

Annual Results Presentation 2016



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Our track record of profitable growth continues

- Strong policy growth and premium increases
- Increasing profitability whilst maintaining underwriting discipline
- Delivering on our IPO promises, with updated targets set

2

Strong 2016 results

- Live customer policies up 15% to 2.3m
- Gross written premiums up 25% to £769m
- Adjusted operating profit, excluding Ogden impact, up 21% to £152m
- £20m pre-tax impact of Ogden on adjusted operating profit
- A total dividend of 9.9p pence per share

3

Investing in our future

- Guidewire claims module rolled out and embedded
- Continued phased roll out of Guidewire broking and digital platforms
- Expansion of our site at Leicester

	2016 (pre-Ogden)	2015
Calendar year loss ratio of 75-79%	73.7%	75.4%
Over 2.5m customers by the end of 2017, but not at the expense of profitability	2.3m	2.0m
Net debt leverage multiple of around 1.5x by the end of 2017	1.7x	2.1x
Dividend payout ratio of 50-60%	55.5%	56.5%

Group financials

Richard Hoskins



Financial highlights

Gross written premiums:

£769.0m

Gross written premiums up 25% compared to 2015

Pre-Ogden adjusted operating profit:

£152.1m

Strong, profitable growth with customer policies increasing by 15% and pre-Ogden adjusted operating profit increasing by 21%

Post-Ogden adjusted operating profit:

£132.1m

Post-Ogden adjusted operating profit increasing by 5%

Pre-Ogden calendar year loss ratio:

73.7%

Calendar year loss ratio below the 75%-79% target range, or including the impact of Ogden 77.7%

Free cash generated:

£98.1m

Strong free cash generation, supporting investment in our business, reduced leverage and dividends

Pre-Ogden net debt leverage multiple:

1.7x

Reduced from 2.1x due to operating profit growth and cash generated. Post-Ogden net debt leverage multiple of 1.9x

Solvency II:

140%

158% Solvency II coverage pre-Ogden and a £4m dividend from Advantage. 140% coverage post-Ogden and Advantage dividend

£m	2016	2015	
Gross written premiums	769.0	614.9	25%
Net earned premiums	334.8	255.9	31%
Retail income	231.9	191.2	
Reinsurance and investment income	23.6	33.9	
Net revenue	590.3	481.0	23%
Net insurance claims	(260.1)	(192.9)	
Acquisition costs	(51.9)	(44.3)	
Other operating expenses	(146.2)	(117.7)	
Adjusted operating profit	132.1	126.1	
Ogden impact	20.0	-	
Adjusted operating profit (pre-Ogden)	152.1	126.1	21%
Net income (pre-Ogden)	114.9	76.2	51%
Adjusted EPS (pre-Ogden)¹	17.5p	11.6p	51%

Another strong set of Group results

Gross written premiums

Continued premium increases and policy count driving top line growth, with GWP up 25%

Net earned premiums

Growth of 31% reflecting written premium increases earning through

Retail income

Growth of 21% driven by higher policy count

Operating expenses

Increase due to growth in policy count and investment in the business

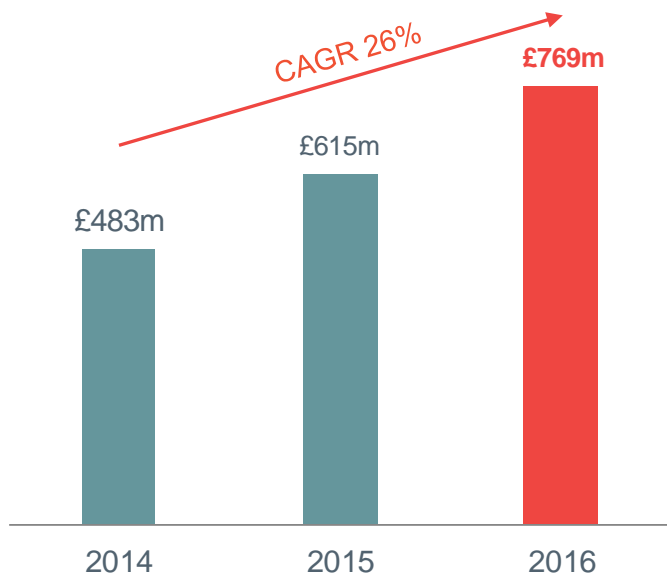
Adjusted operating profit (pre-Ogden)

