but removes a distraction from the operation.

Looking to 2020 we will continue to review new opportunities actively, but our primary focus will continue to be on the continuous evolution of our core pricing and claims handling capabilities, including the use of machine learning in these areas.

The market

As previously mentioned, the UK private motor insurance market is experiencing a period of significant turbulent change, where a number of headwinds are combining to generate significant cost and strategic challenges. At the last results presentation in July 2019 we presented a view which said these pressures were finely balanced between cost savings and pressures. For 2020 – we no longer believe this to be the case and we anticipate the inflationary factors to significantly outweigh any potential tailwind benefits.

Overall, we believe that we can successfully manage industry wide cost increases by identifying issues early and pricing accordingly. We will continue to be quick to react to possible bad news and cautious in responding to potential benefits.

To outline the most significant of these market changes very briefly:

Claims Inflation

As discussed previously, rapid developments in the technology deployed within vehicles continue to generate significant increases in “bent metal” claims costs. 2019 was the first year that these claims were a higher proportion of total claims than personal injury claims. We continue to believe that claims inflation is – conservatively – running at around 7.5% to 8.5% and have increased our prices throughout 2019 to reflect this. Given the increasing propensity for expensive technology to be positioned in high crash risk areas of cars we do not expect this inflation to tail off in the near future.

For clarity, our view is that the degree of claims inflation between competitors in the market could be meaningfully impacted by the mix of business being written. In addition to “bent metal” claims, theft claims remain at historical high levels, primarily enabled by keyless entry technology, whilst Credit Hire costs continue to increase. Personal injury (“PI”) claims are performing within expected levels, although inflationary pressures have been maintained from the release of the 15th Edition of the Judicial College Guidelines (issued bi-annually) which broadly increased damages valuations by 7%.

Ogden Discount rate

We avoided the temptation to reflect a higher Ogden discount rate within our pricing or reserving assumptions until the actual rate was confirmed. We therefore avoided swings in our results over the last two years as the rate was confirmed at minus 0.25%, a worse position than the market generally anticipated. The rate is now set for another four years and so does not provide any tailwind prospects. Whilst we have avoided direct impacts, we are not immune from certain knock-on impacts:

- **MIB levy**

  The MIB (Motor Insurers’ Bureau) compensates claimants injured or killed by uninsured drivers or those without the correct insurance cover. These costs are met through a levy on all UK motor insurers.

  Claims paid by the MIB will, obviously, also be impacted by the Ogden discount rate. In addition, recent European legislation and Supreme Court judgements have left the MIB responsible for accidents caused on private land by vehicles not requiring motor insurance such as. quad bikes.

  The MIB has also picked up the cost of developing the new MOJ (Ministry Of Justice) portals to support the Civil Liability Act reforms.

  Taking all of these issues together we anticipate material increases in the MIB levy.

- **Reinsurance**

  It has been well publicised that reinsurers have been seeking to reprice their UK motor portfolios to reflect several years of underwhelming performance and Ogden impacts leading to substantial double digit increases. Whilst we would not expect to be anywhere near the higher end of market increases, we are conscious of the impact of any such impact, and would expect this to create immediate pricing pressures for some competitors.

Whiplash and associated reforms

The Bill to support these changes has passed Royal Assent and is now the Civil Liability Act, but with a target launch date now pushed back to August from the original April date.

The key ambition for the Act is to reduce the cost of personal injury claims and the legal costs linked to smaller personal injury claims.

Whilst this is a worthy aim, and the MIB working with the MOJ have made good progress on IT portal builds we remain concerned the Act will not achieve its objectives as there are a number of key policy points outstanding - and the potential for unintended consequences. These include:

- No tariff published for secondary injuries which may result in test litigation to establish the correct method of valuation
- Lack of an alternative dispute resolution process
- Cost recovery on child claims
- Fraud concerns – IP address for devices and identification of claimants at medical examinations
- Growth in non-whiplash claims e.g. tinnitus
- Cost layering – e.g. additional fees, rehabilitation on credit basis, specialist fees being introduced
- Extended medical prognoses to escape two year tariff limit and introduce further medical experts
- Potential considerable increase in claims department operational complexity and need for court decisions to confirm areas of dispute
- IT build may not integrate with final rule set

In addition, we believe that claims management companies may emerge seeking to exploit weaknesses in the controls around the process. Given the demise of PPI claims and clamping down on holiday sickness claims they may be looking for the next income opportunity.

Whilst this could represent a tailwind for claims cost reductions, we believe it may be some time before the holistic position can be assessed accurately.

FCA pricing review

The review on "loyalty penalty" and behavioural pricing techniques is still a significant potential development for the motor insurance market. At this stage recommendations are not known, but it seems likely some action will be forthcoming.

Sabre does not utilise either of these approaches. All of our premiums are based on risk factors, and we seek to maintain parity between new business and renewal pricing. Whilst we would expect to be a net beneficiary of any changes we are alive to potential unintended consequences of any proposed recommendations.

Non-PRA regulated insurers

We are aware that some insurers regulated outside of the UK are now being more critically challenged on solvency levels. Whilst this could be positive for us if insurers either leave the UK market or need to increase prices to enhance solvency levels there could be knock on impacts from any insurer failures, through calls on the Financial Services Compensation Scheme.

Stakeholders

We have always been focused on our environmental impacts and how our actions influence our customers and other stakeholders. In this year's Annual Report and Accounts we have taken the opportunity to highlight our activities in many of these areas.

Colleagues

I would like to thank my colleagues throughout Sabre for their expertise, commitment and support throughout 2019 and especially for their commitment as we implemented remote working for the first time. We are pleased that in addition to normal performance bonuses we have been able to continue our tradition of paying an end of year bonus reflecting our ongoing strong performance, which in 2019 was £1,250 (net of tax) for all employees.

Outlook

Due to our consistent and disciplined focus on our trading principles the Board remains confident in the longer term outlook for Sabre and its ability to navigate through the current market challenges.

We are confident that our pricing actions and focus on profitability will have maintained our position within our target COR range. Clearly the result of earning through a slightly higher combined ratio on a lower premium means our profit for 2020 may decline slightly from 2019. As previously flagged we would also anticipate a reducing impact from prior-year reserve releases.

We are entirely comfortable with this position as we believe it leaves us with a solid platform from which to grow both profit and volume in future years, and we will continue to use our capital range to support an attractive dividend.

Although difficult to predict with any degree of certainty how the insurance cycle will develop through 2020, our base case view is for continued cost inflation but also enhanced pricing margins and potentially subsequent modest volume growth facilitated by market pricing action. These assumptions clearly may be impacted by on-going COVID-19 uncertainties.

We will continue to follow a disciplined pricing approach, targeting our required level of profitability rather than volume and will update shareholders as the year develops."

Geoff Carter

Chief Executive Officer

CHIEF FINANCIAL OFFICER'S REVIEW

	2019	2018
Gross written premium	**£197.0m**	£210.0m
Net loss ratio	**51.5%**	48.5%
Combined operating ratio	**73.4%**	70.6%
Adjusted profit after tax	**£45.7m**	£50.1m
Profit after tax	**£45.7m**	£49.6m
Solvency ratio capital (pre-dividend)	**214%**	213%
Solvency ratio capital (post-dividend)	**180%**	161%
Return on opening SCR	**74.9%**	82.0%
Return on tangible equity	**41.6%**	54.4%

Throughout 2019, the Group has increased the price of its core product to reflect the increased level of current and projected costs, including the costs of claims and other increases in the expense base, such as the MIB levy.

As these increases in our premiums have generally been ahead of the market, our products have become less competitive and the Group's total top-line income has reduced a little, by 6.2%. The Group's combined operating ratio has remained strong, well within the preferred 70-80% corridor at 73.4%, benefiting from continued discipline in pricing current-year business and the run-off from prior-year claims reserves.

Favourable market-value movements generated an increase in net investment return, at £2.4m for 2019 (2018: £0.8m). The Group maintained its low-risk, buy-and-hold investment strategy throughout the year. Other income through instalment interest and other fees generated a consistent level of income, contributing £5.3m to the result (2018: £5.9m), relative to the total level of premium written.

Overall, adjusted profit after tax has decreased to £45.7m for the year (2018: £50.1m), a consequence of the higher combined ratio and lower level of premium income for the year. The Group has continued to maximise long-term profit by writing business at a combined operating ratio selected to optimise the combined effect of the loss ratio and level of premium written, rather than focusing on just one factor, such as chasing volume.

The Directors have proposed an ordinary final dividend of 8.1 pence per share (2018: 6.8p), representing 70% of the Group's profit after tax (after the payment of the interim dividend), in line with the Group's strategy set out in its IPO prospectus. The Directors have deferred any declaration of a special dividend to distribute excess capital due to the ongoing uncertainty around the economic impacts of COVID-19. Along with the interim dividend of 4.7 pence per share, the total dividend proposed in respect of 2019 is 12.8 pence per share, equal to approximately £32.0m (2018: £50.1m).

The Group's return on tangible equity was 41.6% for 2019, a reduction from 54.4% in 2018. The decrease is a result of the reduction in adjusted profit after tax, and the increase in average tangible equity held by the Group, which increased from £92.1m to £110m. The increase in average equity is due to the Group having held significantly less excess regulatory capital at the start of 2018, with a regulatory capital excess of 160% compared to 213% at the end of 2018. The regulatory capital excess as at 31 December 2019 is 214%, having generated significant capital through normal trading activity during the year and paid two dividends, the final dividend in respect of 2018 and an interim dividend in respect of 2019.

Revenue

	2019	2018
Gross written premium	**£197.0m**	£210.0m
Gross earned premium	**£203.7m**	£208.6m
Net earned premium	**£183.2m**	£188.2m
Other technical income	**£1.2m**	£1.8m
Customer instalment income	**£4.1m**	£4.1m
Investment return	**£2.4m**	£0.8m

In order to meet the increased cost of claims and other expenses, the Group has increased its underlying premiums by over 10% during 2019. As these increases have been well above those which appear to have been applied to the market as a whole, our prices have become less competitive and as such the volume of policies written has reduced. This is core to Sabre's strategy, to maximise total profitability even when this comes at the expense of top-line growth. In the past, when the market has corrected systemic under-pricing, Sabre has been in a very strong position due to this disciplined approach to pricing throughout the cycle, allowing high-levels of growth or margin strengthening.

The level of other technical income and instalment income remains broadly proportionate to the amount of direct business written; notwithstanding that instalment income is earned over the life of a financed policy while other income is generally recognised upfront.

The Group continues to be exposed to market value movements across its investment portfolio, which remains invested in UK Government bonds. A net investment return of £2.4m was recorded in 2019 against £0.8m in 2018. Sabre generally holds these investments to maturity, therefore any market value movements, which can generate in-year gains and losses, are unwound as the bonds regress towards par value.

As of January 2020, the Group has appointed an investment manager, Goldman Sachs Asset Management, who will work with management to explore opportunities to increase yield moderately, while maintaining a simple, low-risk and largely buy-and-hold investment strategy.

Operating expenditure

	2019	2018
Gross claims incurred	**£110.3m**	£72.2m
Net claims incurred	**£94.4m**	£91.3m
Current-year loss ratio	**62.8%**	59.2%
Financial year loss ratio	**51.5%**	48.5%
Net operating expenses	**£40.1m**	£41.6m
Expense ratio	**21.9%**	22.1%
Combined operating ratio	**73.4%**	70.6%

Net claims incurred reported in the Consolidated Statement of Comprehensive Income include both the costs incurred in meeting liabilities incurred under insurance contracts and an allocation of overhead expenses deemed attributable to the handling claims. For 2019 this allocation from net operating expenses was £7.6m (2018: £6.5m). The figures in the table above do not reflect this allocation, in-line with the calculation of loss ratio and expense ratio.

The best indication of the Group's underwriting performance during the year is to review the net claims incurred position on a current accident year and financial year basis. This gives the cost of claims after any expected recoveries from reinsurers. During 2019, the Group sought to optimise profit by writing business towards the top-end of its preferred combined operating ratio corridor of between 70-80%. This, along with the historically high levels of short-tail claims inflation, resulted in a higher current accident-year loss ratio than in 2018. The Group did, however, benefit from the estimated ultimate settlement costs of prior-year claims reducing from those recorded in the prior-year reserves, giving a prior-year loss ratio improvement of 11.2% (2018: improvement of 10.7%). We believe that a considerable element of this prior-year reserve movement is exceptional and unlikely to recur.