Continued profitable growth, up 21% on prior year

Net Income and EPS (pre-Ogden)

Up 51%, benefitting from lower finance costs

¹ Non-IFRS EPS, based on shares in issue as at 31 December 2016



Continued growth in gross written premiums

Gross written premiums

Growth in customer numbers

Retention rates remain strong

Average motor written premium increased by 9%

Price comparison websites

PCW market penetration increased to 68% on motor

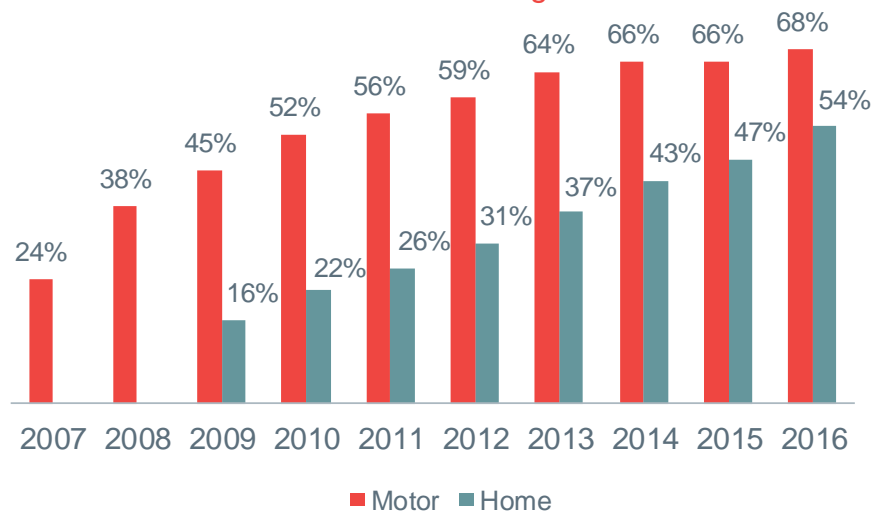
PCW market has grown with more customers shopping around

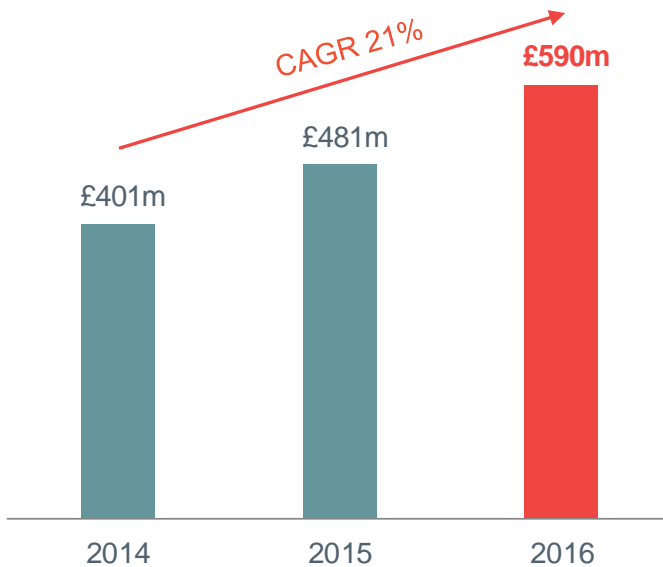
Hastings share of PCW new business sales has increased over 2015

Private Car market share grew to 6.5% (2015: 5.8%)