The gross (i.e. before the benefit from reinsurance) loss ratio can be volatile year-on-year. As we insure a relatively small number of vehicles, with c.327k policies in force, single large claims can have a very significant impact on our gross claims incurred. To counter such volatility, the Group operates an excess of loss

reinsurance programme, which means that for any claim costing more than £1m, any costs above £1m are taken by the reinsurance market. This reduces volatility in the net profit, at a cost of approximately 10% of our annual gross earned premium. Similarly, where claims are settled below (or above) the amount for which they were reserved at the start of the year, this can lead to significant movements in our gross reserves and our gross claims incurred. As such, these figures are volatile and often the result of movements on a small number of claims. Due to the reinsurance programme in place, such movements do not have a material impact on the Group's profit due to the equal and opposite impact on reinsurers' share of claims incurred. As such, we focus on the net result when comparing year-on-year performance.

Net operating expenses at £40.1m (2018: £41.6m) are stated after recording a one-off £3.3m reduction in the accrual held against MIB levies. Excluding the impact of this one-off reduction in the accrual, the underlying levy paid to the MIB increased in 2019, and is expected to increase further in 2020. Excluding the impact of the reduction in the accrual, the expense ratio would have increased to 23.8% against 22.1% in the prior year. The 1.7% increase in expense ratio is driven primarily by increases in staff costs (c.0.8% impact on expense ratio) and industry levies (c.0.7% impact on expense ratio); in both cases, the increase in expense ratio is due in part to the reduced top-line premium. For staff costs, we continue to run excess capacity on our claims team in order to be best placed to take advantage of growth opportunities where appropriate, while providing inflationary increases in staff salaries and incurring costs in relation to the earn-through of free shares issued to staff along with the post-IPO long-term incentive plans. The increase in levies, which has been flagged previously, follows a continued upward trend in those costs resulting from the change in the Ogden rate, the inflationary claims environment, and other legal and regulatory developments, which have increased the industry view of the cost of uninsured liability. The MIB levy also continues to be impacted by the costs of implementing new processes and systems ahead of the legal reforms planned for August 2020.

The Group continues to maintain tight control of costs, which remain largely volume dependent due to the broker model and outsourced administration of the Group's direct business.

Taxation

In 2019 the Group recorded a corporation tax expense of £10.8 m (2018: £11.8m), an effective tax rate of 19.07%, as compared to an effective tax rate of 19.22% in 2018. The effective tax rate is equal to the prevailing UK corporation tax rate. The Group has not entered into any complex or unusual tax arrangements during the year.

Earnings per share

	2019	**2018**
Basic earnings per share	**18.35p**	19.90p
Diluted earnings per share	**18.22p**	19.77p

Basic earnings per share for 2019 is 18.35 pence compared to 19.9 pence for 2018. The number of shares has not changed materially during the year, which means that earnings per share is proportionate to profit after tax.

Cash and investments

	2019	**2018**
UK Government bonds	**£263.6m**	£286.6m
Corporate bonds	**£0.0m**	£0.5m
Cash and cash equivalents	**£31.8m**	£22.8m

The Group continues to hold a low-risk investment portfolio and cash reserves sufficient to meet its future claims liabilities. There has been no change to the Group's investment or liquidity strategy during the year. As discussed earlier, an asset manager with effect from January 2020 has been appointed to assist management in prudent and efficient deployment of invested assets, while sticking to our low-risk, low-distraction philosophy.

Insurance liabilities

	2019	2018
Gross insurance liabilities	**£212.2m**	£215.8m
Reinsurance assets	**£83.9m**	£82.4m
Net insurance liabilities	**£128.3m**	£133.4m

The Group's net insurance liabilities continue to reflect the underlying profitability and volume of business written. There was relatively little movement on larger outstanding claims during the year, hence gross insurance liabilities are at a similar level to 2018. The level of net insurance liabilities held remains proportionate to the volume of business written.

Leverage

The Group continues to hold no external debt. All of the Group's capital is considered "Tier 1" under Solvency II. The Directors continue to hold the view that this currently allows the greatest operational flexibility for the Group.

Dividends

The Directors have proposed a total dividend of 12.8 pence per share in respect of 2019, consisting of the interim dividend of 4.7 pence per share and an ordinary final dividend of 8.1 pence per share. The total amount proposed to be distributed to shareholders by way of dividends for 2019 is therefore £32.0m, equal to approximately 70% of the Group's adjusted profit after tax. Excluding the capital required to service this dividend, the Group's SCR coverage ratio at 31 December 2019 would be 180%. This is consistent with the Group's policy to pay an ordinary dividend of 70% of profit after tax, and to consider passing excess capital to shareholders by way of a special dividend.

Adam Westwood
Chief Financial Officer

DIVIDEND CALENDAR

Final dividend – 2019	
Ex-dividend date	23 April 2020
Record date	24 April 2020
Payment date	28 May 2020

Interim dividend - 2020	
Ex-dividend date	20 August 2020
Record date	21 August 2020
Payment date	17 September 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2019

	Notes	2019 £'k	2018 £'k
Gross earned premium	4	**203,680**	208,622
Reinsurance premium ceded	4	**(20,442)**	(20,387)
Net earned premium		**183,238**	188,235
Investment return	5	**2,405**	777
Instalment income		**4,093**	4,143
Other operating income	6	**1,240**	1,761
Total income		**190,976**	194,916
Insurance claims	7	**(110,301)**	(72,245)
Insurance claims recoverable from reinsurers	7	**8,311**	(25,616)
Net insurance claims		**(101,990)**	(97,861)
Finance cost	8	**(18)**	–
Commission expenses		**(15,741)**	(16,429)
Operating expenses	9	**(16,748)**	(18,762)
Total expenses		**(32,507)**	(35,191)
Operating profit before amortisation of intangible assets		**56,479**	61,864
Amortisation of intangible assets		**–**	(501)
Profit before tax		**56,479**	61,363
Tax charge	10	**(10,768)**	(11,795)
Profit for the year attributable to the equity holders of the parent		**45,711**	49,568
Other comprehensive Income			
Items that will not be reclassified to profit and loss			
Revaluation gain on owner-occupied property	13	**–**	620
Tax charge on other comprehensive income	10	**–**	(118)
Total other comprehensive income for the year		**–**	502
Total comprehensive income for the year attributable to the equity holders of the parent		**45,711**	50,070
Basic earnings per share (pence per share)	30	**18.35**	19.90
Diluted earnings per share (pence per share)	30	**18.22**	19.77

The attached notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2019

	Notes	2019 £'k	2018 £'k
Assets			
Goodwill	20	**156,279**	156,279
Property, plant and equipment	13	**4,568**	4,370
Right-of-use asset	23	**189**	–
Reinsurance assets	14	**83,931**	82,435
Deferred tax assets	11	**210**	217
Deferred acquisition costs	15	**16,211**	15,761
Insurance and other receivables	16	**37,785**	37,788
Prepayments, accrued income and other assets	17	**3,627**	4,538
Financial investments	18	**263,629**	287,142
Cash and cash equivalents	19	**31,791**	22,823
Total assets		**598,220**	611,353
Equity			
Issued ordinary share capital	21	**250**	250
Own shares		**(1,061)**	(1)
Merger reserve		**48,525**	48,525
Share-based payments reserve	28	**1,362**	1,036
Retained earnings		**218,341**	215,338
Total equity		**267,417**	265,148
Liabilities			
Insurance liabilities	22	**212,167**	215,757
Unearned premium reserve	22	**99,877**	106,517
Lease liability	23	**194**	–
Trade and other payables including insurance payables	24	**12,475**	13,623
Current tax liabilities		**4,884**	5,798
Accruals	25	**1,206**	4,510
Total liabilities		**330,803**	346,206
Total equity and liabilities		**598,220**	611,353

The attached notes form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 6 April 2020.

Signed on behalf of the Board of Directors by:

ADAM WESTWOOD
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
as at 31 December 2019

	Notes	Ordinary shareholders' equity £'k	Share premium account £'k	Own shares £'k	Merger reserve £'k	Share-based payment reserve £'k	Retained earnings £'k	Total equity £'k
As at 1 January 2018		250	205,241	(1)	48,405	–	(21,902)	231,993
Profit for the year		–	–	–	–	–	49,568	49,568
Other comprehensive income		–	–	–	–	–	502	502
Total comprehensive income		–	–	–	–	–	50,070	50,070
Charge in respect of share-based payment		–	–	–	–	1,036	–	1,036
Capital reduction		–	(205,241)	–	120	–	205,121	–
Dividends	12	–	–	–	–	–	(17,951)	(17,951)
At 31 December 2018		250	–	(1)	48,525	1,036	215,338	265,148
Effect of adoption of IFRS 16 'Leases'	23	–	–	–	–	–	–	–
Adjusted total equity at 1 January 2019		250	–	(1)	48,525	1,036	215,338	265,148
Profit for the period		**–**	**–**	**–**	**–**	**–**	**45,711**	**45,711**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**45,711**	**45,711**
Charge in respect of share-based payments	28	**–**	**–**	**–**	**–**	**1,106**	**–**	**1,106**
Settlement of share-based payments	28	**–**	**–**	**–**	**–**	**(780)**	**780**	**–**
Own shares purchased	28	**–**	**–**	**(1,060)**	**–**	**–**	**–**	**(1,060)**
Share scheme transfer to retained earnings		**–**	**–**	**–**	**–**	**–**	**135**	**135**
Dividends	12	**–**	**–**	**–**	**–**	**–**	**(43,623)**	**(43,623)**
At 31 December 2019		**250**	**–**	**(1,061)**	**48,525**	**1,362**	**218,341**	**267,417**

The attached notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2019

	Notes	2019 £'k	2018 £'k
Net cash generated from operating activities before investment of insurance assets		**28,208**	48,744
Cash generated from/(used by) investment of insurance assets		**25,919**	(42,334)
Net cash generated from operating activities	27	**54,127**	6,410
Cash flows from investing activities			
Purchases of property, plant and equipment		**(365)**	(61)
Net cash used by investing activities		**(365)**	(61)
Cash flows from financing activities			
Payment of principal portion of lease liabilities		**(246)**	–
Net cash used in acquiring and disposing of own shares		**(925)**	–
Dividends paid		**(43,623)**	(17,951)
Net cash used by financing activities		**(44,794)**	(17,951)
Net increase/(decrease) in cash and cash equivalents		**8,968**	(11,602)
Cash and cash equivalents at the beginning of the year		**22,823**	34,425
Cash and cash equivalents at the end of the year		**31,791**	22,823

The attached notes form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

Corporate information
Sabre Insurance Group plc is a company incorporated in the United Kingdom and registered in England and Wales. The address of the registered office is Sabre House, 150 South Street, Dorking, Surrey, RH4 2YY, England. The nature of the Group's operations is the writing of general insurance for motor vehicles. The Group's parent company's principal activity is that of a holding company.

1. Accounting policies

1.1 Basis of preparation
The financial statements of the Group have been prepared in accordance and fully comply with International Financial Reporting Standards ("IFRSs"), as issued by the International Accounting Standards Board ("IASB") and adopted by the EU.

The financial statements have been prepared on an historical cost basis, except for investment properties and those financial assets that have been measured at fair value.

The financial statements values are presented in Pounds Sterling (£) rounded to the nearest thousand (£'k), unless otherwise indicated.

The Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the respective notes.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settled the liabilities simultaneously.

As permitted by IFRS 4 'Insurance Contracts', the Group continues to apply the existing accounting policies that were applied prior to the adoption of IFRS, with certain modifications allowed by the standard effective subsequent to adoption for its insurance contracts. The Group has applied UK GAAP.

1.2 New and amended standards and interpretations adopted by the Group
The Group has adopted the new accounting pronouncements which have become effective for its annual reporting period commencing 1 January 2019 and are as follows:

IFRS 16 – Leases
The Group has changed its accounting policies as a result of adopting IFRS 16. The Group elected to adopt the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 'Leases' and IFRIC 4 'Determining whether an Arrangement contains a Lease'. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is disclosed below. The cumulative effect of adopting IFRS 16 is being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

The adoption of this new Standard has resulted in the Group recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as leases under IAS 17 and IFRIC 4.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Group has applied the optional exemptions not to recognise the right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

The Group had no finance leases at the date of initial application.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 5.36%.

The Group has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

The lease liabilities as at 1 January 2019 can be reconciled to the opening lease commitments as of 31 December 2018 as follows:

	1 January 2019 £'k
Operating lease commitments as at 31 December 2018	**476**
Less:	
Commitments relating to assets not qualifying as leases under IFRS 16	**(14)**
Add:	
Adjustments on adoption of IFRS 16	**–**
Total lease commitments under IFRS 16 as at 31 December 2018	**462**
Weighted average incremental borrowing rate as at 1 January 2019	**5.36%**
Lease liabilities as at 1 January 2019	**440**

The effect of adopting IFRS 16 as at 1 January 2019 is:

	1 January 2019 £'k
Assets	
Right-of-use-assets	**440**
Total assets	**440**
Equity	
Retained earnings	**–**
Total equity	**–**
Liabilities	
Lease liabilities	**440**
Total liabilities	**440**

There is no impact on the consolidated statement of comprehensive income.