Continued increases in PCW penetration in the Home market

UK market new business sales through PCWs





Strong net revenue growth

Net earned premiums

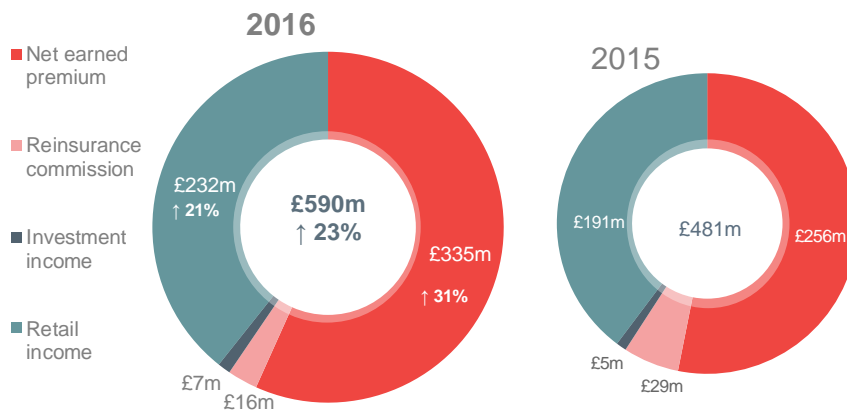
Net earned premiums growth of 31%, driven by increased policy count and rate increases, with average motor earned premium up 11%

Retail revenue

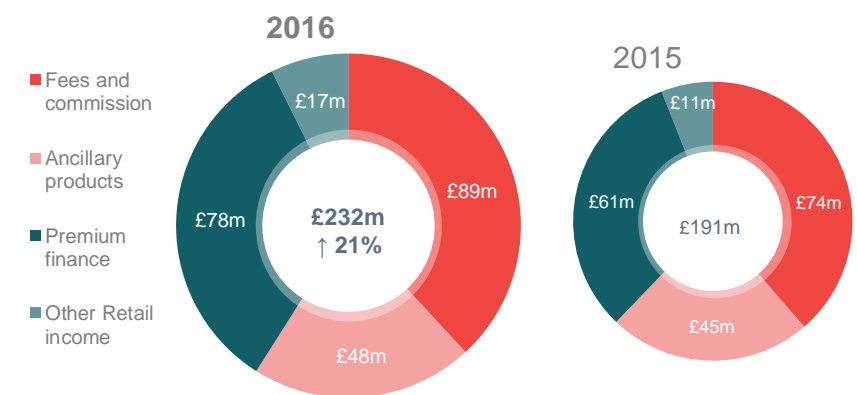
Retail revenue growing due to new business and strong retention rates

Average retail income per policy higher than 2015

Net revenue breakdown

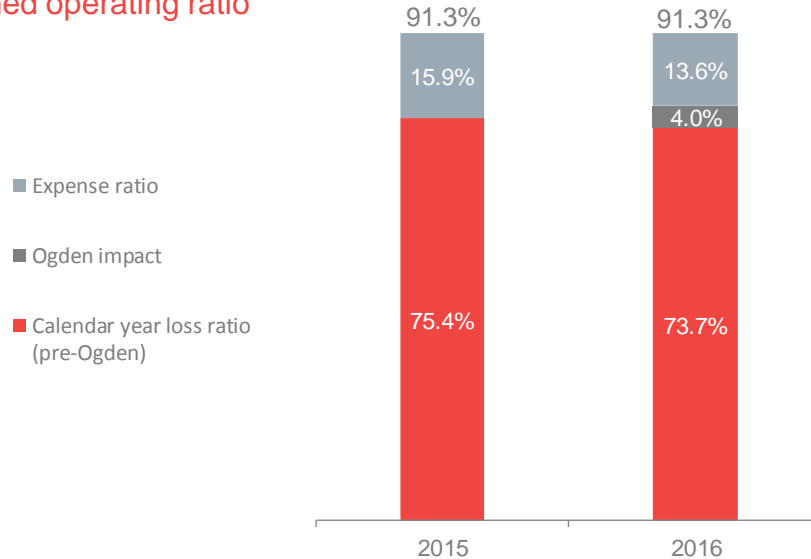


Retail revenue breakdown



Combined operating ratio

Combined operating ratio



Pre-Ogden calendar year loss ratio reduced to 73.7%

Accident year loss ratio

Accident year loss ratio reduced to 74.1% (2015: 78.4%) due to average premium increasing at a faster rate than claims inflation

Prior year development

Prior year development positive, excluding impact of Ogden, but lower than 2015 due to strengthening of large loss reserves discussed at H1 2016