1.3 New standards, amendments and interpretations not yet effective and not early adopted

At the date of authorisation of these financial statements, the following Standards and Interpretations were assessed to be relevant and are effective for annual periods beginning on or after 1 January 2020:

Description	Effective date (period beginning)
IFRS 9 Financial Instruments	1 January 2021* (Early adopting – 1 January 2020)
IFRS 17 Insurance Contracts	1 January 2021

* = Effective 1 January 2018, deferred under IFRS 4 till 1 January 2021. (IASB proposal for effective date 1 January 2022 has not been endorsed by the EU)

With the exception of IFRS 9, the Group intends to adopt the Standards and Interpretations in the reporting period when they become effective. The Board does not anticipate that the adoption of these Standards and Interpretations in future periods will materially impact the Group's financial results in the period of initial application although there will be revised presentations to the financial statements and additional disclosures.

IFRS 9 – Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9, and which was endorsed by the EU in 2016. IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets and is effective for annual periods beginning on or after 1 January 2018. The Board does not anticipate that the introduction of this standard will have a material impact on the Group's financial results.

In September 2016, the IASB published amendments to IFRS 4 Insurance Contracts that address the accounting consequences of the application of IFRS 9 to insurers prior to the adoption of IFRS 17, the forthcoming accounting standard for insurance contracts. The amendments to IFRS 4 include a deferral approach that provides an entity, if eligible, with a temporary exemption from applying IFRS 9. The Group is eligible to apply the temporary exemption from IFRS 9 because its activities are entirely connected with insurance. The Group has previously elected to defer the implementation of IFRS 9. As at 31 December 2015, all the Group's gross liabilities arising from contracts were within the scope of IFRS 4. Since 31 December 2015 there has been no change in the activities of the Group that requires reassessment of the use of the temporary exemption.

During 2019 the Group has revisited its investment policy and appointed a new Asset Manager in January 2020. As part of the new investment mandate, a decision was taken to waive the deferral of the implementation of IFRS 9 in line with IFRS 4. The effective implementation date of IFRS 9 is 1 January 2020. The Group does not expect material impact on opening balances upon implementation.

The table below presents an analysis of the fair value of classes of financial assets as at the end of the 2019 reporting period. The movement in the year represents the change in fair value during the reporting period. The financial assets are divided into two categories:

- Assets for which their contractual cash flows represent solely payments of principal and interest (SPPI)
- All financial assets other than those specified in SPPI

	Fair value £'k	Fair value change £'k
Financial assets managed and evaluated on a fair value basis		
Corporate	–	(7)
Sovereign	263,629	(5,728)
Total financial assets managed and evaluated on a fair value basis	263,629	(5,735)
Financial assets meeting the SPPI test		
Cash and cash equivalents	31,791	–
Total financial assets meeting SPPI test	31,791	–

IFRS 17 – Insurance Contracts
The effective date for IFRS 17 is 1 January 2021. IFRS 17 will fundamentally change the way insurance contracts are accounted for and reported. Revenue will no longer be equal to premiums written but instead reflect a change in the contract liability on which consideration is expected. On initial assessment the major change will be on the presentation of the statement of profit or loss, with premium and claims figures being replaced with insurance contract revenue, insurance service expense and insurance finance income and expense. It is not currently known what impact the new requirements will have on the Group's profit and financial position, but it is expected that the timing of profit recognition will be altered. During 2019, the Group continued to undertake a number of tasks in preparation for IFRS 17. These tasks included completing various modelling exercises to understand the data requirements needed under IFRS 17. As part of this process various decisions have also been made such as unit of account and the model to use for recognising insurance contracts. A more detailed update will be provided after the full assessment has been completed.

1.4 Summary of significant accounting policies

(a) Premiums
Insurance and reinsurance written premiums comprise all amounts during the financial year in respect of contracts entered into regardless of the fact that such amounts may relate in whole or in part to a later financial year. All premiums are shown gross of commission payable to intermediaries (where applicable) and are exclusive of taxes, duties and levies thereon. Insurance and reinsurance premiums are adjusted by an unearned premium provision which represents the proportion of premiums that relate to periods of cover after the balance sheet date as described in (b) overleaf.

(b) Insurance liabilities
Claims incurred include all losses occurring through the year, whether reported or not, related handling costs and any adjustments to claims outstanding from previous years. Significant delays are experienced in the notification and settlement of certain claims, particularly in respect of liability claims, the ultimate cost of which cannot be known with certainty at the balance sheet date. Reinsurance recoveries (or amounts due from reinsurers) are accounted for in the same period as the related claim.

(i) Unearned premiums are those proportions of the premiums written in a year that relate to the periods of risk subsequent to the balance sheet date. They are computed principally on a daily pro-rata basis.

(ii) The provision for claims outstanding includes the following:

- individual case estimates;
- an incurred but not reported ("IBNR") provision; and
- a provision for related claims handling costs.

Individual case estimates
When claims are initially reported, case estimates are set at fixed levels based on previous average claims settlements. As soon as sufficient information becomes available, the case estimate is amended by a claim handler within the Claims Department to reflect the expected ultimate settlement cost of the claim, including external claims handling costs. The case estimate will be amended throughout the life of a claim as further information emerges. Case estimates generally do not allow for possible reductions in our liability due to contributory negligence, favourable court judgments or settlements until these are known to a high probability. Because of this, the outstanding case reserve recorded is generally greater than the probability-weighted likely settlement amount of the claim.

Incurred But Not Reported ("IBNR") / Incurred But Not Enough Reported ("IBNER")
IBNR consists of two elements:

- **IBNR** – An amount in respect of claims incurred but not yet recorded on the policy administration system ("pure" IBNR), which is typically a "positive" and
- **IBNER** – An adjustment to open case reserves, booked at a portfolio level, which converts the open reserve recorded on our underwriting system to a true 'best estimate' basis. If the case reserves held are in excess of a 'best estimate' basis, this will result in a 'negative' IBNER. If the case reserves are below a 'best estimate' basis, this will result in a 'positive' IBNER.

The Company refers to these collectively as "IBNR" and unless stated otherwise, when referring to IBNR this always includes both elements.

These reserves are calculated using standard actuarial modelling techniques such as Chain Ladder and Bornhuetter–Ferguson methods. The adjustment is set after considering the results of these statistical methods based on, inter alia, historical claims development trends, average claims costs and expected inflation rates.

Claims handling costs
A provision for claims handling costs is estimated based on the number of outstanding claims at the balance sheet date and the estimated average internal cost of settling claims.

The provision for claims outstanding is based on information available at the balance sheet date. Significant delays are experienced in the notification and settlement of certain claims and accordingly the ultimate cost of such claims cannot be known with certainty at the balance sheet date. Subsequent information and events may result

in the ultimate liability being less than, or greater than, the amount provided. Any differences between provisions and subsequent settlements are dealt with in the consolidated statement of comprehensive income. Claims provisions are not discounted, with the exception of PPOs (periodic payment orders), which are discussed more fully in Note 2.1.

(iii) Provision is made for unexpired risks when, after taking account of an element of attributable investment income, it is anticipated that the unearned premiums will be insufficient to cover future claims and expenses on existing contracts. The expected claims are calculated having regard to events which have occurred prior to the balance sheet date. Unexpired risk surpluses and deficits are offset when business classes are managed together and a provision is made if an aggregate deficit arises.
At each reporting date, a liability assessment is performed to ensure the adequacy of the claims liabilities net of Deferred Acquisition Costs and unearned premium reserves. In performing this assessment, current best estimates of future contractual cash flows and claims handling expenses. Any deficiency is immediately charged to the statement of profit or loss, initially by writing off DAC and subsequently by establishing a provision for losses arising from the liability assessments ("unexpired risk provision"). There is currently no unexpired risk provision.

(c) Deferred acquisition costs

Deferred acquisition costs represent a proportion of commission and other acquisition costs that relate to policies that are in force at the year end. Deferred acquisition costs are amortised over the period in which the related premiums are earned. Such costs are identified as being directly attributable to the acquisition of business, or are indirectly attributed to acquisition activity through an allocation exercise.

(d) Investment income, realised and unrealised investment gains and losses

Investment income consists of interest receivable for the year. Income is credited to the statement of comprehensive income at the amounts receivable, with no associated tax credit for income from the United Kingdom. Interest receivable is accounted for on an accruals basis.

Net realised gains / (losses) on investments are calculated as the difference between net sales proceeds and the cost of acquisition.

Unrealised gains and losses on investments represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year. Net movements in the year are taken to the statement of comprehensive income and disclosed as unrealised gains / (losses) on investments.

(e) Investment expenses and charges

Investment expenses and charges consist of the expenses relating to the management of the investment portfolio.

(f) Taxation

The taxation charge in the statement of comprehensive income is based on the taxable profits for the year. It is Company policy to relieve profits where possible by the surrender of losses from Group companies with payment for value.

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exception.

Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

(g) Valuation of investments

Listed securities and equities are shown in the balance sheet at market bid price at the date of the statement of financial position less accrued interest where applicable.

Financial investments are classified according to their nature and use. All financial investments held by the Group are classified as being held at fair value through profit and loss. While it is the Group's intention to hold the bonds within its portfolio to maturity, the Group recognises that certain assets may be sold in the normal course of business in order to enhance short-term liquidity. The Group invests only in financial assets which are quoted on liquid markets, therefore all investments are classified as "Level 1" under the IFRS hierarchy.

(h) Property, plant and equipment

Expenditure on computer equipment and fixtures and fittings is capitalised and depreciated over five years, the estimated useful economic lives of the assets on a straight line basis. Depreciation is charged to the consolidated statement of comprehensive income and is included in administrative expenses. Owner-occupied property is held at fair value, with subsequent revaluation gains taken through other comprehensive income. A fair value assessment of the owner-occupied property is undertaken at each reporting date with any material changes in fair value recognised. Owner-occupied property is also revalued by an external qualified surveyor, at least every three years.

Owner-occupied land is not depreciated. As the depreciation of owner-occupied buildings is immaterial and properties are revalued every three years, no depreciation is charged on owner-occupied buildings.

(i) Goodwill

Goodwill only arises upon a business combination and is initially measured as the residual cost of the business combination after recognising the acquiree's identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

(j) Pensions

For staff who were employees on 8 February 2002, the Group operates a non-contributory defined contribution Company personal pension scheme. The contribution by the Group depends on the age of the employee.

For employees joining since 8 February 2002, the Group operates a matched contribution Company personal pension scheme where the Group contributes an amount matching the contribution made by the staff member.

Contributions to defined contribution schemes are recognised in the statement of comprehensive income in the period in which they become payable.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

(l) Insurance and other receivables

Insurance and other receivables are recognised when due and 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, 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 statement of comprehensive income.

(m) Trade and other payables, including insurance payables

Trade and other payables consist primarily of reinsurance balances and indirect taxes due. Reinsurance payables represent premiums payable to reinsurers in respect of contracts which have been entered into at the date of the financial position.

(n) Instalment income

Instalment income comprises the interest income earned on policyholder receivables, where outstanding premiums are settled by a series of instalment payments. Interest is earned over the term of the policy and accounted for under the effective interest method.

(o) Other operating income

Other operating income consists of marketing fees, commissions resulting from the sale of ancillary products connected to the Group's direct business, and other non-insurance income such as administrative fees charged on direct business. Such income is recognised once the related service has been performed. Typically, this will be at the point of sale of the product.

(p) Basis of consolidation

The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are entities over which the Group has control. Subsidiary companies are consolidated using the acquisition method. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtained control, and continue to be consolidated until the date when such control ceases. In preparing these consolidated financial statements, any intra-group balances, unrealised gains and losses or income and expenses arising from intra-group trading are eliminated. Where accounting policies used in individual financial statements of a subsidiary company differ from Group policies, adjustments are made to bring these policies in line with Group policies.

(q) Share-based payments

The fair value of equity instruments granted under share-based payment plans are recognised as an expense and spread over the vesting period of the instrument. The total amount to be expensed is determined by reference to the fair value of the awards made at the grant date, excluding the impact of any non-market vesting conditions. At the date of each statement of financial position, the Group revises its estimate of the number of equity instruments that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the statement of comprehensive income, and a corresponding

adjustment is made to equity over the remaining vesting period. The fair value of the awards and ultimate expense are not adjusted on a change in market vesting conditions during the vesting period.

(r) Earnings per share
Basic earnings per share are calculated by dividing profit after tax attributable to equity shareholders of the parent company by the weighted average number of ordinary shares in issue during the period. Diluted earnings per share requires that the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These arise from awards made under share-based incentive schemes. Share awards with performance conditions attaching to them are not considered to be dilutive unless these conditions have been met at the reporting date. Shares held in employee share trusts are excluded from the weighted average number of shares in issue until they have vested unconditionally with the employees.

(s) Leases – new accounting policy applicable from 1 January 2019

Right-of-use assets
The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying assets or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Lease liabilities
The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprises the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

Short-term leases and leases of low-value assets
The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

2. Critical accounting estimates and judgements

2.1 Valuation of insurance contracts
For the valuation of insurance contracts, estimates are made both for the expected ultimate cost of claims reported at the reporting date, consisting of a claims reserve and estimate of the sufficiency of these reserves (through the calculation of an Incurred But Not Enough Reported estimate, and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that the Group's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is analysed by accident years and types of claim. 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 claims 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 future (e.g., to reflect one-off

occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

The gross carrying value at the reporting date of insurance liabilities is £212,167k (2018: £215,757k).

Liability claims may be settled through a Periodic Payment Order, established under the Courts Act 2003, which allows a UK court to award damages for future loss or any other damages in respect of personal injury. The court may order that the damages either partly or fully take the form of a PPO. To date, the Group has two PPOs within its outstanding claims reserve. Reinsurance is applied at the claim level, and therefore as PPOs generally result in a liability in excess of the Group's reinsurance retention, the net liability on acquisition of a PPO is not significantly different to that arising in a non-PPO situation. Management will continue to monitor the level of PPO activity. Once the level of projected PPO activity, and the volume of historical data available for modelling, becomes sufficient the firm will apply statistical modelling in respect of PPOs within the IBNR reserve.

3. Risk management

3.1 Risk and capital management

The Board of Directors has ultimate responsibility for ensuring that the Group has sufficient funds to meet its liabilities as they fall due. The Group carries out detailed modelling of its assets and liabilities and the key risks to which these are exposed. This modelling includes the Group's own assessment of its capital requirements for solvency purposes.

The Group has continued to manage its solvency with reference to the Solvency Capital Requirement ("SCR") calculated using the Standard Formula. The Group has developed sufficient processes to ensure that the capital requirements under Solvency II are not breached, including the maintenance of capital at a level higher than that required through the Standard Formula. From 1 January 2016, the Group has considered its capital position to be its net assets on a Solvency II basis and monitors this in the context of the Solvency II SCR. As at 31 December 2019, the Group holds significant excess Solvency II capital.

The Group's IFRS capital comprised:

	As at 31 December 2019 £'k	As at 31 December 2018 £'k
Equity		
Issued ordinary share capital	**250**	250
Own shares	**(1,061)**	(1)
Merger reserve	**48,525**	48,525
Share-based payments reserve	**1,362**	1,036
Retained earnings	**218,341**	215,338
Total	**267,417**	265,148

The Solvency II position of the Group is given below:

	As at 31 December 2019 £'k	As at 31 December 2018 £'k
Total tier 1 capital	**127,086**	130,019
SCR	**59,495**	60,995
Excess capital	**67,591**	69,024
Solvency coverage ratio (%)	**214%**	213%

The following table sets out a reconciliation between IFRS net assets and Solvency II net assets:

	As at 31 December 2019 £'k	As at 31 December 2018 £'k
Adjusted IFRS net assets	**111,138**	108,869
Unearned premium reserve	**99,877**	106,517
Deferred acquisition costs	**(16,211)**	(15,761)
Solvency II premium provision	**(69,493)**	(71,092)
IFRS risk margin [(1)]	**12,003**	12,550
Discount claims provision	**1,769**	3,134
Solvency II risk margin	**(8,255)**	(9,237)
Change in deferred tax	**(3,742)**	(4,961)
Solvency II net assets	**127,086**	130,019

(1) In line with industry practice, the IFRS risk margin is an explicit additional reserve in excess of the actuarial best estimate which is designed to create a margin held in reserves to allow for adverse development in open claims.

The adjustments set out above have been made for the following reasons:

- **Adjusted IFRS net assets:** Equals Group net assets on an IFRS basis, less goodwill and intangibles.
- **Removal of unearned premium reserve and deferred acquisition costs:** The unearned premium reserve must be added back as premium and deferred acquisition costs must be removed as they are not deferred under Solvency II.
- **Solvency II premium provision:** A premium reserve reflecting the future cash in and out flows in respect of insurance contracts is calculated and this must be discounted under Solvency II.
- **IFRS risk margin:** Solvency II reserves must reflect a true "best estimate" basis. Therefore, the IFRS risk margin is removed from the claims reserve.
- **Discount claims provision:** The provision held against future claims expenditure for claims incurred is discounted in the same way as the Solvency II premium provision.
- **Solvency II risk margin:** The Solvency II risk margin represents the premium that would be required were the Group to transfer its technical provisions to a third party, and essentially reflects the SCR required to cover run-off of claims on existing business. This amount is calculated by the Group through modelling the discounted SCR on a projected future balance sheet for each year of claims run-off.
- **Change in deferred tax:** As the move to a Solvency II basis balance sheet increases the net asset position of the Group, a deferred tax liability is generated to offset the increase.

The Group's SCR, expressed on a risk module basis, is set out in the following table:

	As at 31 December 2019			As at 31 December 2018		
	£'k	£'k	£'k	£'k	£'k	£'k
Interest rate risk			**1,019**			484
Equity risk			**–**			–
Property risk			**1,014**			1,014
Spread risk			**–**			83
Currency risk			**470**			240
Concentration risk			**–**			–
Correlation impact			**(840)**			(555)
Market risk		**1,663**			1,265	
Counterparty risk		**2,211**			2,682	
Underwriting risk		**55,149**			57,633	
Correlation impact		**(2,395)**			(2,305)	
Basic SCR	**56,628**			59,275		
Operating risk	**6,609**			6,681		
Loss absorbing effect of deferred taxes	**(3,742)**			(4,961)		
Total Solvency Capital Requirement	**59,495**			60,995		

The Group's capital management objectives are:

- to ensure that the Group will be able to continue as a going concern; and
- to maximise the income and capital return to its equity

The Board monitors and reviews the broad structure of the Group's capital on an ongoing basis. This review includes consideration of the extent to which revenue in excess of that which is required to be distributed should be retained.

The Group's objectives, policies and processes for managing capital have not changed during the historical period.

3.2 Principal risks from insurance activities and the use of financial instruments

Detailed below is the Group's risk exposure arising from its insurance activities and use of financial instruments specifically in respect of insurance risk, market risk and counterparty risk.

3.2.1 Underwriting

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments, or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

The Group issues only motor insurance contracts, which usually cover 12 months' duration. For these contracts, the most significant risks arise from severe weather conditions or single catastrophic events. For longer-tail claims that take some years to settle, there is also inflation risk.

The above risk exposure is mitigated by diversification across a large portfolio of policyholders and geographical areas within the UK. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across policyholders. Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Group. The Group further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.

The Group purchases reinsurance as part of its risk mitigation programme. Reinsurance ceded is placed on a non-proportional basis. This non–proportional reinsurance is excess-of-loss, designed to mitigate the Group's net exposure to single large claims

or catastrophe losses. The current reinsurance programme in place has a retention limit of £1 million, with no upper limit. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded reinsurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Group's placement of reinsurance is diversified such that it is not dependent on a single reinsurer. There is no single counterparty exposure that exceeds 25% of total reinsurance assets at the reporting date.

Key assumptions
The principal assumption underlying the liability estimates is that the Group's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: one-off occurrence; changes in market factors such as public attitude to claiming: economic conditions; and internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key circumstances affecting the reliability of assumptions include variation in interest rates and delays in settlement.

Sensitivities
The motor claim liabilities are primarily sensitive to the reserving assumptions noted above. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

The table shows the impact of a 10% increase in the net loss ratio applied to all underwriting years which have a material outstanding claims reserve, a 10% increase in net outstanding claims across all underwriting years, taking into account the impact of an increase in the operational costs associated with handling those claims.

A substantial increase in individually large claims which are over our reinsurance retention limit generally will have no impact on profit before tax.

	Increase/(decrease) in profit before tax		**Increase/(decrease) in total equity**	
At 31 December	**2019 £'k**	**2018 £'k**	2019 £'k	**2018 £'k**
Insurance risk				
Impact of a 10% increase in net loss ratio	**(13,422)**	(13,899)	(10,872)	(11,258)
Impact of a 10% increase in net outstanding claims and claims provision	**(11,309)**	(11,713)	(9,160)	(9,488)

3.2.2 Financial risks

(1) Counterparty credit risk
Counterparty credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The two main sources of counterparty risk for the Group are investment counterparties and reinsurance recoveries.

The following policies and procedures are in place to mitigate the Group's exposure to credit risk:

- A company credit risk policy which sets out the assessment and determination of what constitutes credit risk for the Group. Compliance with the policy is monitored and exposures and breaches are reported to the Group's Audit and Risk Committee.
- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the Board of Directors and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.
- The Group sets the maximum amounts and limits that may be advanced to corporate counterparties by reference to their long-term credit ratings.
- The credit risk in respect of customer balances incurred on non-payment of premiums or contributions will only persist during the grace period specified in the policy document or trust deed until expiry, when the policy is either paid up or terminated. Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.

The following tables demonstrate the Group's exposure to credit risk in respect of overdue debt and counterparty creditworthiness.

Overdue debt

At 31 December 2019	Neither past due nor impaired £'k	Past due 1-90 days £'k	Past due more than 90 days £'k	Assets that have been impaired £'k	Carrying value in the balance sheet £'k
Reinsurance assets	**83,931**	**–**	**–**	**–**	**83,931**
Deferred tax assets	**210**	**–**	**–**	**–**	**210**
Insurance and other receivables	**37,700**	**85**	**–**	**–**	**37,785**
UK government debt	**263,629**	**–**	**–**	**–**	**263,629**
Cash and cash equivalents	**31,791**	**–**	**–**	**–**	**31,791**
Total	**417,261**	**85**	**–**	**–**	**417,346**

At 31 December 2018	Neither past due nor impaired £'k	Past due 1-90 days £'k	Past due more than 90 days £'k	Assets that have been impaired £'k	Carrying value in the balance sheet £'k
Reinsurance assets	82,435	–	–	–	82,435
Deferred tax assets	217	–	–	–	217
Insurance and other receivables	37,786	–	2	–	37,788
Corporate bonds	518	–	–	–	518
UK government debt	286,624	–	–	–	286,624
Cash at cash equivalents	22,823	–	–	–	22,823
Total	430,403	–	2	–	430,405

There were no material financial assets that would have been past due or considered for impairment at the year-end.

Exposure by credit rating

At 31 December 2019	AAA £'k	AA+ to AA- £'k	A+ to A- £'k	BBB+ to BBB- £'k	BB+ and below £'k	Not rated £'k	Total £'k
Reinsurance assets	–	62,492	21,439	–	–	–	83,931
Deferred tax asset	–	–	–	–	–	210	210
Insurance and other receivables	–	–	–	–	–	37,785	37,785
UK government debt	–	263,629	–	–	–	–	263,629
Cash and cash equivalents	–	18,840	–	12,951	–	–	31,791
Total	–	344,961	21,439	12,951	–	37,995	417,346

At 31 December 2018	AAA £'k	AA+ to AA- £'k	A+ to A- £'k	BBB+ to BBB- £'k	BB+ and below £'k	Not rated £'k	Total £'k
Reinsurance assets	–	62,696	19,739	–	–	–	82,435
Deferred tax assets	–	–	–	–	–	217	217
Insurance and other receivables	–	–	–	–	–	37,788	37,788
Corporate bonds	–	–	–	518	–	–	518
UK government debt	–	286,624	–	–	–	–	286,624
Cash and cash equivalents	–	93	–	22,730	–	–	22,823
Total	–	349,413	19,739	23,248	–	38,005	430,405

Credit rating is determined with reference to external credit rating agencies.

(2) Liquidity risk

Liquidity risk is the potential that obligations cannot be met as they fall due as a consequence of having a timing mismatch or inability to raise sufficient liquid assets without suffering a substantial loss on realisation. The Group manages its liquidity risk through both ensuring that it holds sufficient cash and cash equivalent assets to meet all short-term liabilities, and matching the maturity profile of its financial investments to the expected cash outflows.

The liquidity of the Group's insurance liabilities and supporting assets is given in the tables below.