Expense ratio

Expense ratio reduced to 13.6% driven by premiums growing at a faster rate than expenses and lower relative acquisition costs as the book matures

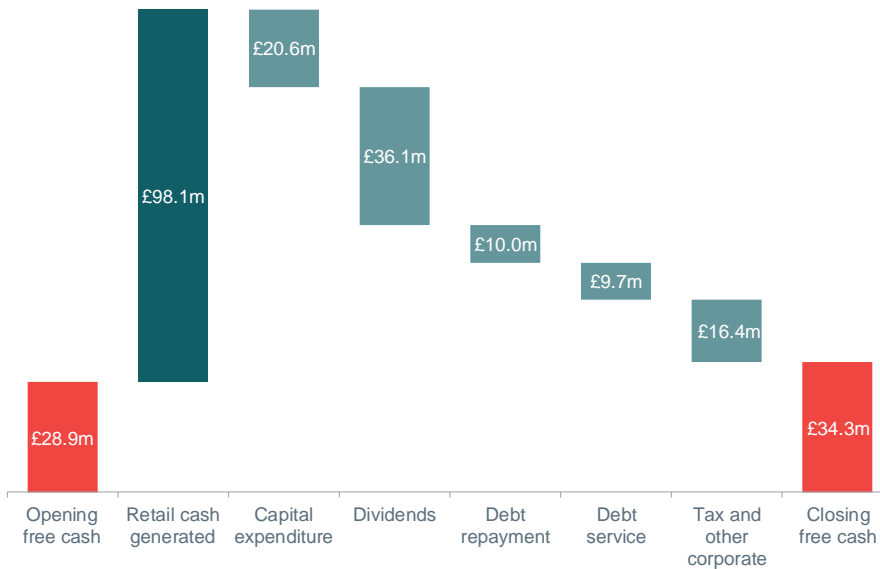
Calendar year loss ratio

	2015	2016
Accident year loss ratio	78.4%	74.1%
Prior year development	(3.0%)	(0.4%)
Calendar year loss ratio (pre-Ogden)	75.4%	73.7%
Ogden impact	-	4.0%
Calendar year loss ratio (post-Ogden)	75.4%	77.7%

Premium & claims inflation

	2015	2016
Written premium inflation	10%	9%
Earned premium inflation	4%	11%
Claims inflation	5%	6%

Group cash flow and leverage



Cash flow generation and continued deleveraging

Retail cash

Strong Retail cash generation of £98.1m, up £16.9m on the prior year

Capital expenditure

Capex of £20.6m primarily due to Guidewire, £7.1m lower than 2015

Dividend

2.2p per share final 2015 dividend and 3.3p interim 2016 dividend paid

Debt service

Debt servicing of £9.7m, down from £32.4m in 2015 due to refinancing and deleverage

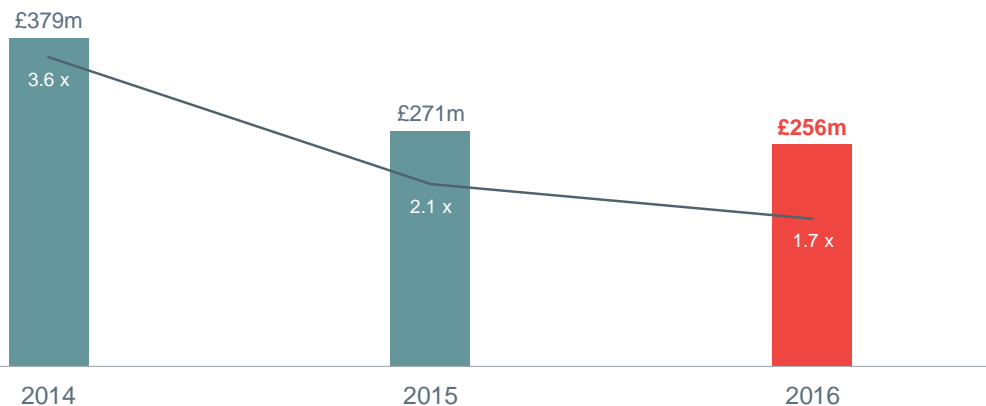
Group cash

Strong Group cash generation and adjusted operating profit growth driving reduced net debt leverage multiple