At 31 December 2019	Total £'k	Within 1 year £'k	1 - 3 years £'k	3 - 5 years £'k	5 - 10 years £'k	Over 10 years £'k
Reinsurance assets	**83,931**	**43,034**	**29,428**	**9,653**	**1,816**	**–**
UK government debt	**263,629**	**154,079**	**78,340**	**22,640**	**8,570**	**–**
Cash and cash equivalents	**31,791**	**31,791**	**–**	**–**	**–**	**–**
Total	**379,351**	**228,904**	**107,768**	**32,293**	**10,386**	**–**

At 31 December 2019	Total £'k	Within 1 year £'k	1 - 3 years £'k	3 - 5 years £'k	5 - 10 years £'k	Over 10 years £'k
Insurance liabilities	**270,568**	**120,203**	**96,846**	**42,492**	**11,027**	**–**
Lease liabilities	**194**	**194**	**–**	**–**	**–**	**–**
Trade and other payables including insurance payables	**12,475**	**12,475**	**–**	**–**	**–**	**–**
Total	**283,237**	**132,872**	**96,846**	**42,492**	**11,027**	**–**

At 31 December 2018	Total £'k	Within 1 year £'k	1 - 3 years £'k	3 - 5 years £'k	5 - 10 years £'k	Over 10 years £'k
Reinsurance assets	82,435	38,109	29,302	9,712	5,312	–
Corporate bonds	518	518	–	–	–	–
UK government debt	286,624	182,923	81,768	17,879	4,054	–
Cash and cash equivalents	22,823	22,823	–	–	–	–
Total	392,400	244,373	111,070	27,591	9,366	–

At 31 December 2018	Total £'k	Within 1 year £'k	1 - 3 years £'k	3 - 5 years £'k	5 - 10 years £'k	Over 10 years £'k
Insurance liabilities	275,230	127,236	97,832	32,425	17,739	(2)
Trade and other payables including insurance payables	13,623	13,623	–	–	–	–
Total	288,853	140,859	97,832	32,425	17,739	(2)

The above tables include the expected claims on unearned premiums within insurance liabilities. The maturity of insurance liabilities is based upon an estimate of expected settlement date.

(3) Investment concentration risk
Excessive exposure to particular industry sectors or groups can give rise to concentration risk. The Group has no significant investment in any particular industrial sector and therefore is unlikely to suffer significant losses through its investment portfolio as a result of over-exposure to sectors engaged in similar activities or which have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

The Group's portfolio consists primarily of UK government debt, therefore the risk of government default does exist, however the likelihood is extremely remote. The Group continues to monitor the strength and security of these government bonds.

The Group's exposure by geographical area is outlined below.

At 31 December 2019	Corporate £'k	Sovereign £'k	Total £'k
UK	**–**	**263,629**	**263,629**
Total	**–**	**263,629**	**263,629**

At 31 December 2018	Corporate £'k	Sovereign £'k	Total £'k
UK	518	286,624	287,142
Total	518	286,624	287,142

(4) Interest rate risk
Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk. Currently the Group holds only fixed rate securities.

The Group's interest risk policy requires it to manage the maturities of interest-bearing financial assets and interest-bearing financial liabilities. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until maturity.

The Group has a concentration of interest rate risk in UK Government bonds.

The analysis that follows is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax and equity. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate-risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non–linear.

Note that the Group's investment portfolio has been designed such that the cash flows yielded from investments match the projected outflows inherent primarily within the claims reserve. While these insurance liabilities are shown on an undiscounted basis under IFRS, their economic value will move broadly in line with the underlying assets.

	Increase/(decrease) in profit after tax		Increase/(decrease) in total equity	
At 31 December	2019 £'k	2018 £'k	2019 £'k	2018 £'k
Interest rate				
Impact of a 100 basis point increase in interest rates on financial investments	**(2,157)**	(2,350)	**(2,157)**	(2,350)
Owner-occupied property				
Impact of a 15% decrease in property markets	**–**	–	**(493)**	(493)

3.2.3 Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The Group cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access controls, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit. Business risks such as changes in environment, technology and the industry are monitored through the Group's strategic planning and budgeting process.

4. Net earned premium

	2019 £'k	2018 £'k
Gross earned premium		
Gross written premium	**197,040**	210,017
Movement in unearned premium reserve	**6,640**	(1,395)
	203,680	208,622
Reinsurance premium ceded		
Premium payable	**(19,780)**	(21,129)
Movement in unearned premium reserve	**(662)**	742
	(20,442)	(20,387)
Total	**183,238**	188,235

5. Investment return

	2019 £'k	2018 £'k
Statement of comprehensive income		
Investment income		
Interest income from debt securities	**8,163**	7,992
Cash and cash equivalent interest income	**64**	91
Investment fees	**(87)**	(79)
	8,140	8,004
Net realised losses		
Debt securities at fair value through profit and loss	**(8,403)**	(1,210)
	(8,403)	(1,210)
Net unrealised gains/(losses)		
Debt securities at fair value through profit and loss	**2,668**	(6,017)
	2,668	(6,017)
Total	**2,405**	777
Other comprehensive income		
Revaluation gain on owner-occupied property	**–**	620
Total	**2,405**	1,397

6. Other operating income

	2019 £'k	2018 £'k
Marketing fees	**1,061**	1,334
Fee income from the sale of auxiliary products and services	**123**	136
Administration fees	**56**	291
Total	**1,240**	1,761

7. Net insurance claims

	2019			2018		
	Gross £'k	Reinsurance £'k	Net £'k	Gross £'k	Reinsurance £'k	Net £'k
Current accident year claims paid	**61,839**	**–**	**61,839**	52,429	–	52,429
Prior accident year claims paid	**52,052**	**(6,153)**	**45,899**	46,447	(3,179)	43,268
Movement in insurance liabilities	**(3,590)**	**(2,158)**	**(5,748)**	(26,631)	28,795	2,164
Total	**110,301**	**(8,311)**	**101,990**	72,245	25,616	97,861

Claims handling expenses for the year ended 31 December 2019 of £7,558k (2018: £6,536k) have been included in the above.

8. Finance costs

	2019 £'k	2018 £'k
Interest on lease liabilities (Note 23)	**18**	–
Total	**18**	–

9. Operating expenses

	2019 £'k	2018 £'k
Staff costs	**5,979**	6,219
Property costs	**154**	152
IT expense including IT depreciation	**4,898**	4,334
Other depreciation	**45**	46
Industry levies	**1,812**	3,224
Policy servicing costs	**2,334**	2,759
Other operating expenses	**1,526**	2,028
Total	**16,748**	18,762

During the year a provision for industry levies was released. Refer to Note 25.

The table below analyses the average monthly number of persons employed by the Group's operations.

	2019	2018
Operations	**131**	129
Support	**29**	25
Total	**160**	154

The aggregate remuneration of those employed by the Group's operations comprised:

	2019 £'k	2018 £'k
Wages and salaries	**3,845**	4,199
Issue of share-based payments	**1,106**	1,036
Social security costs	**662**	594
Pension costs	**253**	246
Other staff costs	**113**	144
Total	**5,979**	6,219

Wages and salaries of £5,528k (2018: £4,199k) have been classified as part of claims handling expenses (Note 7). Wages and salaries include a net movement in deferred acquisition costs (Note 15) of £1,072k (2018: £407k).

The table below analyses the auditor's remuneration in respect of the Group's operations.

	2019 £'k	2018 £'k
Fees for audit services		
Audit of these financial statements	**56**	41
Audit of financial statements of subsidiaries of the Group	**208**	134
Total audit fees	**264**	175
Fees for non-audit services		
Audit related assurance services	**78**	75
Total non-audit fees	**78**	75
Total auditor remuneration	**342**	250

Amounts paid to Directors are disclosed within the Remuneration Committee Report on page 53 of the Annual Report and Accounts.

10. Tax charge

	2019 £'k	2018 £'k
Current taxation		
Charge for the year	**10,761**	11,992
	10,761	11,992
Deferred taxation (Note 11)		
Origination and reversal of temporary differences	**7**	(197)
Over-provision in respect of the previous year	**–**	–
	7	(197)
Current taxation	**10,761**	11,992
Deferred taxation (Note 11)	**7**	(197)
Tax charge for the year	**10,768**	11,795

Tax recorded in other comprehensive income is as follows.

	2019 £'k	2018 £'k
Current taxation	**–**	118
	–	118

The actual income tax charge differs from the expected income tax charge computed by applying the standard rate of UK corporation tax of 19% (2018: 19.25%) as follows:

	2019 £'k	2018 £'k
Profit before tax	**56,479**	61,363
Expected tax charge	**10,731**	11,659
Effect of		
Expenses not deductible for tax purposes	**14**	13
Adjustment of deferred tax to average rate of 19%	**22**	–
Amortisation of intangible assets	**–**	95
Adjustment in respect of prior periods	**–**	–
Income/loss not subject to UK taxation	**10**	–
Other income tax adjustments	**(9)**	28
Tax charge for the year	**10,768**	11,795
Effective income tax rate	**19.07%**	19.22%

11. Deferred tax

The following are the deferred tax liabilities recognised by the Group, and the movements thereon, during the current and prior reporting years.

	Provisions and other temporary differences £'k	Depreciation in excess of capital allowances £'k	Share-based payments £'k	Total £'k
At 1 January 2018	25	(5)	–	20
(Debit)/Credit to the statement of comprehensive income on continuing operations	(8)	8	197	197
At 31 December 2018	17	3	197	217
(Debit)/Credit to the statement of comprehensive income on continuing operations	**2**	**(44)**	**35**	**(7)**
At 31 December 2019	**19**	**(41)**	**232**	**210**

	2019 £'k	2018 £'k
Per statement of financial position:		
Deferred tax assets	**251**	217
Deferred tax liabilities	**(41)**	–
	210	217

Under current legislation, the UK corporation tax rate is due to reduce from 19% to 17% from 1 April 2020. All closing deferred tax attributes are recognised with reference to the enacted tax rate of 17%. In March 2020, the Chancellor announced that he intends to cancel the reduction in corporation tax rate from 19% to 17%. As this announcement was made after the end of the reporting period, deferred taxes at the balance sheet date continue to be measured at the enacted tax rate of 17%. The impact of the corporation tax rate change on the closing deferred tax balance is immaterial.

12. Dividends

	2019		2018	
	Pence per share[1]	£'k	Pence per share	£'k
Amounts recognised as distributions to equity holders in the period				
Interim dividend in respect of the current year	**4.7**	**11,710**	7.2	17,951
Final dividend paid in respect of the prior year	**12.8**	**31,913**	–	–
	17.5	**43,623**	7.2	17,951
Proposed dividends				
Final dividend [2]	**8.1**	**20,250**	–	–

1) The dividend per share calculation is based on the number of equity shares registered on the ex-dividend date.
2) Subsequent to 31 December 2019, the Directors declared a final dividend for 2019 of 8.1 pence per ordinary share. This dividend will be paid on 28 May 2020. It will be accounted for as an appropriation of retained earnings in the year ended 31 December 2020 and is not included as a liability in the Consolidated Statement of Financial Position as at 31 December 2019.

The trustees of the employee share trusts waived their entitlement to dividends on shares held in the trusts to meet obligations arising on share incentive schemes, which reduced the dividends paid for the year ended 31 December 2019 by £127k (2018: £49k).

13. Property, plant and equipment

	Owner-occupied £k	Fixtures and fittings £k	Computer equipment £k	Total £k
Cost / Valuation				
At 1 January 2019	4,055	720	1,997	6,772
Additions	–	19	344	363
Disposals	–	(504)	(1,528)	(2,032)
Revaluation	–	–	–	–
At 31 December 2019	4,055	235	813	5,103
Accumulated depreciation and impairment				
At 1 January 2019	–	599	1,803	2,402
Depreciation charge for the year	–	45	120	165
Disposals	–	(504)	(1,528)	(2,032)
Impairment losses on revaluation	–	–	–	–
At 31 December 2019	–	140	395	535
Carrying amount				
As at 31 December 2019	4,055	95	418	4,568

	Owner-occupied £k	Fixtures and fittings £k	Computer equipment £k	Total £k
Cost / Valuation				
At 1 January 2018	3,950	703	1,953	6,606
Additions	–	17	44	61
Disposals	–	–	–	–
Revaluation	620	–	–	620
At 31 December 2018	4,570	720	1,997	7,287
Accumulated depreciation and impairment				
At 1 January 2018	515	554	1,663	2,732
Depreciation charge for the year	–	45	140	185
Disposals	–	–	–	–
Impairment losses on revaluation	–	–	–	–
At 31 December 2018	515	599	1,803	2,917
Carrying amount				
As at 31 December 2018	4,055	121	194	4,370

The Group holds two owner-occupied properties, Sabre House and The Old House, which are both managed by the Group. In accordance with the Group's accounting policies, owner-occupied buildings are not depreciated. The properties are measured at fair value which is arrived at on the basis of a valuation carried out on 16 October 2018 by Hurst Warne and Partners LLP. The valuation was carried out on an open-market basis in accordance with the Royal Institution of Chartered Surveyors' requirements, which is deemed to equate to fair value. Whilst transaction evidence underpins the valuation process, the definition of market value, including the commentary, in practice requires the valuer to reflect the realities of the current market. In this context valuers must use their market knowledge and professional judgement and not rely only upon historical market sentiment based on historical transactional comparables.

The fair value of the owner-occupied properties was derived using the investment method supported by comparable evidence. The significant non-observable inputs used in the valuations are the expected rental values per square foot and the capitalisation rates. The fair value of the owner-occupied properties valuation would increase (decrease) if the expected rental values per square foot were to be higher (lower) and the capitalisation rates were to be lower (higher).

The fair value measurement of owner-occupied property of £4,055k (2018: £4,055k), has been categorised as a Level 3 fair value based on the non-observable inputs to the valuation technique used.

The following table shows reconciliation to the closing fair value for the Level 3 owner-occupied property at valuation:

Owner-occupied	**2019 £'k**	**2018 £'k**
At 31 December	**4,055**	3,435
Purchase	**–**	–
Revaluation	**–**	620
At 31 December	**4,055**	4,055

14. Reinsurance assets

	2019 £'k	2018 £'k
Reinsurers' share of general insurance liabilities	**76,361**	74,203
Reinsurers' share of UPR	**7,570**	8,232
Total	**83,931**	82,435

15. Deferred acquisition costs

	2019 £'k	2018 £'k
At 1 January	**15,761**	14,673
Net increase during the year	**450**	1,088
At 31 December	**16,211**	15,761

16. Insurance and other receivables

	2019 £'k	2018 £'k
Receivables arising from insurance and reinsurance contracts		
Due from brokers and intermediaries	**15,328**	16,234
Due from policyholders	**22,526**	21,542
Impairment of broker and intermediary receivables	**(100)**	(100)
Other loans and receivables		
Other debtors	**31**	112
Total	**37,785**	37,788

The carrying value of insurance and other receivables approximates to fair value. There are no amounts expected to be recovered more than 12 months after the reporting date.

17. Prepayments, accrued income and other assets

	2019 £'k	2018 £'k
Accrued interest	**2,445**	3,467
Prepayments and accrued income	**1,182**	1,071
Total	**3,627**	4,538

The carrying value of prepayments, accrued income and other assets approximates to fair value. There are no amounts expected to be recovered more than 12 months after the reporting date.

18. Financial investments

	2019 £'k	2018 £'k
Debt securities held at fair value through profit and loss		
Corporate	**–**	518
Sovereign	**263,629**	286,624
Total	**263,629**	287,142

All financial investments are classified as Level 1 under the fair value hierarchy. The fair value classification of owner-occupied property is discussed in Note 13.

19. Cash and cash equivalents

	2019 £'k	2018 £'k
Cash and cash equivalents	**31,791**	22,823
Total	**31,791**	22,823

20. Goodwill

On 3 January 2014 the Group acquired Binomial Group Limited, the parent of Sabre Insurance Company Limited, for consideration of £245,485k satisfied by cash. As from 1 January 2014, the date of transition to IFRS, goodwill was no longer amortised but is subject to annual impairment testing. The recoverable amount of the insurance business unit is based on its fair value less cost to sell.

The goodwill recorded in respect of this transaction at the date of acquisition was £156,279k. There has been no impairment to goodwill since this date, and no additional goodwill has been recognised by the Group.

The Group performed its annual impairment assessment as at 31 December 2019 and 31 December 2018. The Group considers the relationship between its market capitalisation and its book value, among other factors, when performing its annual assessment. As at 31 December 2019 and 31 December 2018, the Group's securities were traded on a liquid market, therefore market value could be used as a definitive indicator of market capitalisation.

Key assumptions

The valuation uses fair value less costs to sell. The key assumption on which management have based this value is:

- Market capitalisation of the Group at 31 December 2019 of £770,000k (2018: £682,500k).

The Directors conclude that the recoverable amount of the business unit would remain in excess of its carrying value even after reasonably possible changes in the key inputs and assumptions affecting its market value, such as a significant fall in demand for its product or a significant adverse change in the volume of claims and increase in other expenses, before the recoverable amount of the business units would reduce to less than its carrying value. Therefore, the Directors are of the opinion that there are no indicators of impairment as at 31 December 2019.

21. Share capital

	2019 £'k	2018 £'k
Authorised		
250,000,000 Ordinary shares of £0.001 each	**250**	250
Issued and fully paid: equity shares		
250,000,000 Ordinary shares of £0.001 each	**250**	250

All shares are unrestricted and carry equal voting rights.

22. Insurance liabilities, unearned premium reserve

	2019 £'k	2018 £'k
Insurance liabilities		
Gross insurance liabilities (including unearned premium reserve)		
Gross insurance liabilities	**212,167**	215,757
Unearned premium reserve	**99,877**	106,517
Total	**312,044**	322,274
Reinsurers' share of insurance liabilities (including unearned premium reserve)		
Reinsurers' share of insurance liabilities	**(76,361)**	(74,203)
Unearned premium reserve	**(7,570)**	(8,232)
Total	**(83,931)**	(82,435)
Net insurance liabilities (including unearned premium reserve)		
Net insurance liabilities	**135,806**	141,554
Unearned premium reserve	**92,307**	98,285
Total	**228,113**	239,839

The development of gross and net general insurance liabilities is shown below.

Gross insurance liabilities

Accident year	2010 £'k	2011 £'k	2012 £'k	2013 £'k	2014 £'k	2015 £'k	2016 £'k	2017 £'k	2018 £'k	2019 £'k	Total £'k
Estimate of ultimate claims costs											
At the end of the accident year	77,415	98,735	103,139	84,939	75,649	103,599	111,518	165,707	120,077	126,981	
One year later	74,349	95,818	103,989	70,567	65,639	90,133	100,935	131,803	108,089		
Two years later	77,740	90,631	94,297	63,197	62,039	82,537	94,294	123,651			
Three years later	73,686	84,962	92,478	65,313	60,301	79,845	91,336				
Four years later	72,141	81,715	97,170	68,763	59,149	77,095					
Five years later	71,540	80,514	94,150	64,290	58,367						
Six years later	74,822	80,738	88,795	63,153							
Seven years later	72,660	80,511	88,016								
Eight years later	72,656	80,502									
Nine years later	72,289										
Current estimate of cumulative claims	72,289	80,502	88,016	63,153	58,367	77,095	91,336	123,651	108,089	126,981	
Cumulative payments to date	(69,323)	(80,203)	(82,861)	(59,592)	(56,075)	(71,777)	(76,324)	(70,715)	(71,583)	(54,216)	
Liability recognised in balance sheet	**2,966**	**299**	**5,155**	**3,561**	**2,292**	**5,318**	**15,012**	**52,936**	**36,506**	**72,765**	**196,810**
2009 and prior											**11,588**
Claims handling provision											**3,769**
Total											**212,167**

Net insurance liabilities

Accident year	2010 £'k	2011 £'k	2012 £'k	2013 £'k	2014 £'k	2015 £'k	2016 £'k	2017 £'k	2018 £'k	2019 £'k	Total £'k
Estimate of ultimate claims costs											
At the end of the accident year	61,912	94,171	89,901	77,316	74,609	97,288	104,808	106,478	111,433	115,011	
One year later	69,055	90,742	81,403	64,071	65,639	85,814	93,664	96,446	99,649		
Two years later	72,475	87,494	75,938	59,301	60,953	81,164	87,824	91,806			
Three years later	69,649	81,950	73,606	57,739	59,741	77,869	85,243				
Four years later	68,001	78,509	74,304	56,947	59,008	76,409					
Five years later	67,100	77,534	72,731	56,892	58,259						
Six years later	66,926	77,496	76,624	56,593							
Seven years later	66,791	77,266	72,296								
Eight years later	66,791	77,256									
Nine years later	66,829										
Current estimate of cumulative claims	66,829	77,256	72,296	56,593	58,259	76,409	85,243	91,806	99,649	115,011	
Cumulative payments to date	(65,641)	(76,957)	(72,101)	(54,333)	(56,075)	(71,689)	(76,225)	(70,715)	(71,583)	(54,216)	
Liability recognised in balance sheet	**1,188**	**299**	**195**	**2,260**	**2,184**	**4,720**	**9,018**	**21,091**	**28,066**	**60,795**	**129,816**
2009 and prior											**2,221**
Claims handling provision											**3,769**
Total											**135,806**

Movements in insurance liabilities, unearned premium reserve and reinsurance assets

	Gross £'k	Reinsurance £'k	Net £'k
At 1 January 2018	242,388	(102,998)	139,390
Cash paid for claims during the year	(92,434)	3,177	(89,257)
Increase/(decrease) in liabilities:			
Arising from current-year claims	122,100	(8,645)	113,455
Arising from prior-year claims	(56,297)	34,263	(22,034)
At 31 December 2018	215,757	(74,203)	141,554
Claims reported	284,491	(96,138)	188,353
Incurred but not reported	(72,236)	21,935	(50,301)
Claims handling provision	3,502	–	3,502
At 31 December 2018	215,757	(74,203)	141,554
Cash paid for claims during the year	**(106,268)**	**6,153**	**(100,115)**
Increase/(decrease) in liabilities:			
Arising from current-year claims	**129,155**	**(11,970)**	**117,185**
Arising from prior-year claims	**(26,477)**	**3,659**	**(22,818)**
At 31 December 2019	**212,167**	**(76,361)**	**135,806**
Claims reported	**290,964**	**(97,789)**	**193,175**
Incurred but not reported	**(82,566)**	**21,428**	**(61,138)**
Claims handling provision	**3,769**	**–**	**3,769**
At 31 December 2019	**212,167**	**(76,361)**	**135,806**

23. Leases

Company as a lessee

The Group has one lease contract for computer equipment used in its operations, with the exception of short-term leases and leases of low-value underlying assets. This lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment (see Note 13).

Leases of computer equipment generally have lease terms between zero and five years. The lease payments are fixed and the lease is not linked to revenue or annual changes in an index (either RPI or CPI).

The right-of-use asset can only be used by the Group and the Group cannot sub-lease the asset. The Group is prohibited from selling or pledging the underlying assets as security. The lease may only be cancelled by incurring a termination fee. The Group's obligations under the lease are secured by the lessor's title to the leased assets. No lease contracts require the Group to maintain certain financial ratios.

The table below describes the nature of the Group's leasing activity by type of right-of-use asset recognised on balance sheet:

Right-of-use asset	No of assets leased	Range of remaining term	Average remaining lease term	No of leases with extension options	No of leases with option to purchase	No of leases with variable payments linked to an index	No of leases with termination options
Computer equipment	1	0 to 1 years	0.75 years	1	–	–	1

Right-of-use assets

Additional information on the right-of-use assets by class of assets is as follow:

	Computer equipment £'k	Total £'k
As at 1 January 2019 (adjusted)	**440**	**440**
Additions	**–**	**–**
Depreciation	**(251)**	**(251)**
As at 31 December 2019	**189**	**189**

The right-of-use assets are included in the same line items as where the corresponding underlying assets would be presented if they were owned.

Lease liabilities

Lease liabilities are presented in the statement of financial position as follows:

	2019 £'k	2018 £'k
As at 1 January (adjusted for 1 January 2019)	**440**	–
Additions	**–**	–
Accretion of interest	**18**	–
Payments	**(264)**	–
As at 31 December 2019	**194**	–
Current	**194**	–
Non-current	**–**	–

The following are the amounts recognised in the statement of comprehensive income:

	2019 £'k	2018 £'k
Depreciation expense of right-of-use assets	**251**	–
Interest expense on lease liabilities	**18**	–
Expenses relating to short-term leases (included in IT expenses)	**6**	–
Expenses relating to low-value assets (included in other operating expenses)	**14**	–
Variable lease payments	**–**	–
Total	**289**	–

The Group had total cash outflows for leases of £284k in 2019 (2018: £284k). The Group had no non-cash additions to right-of-use assets or lease liabilities. The Group has not entered into any lease agreements which have not yet commenced.

The Group has no lease contracts that contain variable payments.

The Group's lease contract includes extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Limited judgement is required in determining whether these options are reasonably certain to be exercised.

Set out below are the undiscounted potential future rental payments relating to periods following the exercise date of extension and terminations that are not included in the lease term:

	Within five years £'k	More than five years £'k	Total £'k
Extension options expected to be exercised	**264**	–	**264**
Termination options expected to be exercised	–	–	–
	264	–	**264**
Extension options expected not to be exercised	**264**	–	**264**
Termination options expected not to be exercised	–	–	–
Total	**264**	–	**264**

The Group is not expected to exercise the termination option before the end of the current lease. If the lease is extended, the extended contract will not contain a termination option.

24. Trade and other payables, including insurance payables

	2019 £'k	2018 £'k
Insurance creditors	**1,073**	1,017
Due to reinsurers	**4,936**	6,171
Trade and other creditors	**1,053**	675
Other taxes	**5,413**	5,760
Total	**12,475**	13,623

The carrying value of trade and other payables, including insurance payables, approximates to fair value. There are no amounts expected to be settled more than 12 months after the reporting date.