Net debt leverage multiple

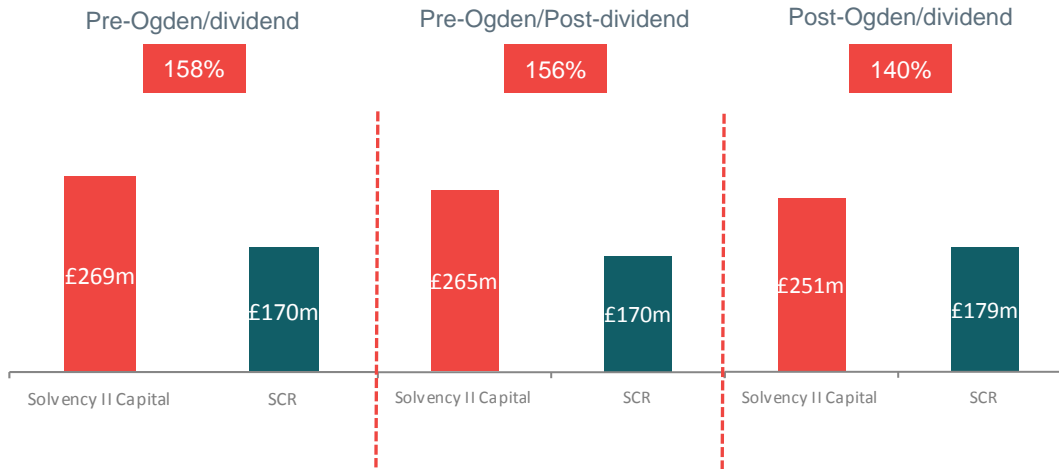
Net debt leverage multiple of 1.7x, or 1.9x including impact of Ogden

Pre-Ogden net debt and leverage multiple



Advantage is well capitalised

Solvency II coverage ¹



¹As at 31 December 2016, unaudited

Strong Advantage capital position - now delivering dividends

Solvency II

Solvency II coverage ratio of 140% post-Ogden impact and £4m Advantage dividend

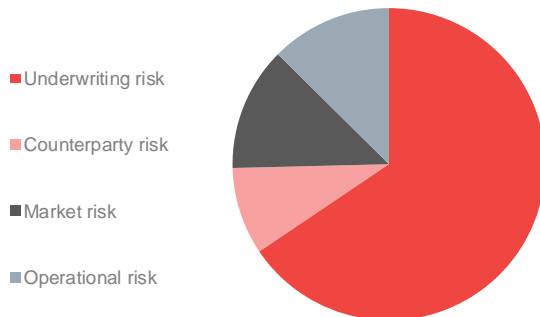
Advantage using Standard Formula approach

All Solvency II Own Funds comprise Tier 1 capital

Investment portfolio

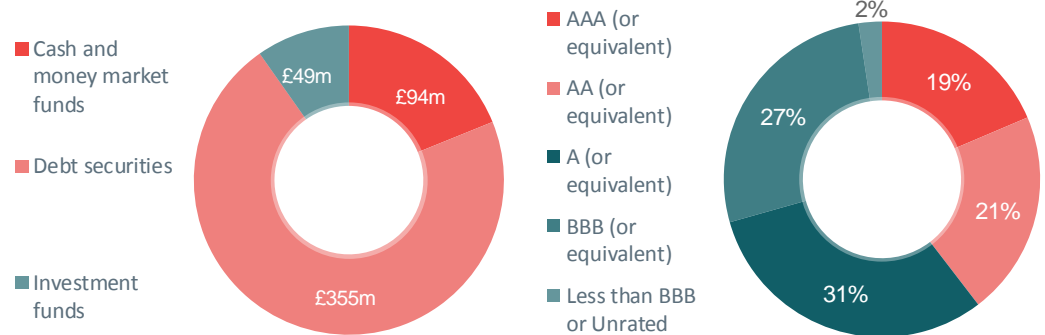
Strongly rated investment portfolio with overall credit rating A+, consistent with 2015

Split of capital requirement by risk type²



²Excluding diversification benefit and loss absorbing capacity of deferred tax

Advantage investment portfolio



Rating of non-cash and money market fund investment

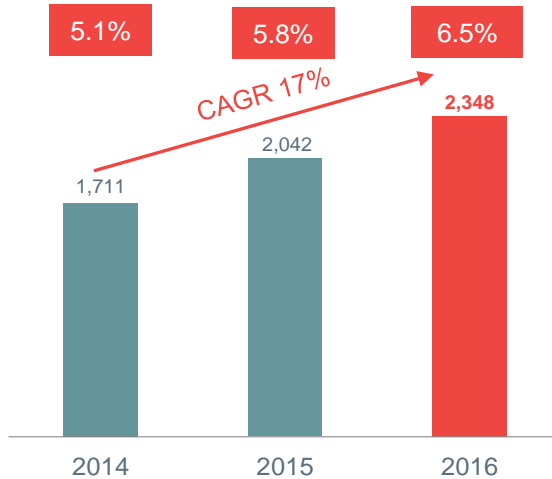
Summary and outlook

Gary Hoffman

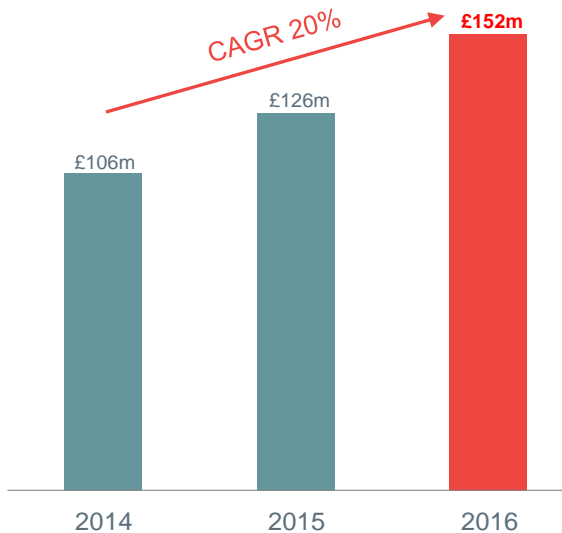


Continued profitable growth

UK private car market share/Total customer policies (000s)



Pre-Ogden adjusted operating profit growth



Continued momentum of core portfolio

Core motor

Growing share of PCW motor new business sales and profitable maturing book

PCW penetration on motor increased to 68% (2015: 66%)

Hastings market share increased to 6.5% (2015: 5.8%)

Telematics

45% increase in Telematics customer policies with insights gained expected to enhance risk selection on our core motor book

Multicar

Launch of new Multicar offering in 2017 (35% of households have >1 car)

Home

Development progressing on our new Home proposition including Advantage joining the Home panel

	Original target	Updated target
Calendar year loss ratio	75-79%	75-79%
Live customer policies, but not at the expense of profitability	2.5m <small>(by 31 Dec 2017)</small>	3.0m <small>(during 2019)</small>
Net debt leverage multiple	1.5x <small>(by 31 Dec 2017)</small>	1.0x <small>(during 2019)</small>
Dividend pay out ratio	50-60%	50-60%

Our focus for 2017



Maintain focus on profitable growth



Continued development of our Home proposition



Maintaining our underwriting discipline



Enhancing customer service and operational efficiency including the delivery of Guidewire



Continued focus on cash generation, de-leveraging and delivering our updated targets

Q&A



Appendix



Adjusted operating profit to profit after tax

£m	2016	2015
Adjusted operating profit (pre-Ogden)	152.1	126.1
Ogden impact	(20.0)	-
Adjusted operating profit	132.1	126.1
Operational amortisation and depreciation	(5.6)	(4.6)
Finance costs	(9.6)	(30.2)
Underlying profit before tax	116.9	91.3
Taxation expense	(20.0)	(15.1)
Net income	96.9	76.2
Non-trading costs ¹	-	(38.9)
Preference share dividends ²	-	(23.7)
Non-operational amortisation and other fair value adjustments ³	(22.6)	(23.7)
Tax effect of the above adjusting items	4.1	12.4
Profit after tax	78.4	2.3