25. Accruals

	2019 £'k	2018 £'k
Accruals	**1,206**	4,510
Total	**1,206**	4,510

All accruals are due to be paid within one year.

The Group makes provision for all industry levies, such as Motor Insurance Bureau and Financial Conduct Authority. During 2019 the accrual in respect of the Motor Insurance Bureau levy was reduced by £3,325k, reflecting a decreased uncertainty over the level of future levies.

26. Fair value

Fair value hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Group's view of market assumptions in the absence of observable market information.

IFRS 13 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement.

Disclosure of fair value measurements by level is according to the following fair value measurement hierarchy:

- Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair values measured using valuation techniques for all inputs significant to the measurement other than quoted prices included
  within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: fair values measured using valuation techniques for any input for the asset or liability significant to the measurement that is not based on observable market data (unobservable inputs);

There have been no transfers between levels during the year (2018: no transfers).

The following table summarises the classification of financial instruments:

As at 31 December 2019	Level 1 £'k	Level 2 £'k	Level 3 £'k	Total £'k
Assets held at fair value				
Financial investments	**263,629**	**–**	**–**	**263,629**
Owner-occupied land and buildings (Note 13)	**–**	**–**	**4,055**	**4,055**
Total assets	**263,629**	**–**	**4,055**	**267,684**

As at 31 December 2018	Level 1 £'k	Level 2 £'k	Level 3 £'k	Total £'k
Assets held at fair value				
Financial investments	287,142	–	–	287,142
Owner-occupied land and buildings (Note 13)	–	–	4,055	4,055
Total assets	**287,142**	**–**	**4,055**	**291,197**

27. Notes to the cash flow statement

	2019 £'k	2018 £'k
Profit before tax for the year	**56,479**	61,363
Adjustments for:		
Depreciation of property, plant and equipment	**165**	185
Depreciation of right-of-use assets	**251**	–
Amortisation of intangible assets	**–**	501
Share-based payment expense	**1,106**	1,036
Investment return	**(2,405)**	(777)
Operating cash flows before movements in working capital	**55,596**	62,308
Movements in working capital:		
Change in reinsurance assets	**(1,496)**	28,053
Change in insurance and other receivables	**3**	1,020
Change in prepayments and other assets	**911**	(1,684)
Change in insurance liabilities including DAC and UPR	**(10,680)**	(26,324)
Change in trade and other payables	**(4,452)**	(7,410)
Cash used by operations	**39,882**	55,963
Taxes paid	**(11,674)**	(7,219)
Net cash flow used by operating activities before investment of insurance assets	**28,208**	48,744
Interest and investment income received	**8,148**	8,004
Purchases of invested assets	**(206,131)**	(152,162)
Proceeds from sale of invested assets	**223,902**	101,824
Total	**54,127**	6,410

28. Share-based payments

The Group operates equity-settled share-based schemes for all employees in the form of a Long-Term Incentive Plan ("LTIP"), Deferred Bonus Plan ("DBP") and Share Incentive Plans ("SIP"), including Free Shares and Save As You Earn ("SAYE"). The shares are in the ultimate parent company, Sabre Insurance Group plc.

Employee schemes shares

	Free shares donated at listing			Shares bought/sold on open market			Total
	Number of shares	Average price (pence)	£	Number of shares	Average price (pence)	£	£
As at 21 September 2017	–	–	–	–	–	–	–
Corporate reorganisation	869,566	0.001	870	–	–	–	870
As at 31 December 2017	**869,566**	**0.001**	**870**	**–**	**–**	**–**	**870**
Shares purchased	–	–	–	–	–	–	–
Shares vested	–	–	–	–		–	–
As at 31 December 2018	**869,566**	**0.001**	**870**	**–**	**–**	**–**	**870**
Shares purchased	**–**	**–**	**–**	**395,587**	**268.073**	**1,060,462**	**1,060,462**
Shares disposed	**(42,325)**	**0.001**	**(42)**	**–**	**–**	**–**	**(42)**
Shares vested	**(286,658)**	**0.001**	**(287)**	**–**	**–**	**–**	**(287)**
As at 31 December 2019	**540,583**	**0.001**	**541**	**395,587**	**268.073**	**1,060,462**	**1,061,003**

In thousands	**£'k**	**£'k**	**£'k**
As at 31 December 2019	**1**	**1,060**	**1,061**

The Group recognised a total expense in the statement of comprehensive income for the year ending 31 December 2019 of £1,106k (2018: £1,036k), relating to equity settled share-based plans.

Share-based payments reserve

	£'k
As at 1 January 2018	–
Charge in respect of share-based payment	1,036
As at 31 December 2018	**1,036**
Charge in respect of share-based payment	**1,106**
Settlement of share-based payments	**(780)**
As at 31 December 2019	**1,362**

Long-Term Incentive Plan ("LTIP")

The LTIP is a discretionary share plan, under which the Board may grant share-based awards ("LTIP Awards") to incentivise and retain eligible employees. The vesting of LTIP Awards may (and, in the case of an LTIP Award to an Executive Director other than a Recruitment Award will)
be subject to the satisfaction of performance conditions. Any performance condition may be amended or substituted if one or more events occur which cause the Board to consider that an amended or substituted performance condition would be more appropriate and would not be materially less difficult to satisfy.

LTIP Awards which are subject to performance conditions will normally have those conditions assessed as soon as reasonably practicable after the end of the relevant performance period and, to the extent that the performance conditions have been met, the LTIP Awards will vest either on that date or such later date as the Board determines. LTIP Awards (other than Recruitment

Awards) granted to the Executive Directors will normally be subject to a performance period of at least three years. LTIP Awards (other than Recruitment Awards) which are not subject to performance conditions will normally vest on the third anniversary of the date of grant or such other date as the Board determines.

LTIP Awards without performance conditions

In 2017, shares gifted to employees at IPO were held in trust under the Long-Term Incentive Plan, without performance conditions, with a vesting period of two years (50%) and three years (50%).

LTIP Awards with performance conditions

During 2019, further share options were issued to management and senior employees under the LTIP, with performance conditions attached.

The following table lists the inputs to the model used to value the three plans for the year ended 31 December 2019. The fair value of the options granted is measured using the Monte Carlo method considering the terms and conditions upon which the options were granted. The amount recognised as an expense under IFRS 2 is adjusted to reflect the actual number of share options that vest.

	2019 LTIP grant	2018 LTIP grant
Weighted average share price (per award)	**206 pence**	227 pence
Expected term	**4.51 years**	2.8 years
Expected volatility	**23.26%**	22.81%
Expected exercise price on outstanding awards	**NIL**	NIL
Grant-date TSR performance of the Group	**8.54%**	16.09%
Average risk-free interest rate	**0.81%**	0.73%

The tables below detail the movement in the LTIP:

	LTIP without performance conditions		LTIP with performance conditions	
	Number and WAEP[(1)]		Number and WAEP	
	Number	£	Number	£
Outstanding at 1 January 2019	**569,530**	**NIL**	**572,649**	**NIL**
Granted	**–**	**–**	**644,745**	**NIL**
Forfeited	**(8,333)**	**NIL**	**–**	**–**
Vested	**(286,658)**	**NIL**	**–**	**–**
Outstanding at 31 December 2019	**274,539**	**NIL**	**1,217,394**	**NIL**

(1) Weighted average exercise price - as a proxy for fair value

	LTIP without performance conditions		LTIP with performance conditions	
	Number and WAEP		Number and WAEP	
	Number	£	Number	£
Outstanding at 1 January 2018	576,169	NIL	–	–
Granted	–	–	572,649	NIL
Forfeited	(6,639)	NIL	–	–
Vested	–	–	–	–
Outstanding at 31 December 2018	569,530	–	572,649	NIL

Deferred Bonus Plan ("DBP")
To encourage behaviour which does not benefit short-term profitability over longer-term value, Executive Directors were awarded 145,317 shares in lieu of a bonus (2018: NIL), with an estimated fair value of £418,513k (2018: £NIL) to be deferred for two years, using the market value at the grant date. These are subject to a two-year service period and are not subject to performance conditions.

The DBP is recognised in the statement of comprehensive income on a straight-line basis over a period of two years from grant date.

Share Incentive Plans ("SIPs")
The Sabre Share Incentive Plans provide for the award of free Sabre Insurance Group plc shares, Partnership Shares, Matching Shares and Dividend Shares. The shares are owned by the Employee Benefit Trust to satisfy awards under the plans. These shares are either purchased on the market and carried at fair value or issued by the parent company to the trust.

Free Shares
On 29 December 2017, Free Share awards were granted with a vesting period of three years from the award date. Vesting is unconditional for participants still in service at the vesting date. Participants will also receive Dividend Shares which represent the value of reinvested dividends which would have accrued over the vesting period on the shares in the Free Share award.

The fair value of the Sabre Share Incentive Plan awards is equal to the share price on the date of grant. Dividends are not deducted in the calculation of fair value because dividends will be accumulated over the vesting period and repaid against equivalent dividend shares.

As at 31 December 2019, 166,698 (2018: 179,928) shares were held on behalf of employees with an estimated fair value of £513,430k (2018: £491,203k). The average unexpired life of Free Shares awards is one year (2018: two years).

Matching Shares
The Group has a Matching Shares scheme under which employees are entitled to invest between £10 and £150 each month through the share trust from their pre-tax pay. The Group supplements the number of shares purchased by giving employees one free matching share for every three shares purchased up to £1,800. Matching Shares are subject to a three-year service period before the Matching Shares are awarded. Dividends are paid on shares, including Matching Shares, held in the trust by means of Dividend Shares. The fair value of such awards is estimated to be the market value of the awards on grant date.

In the year ending 31 December 2019, 2,875 (2018: NIL) matching shares were granted to employees with an estimated fair value of £9k (2018: £NIL).

As at 31 December 2019, 2,875 (2018: NIL) matching shares were held on behalf of employees with an estimated fair value of £9k (2018: £ NIL). The average unexpired life of Matching Share awards is 2.3 years (2018: NIL years).

Save as You Earn
The SAYE scheme allows employees to enter into a regular savings contract of between £5 and £500 per month over a three-year period, coupled with a corresponding option over shares. The grant price is equal to 80% of the quoted market price of the shares on the invitation date.

29. Related party transactions

Sabre Insurance Group plc is the ultimate parent and ultimate controlling party of the Group. The following entities included below form the Group.

Name	Principal business	Registered address
Binomial Group Limited	Intermediate holding company	Sabre House, 150 South Street, Dorking, Surrey, United Kingdom, RH4 2YY
Sabre Insurance Company Limited	Motor insurance underwriter	Sabre House, 150 South Street, Dorking, Surrey, United Kingdom, RH4 2YY
Barbados TopCo Limited	Non-trading	Heritage Hall, Le Marchant Street, St Peter Port, Guernsey, GY1 4HY
Barb IntermediateCo Limited	Non-trading	13-14 Esplanade, St Helier, Jersey, JE1 1EE
Barb MidCo Limited	Non-trading	13-14 Esplanade, St Helier, Jersey, JE1 1EE
Barb BidCo Limited	Non-trading	13-14 Esplanade, St Helier, Jersey, JE1 1EE
Barb HoldCo Limited	Non-trading	13-14 Esplanade, St Helier, Jersey, JE1 1EE
Other controlled entities		
EBT – UK SIP	Trust	Ocorian, 26 New Street, St Helier, Jersey, JE2 3RA
The Sabre Insurance Group Employee Benefit Trust	Trust	26 New Street, St Helier, Jersey, JE2 3RA

No single party holds a significant influence (>20%) over Sabre Insurance Group plc.

Both Employee Benefit Trusts ("EBTs") were established to assist in the administration of the Group's employee equity-based compensation schemes. The UK registered EBT holds the all-employee Share Incentive Plan ("SIP") in which each employee of Sabre Insurance Company Limited was issued with £3,600 of shares on listing. The Jersey-registered EBT holds the Long Term Incentive Plan ("LTIP") discretionary shares awarded on IPO.

While the Group does not have legal ownership of the EBTs and the ability of the Group to influence the actions of the EBTs is limited to a trust deed, the EBTs were set up by the Group with the sole purpose of assisting in the administration of these schemes, and are in essence controlled by the Group and therefore consolidated.

During the period ended 31 December 2019, the Group donated no shares to the EBTs (2018: 1,315,538). While an amount of these shares was sold on admission, 213,792 shares were retained in the UK EBT in relation to the SIP and 576,169 shares were retained in the Jersey EBT in relation to the LTIP. The total value of the shares gifted to the EBTs by Sabre Insurance Group plc on admission was £3,025k.

Key Management compensation

Key Management includes Executive Directors, Non-executive Directors and other senior management personnel. Further details of Directors' shareholdings and remuneration can be found in the Directors' Remuneration Report on pages 56 to 58 of the Annual Report and Accounts.

	2019 £'k	2018 £'k
Salaries and other short-term benefits	**2,282**	2,682
Employer pension	**10**	13
Shares granted under LTIP	**350**	466
Fees	-	23
Total	**2,642**	3,183

30. Earnings per share

Basic earnings per share

	2019		2018	
	After tax £'k	**Per share pence**	**After tax £'k**	**Per share** pence
Profit for the year attributable to equity holders	**45,711**	**18.35**	49,568	19.90

Diluted earnings per share

	2019		
	After tax £'k	**Weighted average number of shares £'k**	**Per share pence**
Profit for the year attributable to equity holders	**45,711**	**249,064**	**18.35**
Net shares under options allocable for no further consideration		**1,876**	**(0.13)**
Total diluted earnings		**250,940**	**18.22**

	2018		
	After tax £'k	**Weighted average number of shares £'k**	**Per share pence**
Profit for the year attributable to equity holders	49,568	249,126	19.90
Net shares under options allocable for no further consideration		1,578	(0.13)
Total diluted earnings		250,704	19.77

31. Contingent liability

In 2019 HMRC issued a determination in relation to the 2015 corporation tax filing of a subsidiary of the Group, which is currently dormant. This asserted that the interest rate applied on intercompany debt, and the resultant allowable expense, was inconsistent with transfer pricing rules and was excessive. The excess interest per the determination is £2.7m, tax relief for which equates to a reduction in the group's overall tax liability of £0.5m. The Directors obtained professional advice both at the time the return was filed and subsequent to the determination, and are satisfied that the Group's application of transfer pricing rules was correct. As such an appeal has been raised against the determination. The Board does not consider it likely that the subsidiary will be required to resubmit its 2015 filing, or either of the two subsequent tax filings for the years in which the intercompany debt remained in place.

32. Events after the balance sheet date

The global outbreak of COVID-19 presents various operational, market, counterparty and insurance risks to the Group. The Directors continues to monitor these risks closely and take all appropriate steps to manage the impact on policyholders, employees and other stakeholders. This is discussed in more detail in the Chief Executive Officer's Report, on page 13 of the Strategic Report in the Annual Report and Accounts. The Directors do not consider this event to have any bearing on the valuation of assets or liabilities at year-end.

PARENT COMPANY STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Notes	2019 £'k	2018 £'k
Assets			
Investments	2	**578,142**	577,037
Prepayments		**33**	29
Cash and cash equivalents		**1,121**	1,208
Total assets		**579,296**	578,274
Equity			
Issued share capital	4	**250**	250
Own shares		**(1,061)**	(1)
Merger reserve		**369,515**	369,515
Share based payments reserve	7	**1,362**	1,036
Retained earnings		**207,743**	206,960
Total equity		**577,809**	577,760
Liabilities			
Creditors: Amounts falling due within one year	3	**1,487**	514
Total liabilities		**1,487**	514
Total equity and liabilities		**579,296**	578,274

No income statement is presented for Sabre Insurance Group plc as permitted by Section 408 of the Companies Act 2006. The profit after tax of the parent company for the period was £43,491k (2018: £23,836k).

The attached notes form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 6 April 2020.

Signed on behalf of the Board of Directors by:

ADAM WESTWOOD
Chief Financial Officer

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

	Notes	Share capital £'k	Share premium £'k	Own shares £'k	Merger reserve £'k	Share-based payment reserve £'k	Retained earnings £'k	Total equity £'k
As at 1 January 2018		250	205,241	(1)	369,396	–	(4,047)	570,839
Profit for the year		–	–	–	–	–	23,836	23,836
Capital reduction		–	(205,241)	–	119	–	205,122	–
Share-based payment reserve		–	–	–	–	1,036	–	1,036
Dividends		–	–	–	–	–	(17,951)	(17,951)
At 31 December 2018		**250**	**–**	**(1)**	**369,515**	**1,036**	**206,960**	**577,760**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**43,491**	**43,491**
Share-based payment reserve	8	**–**	**–**	**–**	**–**	**1,106**	**–**	**1,106**
Settlement of share-based payments		**–**	**–**	**–**	**–**	**(780)**	**780**	**–**
Own shares purchased		**–**	**–**	**(1,060)**	**–**	**–**	**–**	**(1,060)**
Share scheme transfer to retained earnings		**–**	**–**	**–**	**–**	**–**	**135**	**135**
Dividends		**–**	**–**	**–**	**–**	**–**	**(43,623)**	**(43,623)**
At 31 December 2019		**250**	**–**	**(1,061)**	**369,515**	**1,362**	**207,743**	**577,809**

PARENT COMPANY STATEMENT OF CASH FLOWS
for the year ended 31 December 2019

	2019 £'k	2018 £'k
Profit after tax	**43,491**	23,836
Movement in working capital		
Change in debtors	**–**	**1,870**
Change in prepayments	**(4)**	**(29)**
Change in creditors	**973**	**(6,518)**
Net cash flow generated by operating activities	**44,460**	**19,159**
Net cash used in acquiring and disposing own shares	**(924)**	**–**
Dividends paid	**(43,623)**	**(17,951)**
Net cash used by financing activities	**(44,547)**	**(17,951)**
Net (decrease)/increase in cash and cash equivalents	**(87)**	**1,208**
Cash and cash equivalents at the beginning of the year	**1,208**	**–**
Cash and cash equivalents at the end of the year	**1,121**	**1,208**

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
for the year ended 31 December 2019

1. Accounting policies

1.1 Basis of preparation

These financial statements present the Sabre Insurance Group plc company financial statements for the period ended 31 December 2019, comprising the parent company statement of financial position, parent company statement of changes in equity, parent company statement of cash flows, and related notes.

The financial statements of the Group have been prepared in accordance and fully comply with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB) and adopted by the EU. In accordance with the exemption permitted under section 408 of the Companies Act 2006, the Company's income statement and related notes have not been presented in these separate financial statements.

The financial statements have been prepared on an historical cost basis, except for investment properties and those financial assets that have been measured at fair value.

The financial statements values are presented in Pounds Sterling (£) rounded to the nearest thousand (£'k), unless otherwise indicated.

The accounting policies that are used in the preparation of these separate financial statements are consistent with the accounting policies used in the preparation of the consolidated financial statements of Sabre Insurance Group plc as set out in those financial statements.

As permitted by Section 408 of the Companies Act 2006, the statement of comprehensive income of the parent company is not presented. The additional accounting policies that are specific to the separate financial statements of the Company are set out below.

1.2 Summary of significant accounting policies

(a) Investment in subsidiaries
Investment in subsidiaries is stated at cost less any impairment.

(b) Dividend income
Dividend income from investment in subsidiaries is recognised when the right to receive payment is established.

2. Investments

Investment in subsidiary undertakings

	2019 £'k	2018 £'k
As at 1 January	**577,036**	576,000
Additions	**1,106**	1,037
As at 31 December	**578,142**	577,037

The subsidiary undertakings of the Company are set out below. Their capital consists of ordinary shares which are unlisted. In all cases, the Company owns 100% of the ordinary shares, either directly or through its ownership of other subsidiaries.

Name of subsidiary	Place of incorporation	Principal activity
Directly held by the Company		
Binomial Group Limited	United Kingdom	Intermediate holding company
Barbados TopCo Limited	Guernsey	Non-trading company
Barb IntermediateCo Limited	Jersey	Non-trading company
Barb MidCo Limited	Jersey	Non-trading company
Barb BidCo Limited	Jersey	Non-trading company
Barb HoldCo Limited	Jersey	Non-trading company
Indirectly held by the Company		
Sabre Insurance Company Limited	United Kingdom	Motor insurance underwriter

The registered office of each subsidiary is disclosed within Note 29 of the consolidated Group accounts.

3. Creditors

	2019 £'k	2018 £'k
Due within one year		
Amounts owed to Group undertakings	**1,487**	514
As at 31 December	**1,487**	514

4. Share capital and reserves

Full details of the share capital and capital reserves of the Company are set out in Note 21 to the consolidated financial statements.

5. Dividends

Full details of the dividends paid and proposed by the Company are set out in Note 12 to the consolidated financial statements.

6. Related parties

Sabre Insurance Group plc, which is incorporated in the United Kingdom and registered in England and Wales, is the ultimate parent undertaking of the Sabre Insurance Group of companies.

The following balances were outstanding with related parties at year end:

	2019 £'k	2018 £'k
Due to		
Sabre Insurance Company Limited	**1,005**	32
Barbados TopCo Limited	**482**	482
As at 31 December	**1,487**	514

The outstanding balance represents cash transactions effected by Sabre Insurance Company Limited on behalf of its parent company, and will be settled within one year.

7. Share–based payments

Full details of share-based compensation plans are provided in Note 28 to the consolidated financial statements.

8. Risk management

The risks faced by the Company, arising from its investment in subsidiaries, are considered to be the same as those presented by the operations of the Group. Details of the key risks and the steps taken to manage them are disclosed in Note 3 to the consolidated financial statements.

9. Directors and key management remuneration

The Directors and key management of the Group and the Company are the same. The aggregate emoluments of the Directors are set out in Note 8 to the consolidated financial statements, the compensation for key management is set out in Note 9 to the consolidated financial statements and the remuneration and pension benefits payable in respect of the highest paid Director are included in the Directors' Remuneration Report in the Governance section of the Annual Report and Accounts.

APPENDIX – FINANCIAL RECONCILIATIONS

As at 31 December 2019

Adjusted Profit Before Tax

	2019 £'k	2018 £'k	2017 £'k
Profit before tax	**56,479**	61,363	55,512
Add:			
Amortisation of intangible assets	**–**	501	887
Exceptional items	**–**	–	7,542
Adjusted profit before tax	**56,479**	61,864	63,941

Adjusted Profit After Tax

	2019 £'k	2018 £'k	2017 £'k
Profit after tax	**45,711**	49,568	45,343
Add:			
Amortisation of intangible assets	**–**	501	887
Exceptional items	**–**	–	7,542
Tax on exceptional items	**–**	–	(484)
Adjusted profit after tax	**45,711**	50,069	53,288

Net Loss Ratio

	2019 £'k	2018 £'k	2017 £'k
Net insurance claims	**101,990**	97,861	92,912
Less: Claims handling expenses	**(7,558)**	(6,536)	(6,044)
Net claims incurred	**94,432**	91,325	86,868
Net earned premium	**183,238**	188,235	186,866
Net loss ratio	**51.5%**	48.5%	46.5%

Expense Ratio

	2019 £'k	2018 £'k	2017 £'k
Total expenses	**32,507**	35,191	34,994
Plus: Claims handling expenses	**7,558**	6,536	6,044
Net operating expenses	**40,065**	41,727	41,038
Net earned premium	**183,238**	188,235	186,866
Expense ratio	**21.9%**	22.1%	22.0%

Combined Operating Ratio

	2019 £'k	2018 £'k	2017 £'k
Total expenses	**32,507**	35,191	34,994
Net insurance claims	**101,990**	97,861	92,912
	134,497	133,052	127,906
Net earned premium	**183,238**	188,235	186,866
Combined operating ratio	**73.4%**	70.6%	68.5%

Solvency Coverage Ratio – Pre Dividend

	2019 £'k	2018 £'k	2017 £'k
Solvency II net assets	**127,086**	130,019	97,873
Solvency capital requirement	**59,495**	60,995	61,087
Solvency coverage ratio	**213.6%**	213.3%	160.2%

Solvency Coverage Ratio – Post Dividend

	2019 £'k	2018 £'k	2017 £'k
Solvency II net assets	**127,086**	130,019	97,873
Less: Final dividend	**(20,250)**	(32,000)	–
Solvency II net assets (post dividend)	**106,836**	98,019	97,873
Solvency capital requirement	**59,495**	60,995	61,087
Solvency coverage ratio – post dividend	**179.6%**	160.8%	160.2%

Return on Tangible Equity

	2019 £'k	2018 £'k	2017 £'k
IFRS net assets at year end	**267,417**	265,148	231,993
Less:			
Intangible assets at year end	**–**	–	(501)
Goodwill at year end	**(156,279)**	(156,279)	(156,279)
Closing tangible equity	**111,138**	108,869	75,213
Opening tangible equity	**108,869**	75,213	55,149
Average tangible equity	**110,004**	92,064	65,181
Adjusted profit after tax	**45,711**	50,069	53,290
Return on tangible equity	**41.6%**	54.4%	81.8%

Return on Opening SCR

	2019 £'k	2018 £'k	2017 £'k
Opening SCR	**60,995**	61,087	57,852
Adjusted profit after tax	**45,711**	50,069	53,290
Return on SCR	**74.9%**	82.0%	92.1%