¹ IPO and refinancing costs

² The preference shares were all converted to equity during 2015

³ Amortisation of fair value adjustments on intangible assets and claims reserves and recoveries

Retail results

£m	2016	2015
Retail policy Income	288.5	243.4
Investment income	0.2	0.2
Total income	288.7	243.6
Salaries & other staff expenses	(62.3)	(48.4)
Acquisition costs	(56.0)	(48.4)
Other expenses	(69.2)	(56.9)
Total expenses	(187.5)	(153.7)
Adjusted operating profit	101.2	89.9

Underwriting results

£m	2016	2015
Net earned premium	359.6	273.6
Other revenue	23.4	29.0
Investment income	7.0	5.0
Net claims incurred	(246.7)	(192.9)
Other expenses	(93.0)	(76.8)
Adjusted operating profit (pre-Ogden)	50.3	37.9
Ogden impact	(20.0)	–
Adjusted operating profit (post-Ogden)	30.3	37.9

Segmental reconciliation

£m, 2016	Underwriting	Retail	Corporate costs	Earn through discounts	Eliminate intercompany income	Other	Group
Net earned premiums	359.6	–	–	(24.8)	–	–	334.8
Other revenue	23.4	288.5	–	28.7	(88.9)	3.2	254.9
Investment and interest income	7.0	0.2	–	–	–	–	7.2
Net revenue	390.0	288.7	–	3.9	(88.9)	3.2	596.9
Net claims incurred	(246.7)	–	–	–	–	–	(246.7)
Operating expenses	(93.0)	(187.5)	(5.0)	–	88.9	(1.5)	(198.1)
Adjusted operating profit	50.3	101.2	(5.0)	3.9	–	1.7	152.1
Ogden impact	(20.0)	–	–	–	–	–	(20.0)
Post-Ogden adjusted operating profit	30.3	101.2	(5.0)	3.9	–	1.7	132.1

Combined operating ratio

£m	2016	2015
Group net earned premiums	334.8	255.9
Current accident year claims costs	(247.9)	(200.6)
Accident year loss ratio (%)	74.1%	78.4%
Prior year development (%)	(0.4%)	(3.0%)
Calendar year loss ratio (%)	73.7%	75.4%
Ogden impact	4.0%	-
Calendar year loss ratio (post-ogden)	77.7%	75.4%
Net acquisition costs	(25.4)	(23.2)
Net underwriting expenses	(20.1)	(17.6)
Total expenses	(45.5)	(40.8)
Expense ratio (%)	13.6%	15.9%
Group combined ratio (%)	91.3%	91.3%

£m	Prior	2013	2014	2015	2016	Total
At end of current period	837.6	125.3	169.1	203.4	256.4	1,591.9
One period earlier	840.4	125.2	165.5	200.6	-	1,331.7
Two periods earlier	844.7	130.8	163.4	-	-	1,138.8
Three periods earlier	849.9	136.4	-	-	-	986.3
Four periods earlier	857.8	-	-	-	-	857.8
Five periods earlier	741.8	-	-	-	-	741.8
Payments to date	(826.5)	(110.7)	(139.3)	(149.1)	(104.7)	(1,330.3)
Net outstanding claims liabilities	11.0	14.6	29.9	54.4	151.7	261.6

Consistent and prudent reserving approach

Reserves

Reserves increased to reflect Ogden rate change

Reserve Development

Positive prior year development in calendar year 2016 excluding the impact of Ogden

Some strengthening of 2014 and 2015 accident years in respect of large losses as discussed at H1 2016

XoL

Low level of loss retention maintained under our XoL arrangements

Loss ratio

Reducing accident year loss ratio since 2014

Group balance sheet

£m	2016	2015
Assets		
Goodwill	470.0	470.0
Intangible assets	97.2	102.8
Property and equipment	12.7	13.7
Deferred income tax asset	4.5	3.4
Reinsurance assets	822.0	547.5
Deferred acquisition costs	24.2	19.9
Prepayments	4.0	2.2
Insurance and other receivables	356.5	261.6
Financial assets at fair value	403.6	316.5
Cash and cash equivalents	168.0	152.2
Total assets	2,362.7	1,889.8
Liabilities		
Loans and borrowings	286.6	295.7
Insurance contract liabilities	1,299.5	912.1
Insurance and other payables	198.1	156.2
Deferred income tax liability	18.5	20.6
Current tax liabilities	6.4	2.0
Total liabilities	1,809.1	1,386.6
Equity		
Total equity	553.6	503.2
Total equity and liabilities	2,362.7	1,889.8

Return on capital employed

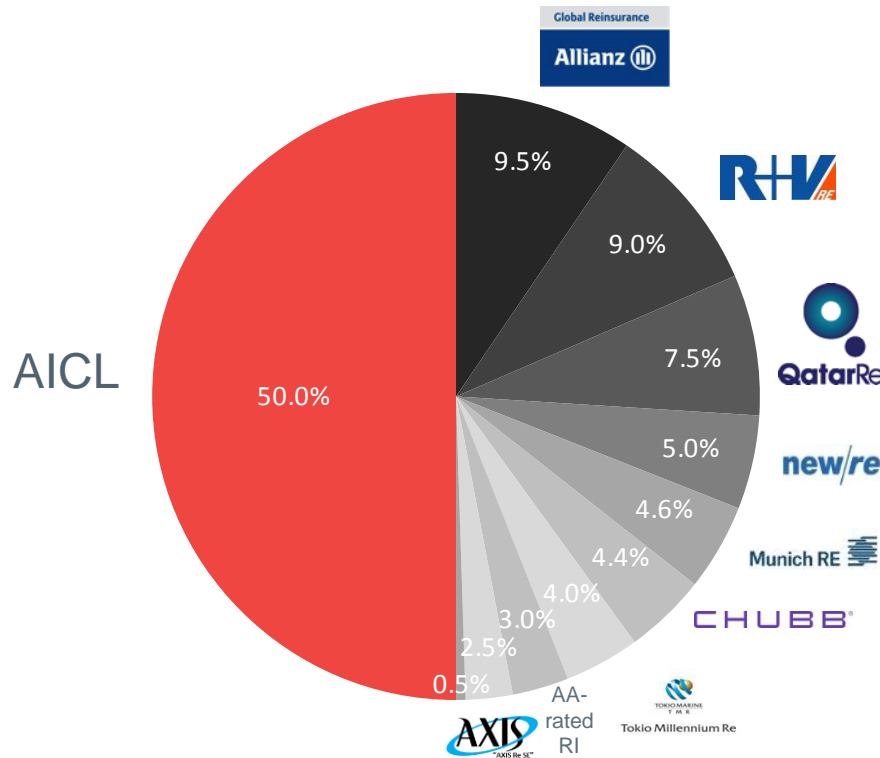
£m	2016 Pre-Ogden	2016 Post-Ogden	2015
Advantage deployed capital ¹	217.5	208.5	149.8
Retail deployed capital ²	31.5	31.5	30.2
Corporate free cash balance ³	8.1	8.1	15.9
Capital employed	257.1	248.1	195.9
Net income	114.9	96.9	76.2
Return on capital employed	44.7%	39.1%	38.9%

¹ Advantage deployed capital represents the average of Advantage Insurance Company Limited's net assets during each period

² Retail deployed capital represents the average of Hastings Insurance Services Limited's total capital resources, being total net tangible assets

³ Corporate free cash balance represents the average cash held during the period in the Group's unregulated corporate entities

Quota share (QS) reinsurance programme (2017)



Capital efficient reinsurance programme

QS contracts

More than 75% by value on rolling multi-year deals

Further reduced reinsurer margins on 2017 programme, reducing overall cost of QS

Continued incremental reduction in risk transfer point on 2017 programme

Well diversified reinsurance panel, all rated A or above

XoL

Unlimited XoL cover on a traditional programme basis

Maintained at 2015 and 2016 levels covering losses exceeding £1m per event

Excess of Loss (XoL) reinsurance programme (2017)

AICL 50% of first £1m	XoL Panel - All Costs over £1m per event
QS Panel 50% of first £1m	

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