

## Hastings Group Holdings plc

### Interim results announcement for the six months ended 30 June 2020

5 August 2020

Hastings Group Holdings plc (the 'Group', or 'Hastings'), the technology driven insurance provider, today announces its interim results for the six months ended 30 June 2020.

#### **Toby van der Meer, Chief Executive Officer, commented:**

*"We have announced this morning that the Group's Independent directors and the directors of Dorset Bidco Limited, a consortium comprising Sampo Oyj ('Sampo') and Rand Merchant Investment Holdings Limited ('RMI'), have reached agreement on the terms of a recommended cash offer to acquire the issued and to be issued share capital of Hastings, not already owned or controlled by Sampo and RMI. The offer will be subject to shareholder approval and the receipt of regulatory and anti-trust approvals.*

*"In regards to the business' performance for the first half of 2020, I am immensely proud of how the Hastings team has adapted and responded to COVID-19 to make sure we continue to do the right thing. We have taken support measures and actions amounting to tens of millions of pounds during the pandemic, focussed on our colleagues, customers and our local communities.*

*"We minimised interruption for our customers, with our colleagues able to work and serve customers from home within a few weeks of the Government's lockdown being announced. We are also pleased to have supported our NHS and care worker customers, established a dedicated community fund for local charities and a colleague hardship fund to assist those colleagues and their families that find themselves in need at this time of financial hardship for many. We have also waived fees, provided payment support for those with financial difficulties and encouraged customers to adjust their mileage where appropriate, providing refunds to those customers who have told us that they are driving less as a result of the pandemic.*

*"We continue to make great progress on our strategic initiatives towards our vision, including our digital investments, with even more customers now using our online services and 950,000 downloads of our mobile app. Underlying business performance continues to be strong and, as always, I would like to thank the entire Hastings team for the hard work and commitment in supporting our customers and the communities in which we work."*

#### **Financial and operational highlights**

- **5% growth in live customer policies ('LCP') to 2.96 million** in the 12 months to 30 June 2020 (30 June 2019: 2.81 million) delivered through both the Group's continuing strong retention rate and an increase in new business competitiveness. UK car insurance market share increased to 8.1% (31 December 2019: 7.7%).
- **Gross written premiums up 3% to £514.9m** for the six months ended 30 June 2020 (30 June 2019: £499.2m). The increase in LCP has been offset by a reduction in average premium primarily as a result of a change in the risk mix of business, and premium reductions to support customers during the COVID-19 pandemic in the second quarter.
- **Calendar year loss ratio<sup>1</sup> has decreased to 75.6%** (30 June 2019: 81.1%) due to a reduction of claims frequencies resulting from the Government lockdown. The lower claims frequencies have been partially offset by continued inflation in repair and third party credit hire costs, which have elevated further due to the impact of the Government's lockdown on the repair network.
- **Adjusted operating profit<sup>2</sup> of £78.3m (30 June 2019: £59.7m, or £68.1m before the impact of the Ogden rate change) and profit after tax of £54.8m (30 June 2019: £38.2m).** The increase in adjusted operating profit is predominantly driven by policy growth and the improvement in the calendar year loss ratio, offset by customer actions in light of COVID-19, including the waiving of fees, reduced policy adjustments and increased operating expenditure for IT enhancements to support colleagues working from home.
- **The Group's reserving position as at 30 June 2020** reflects the increased claims uncertainties caused by the pandemic.

- **Stable net debt<sup>3</sup> of £239.4m as at 30 June 2020** (31 December 2019: £232.4m) reflecting the continued strength of the Group's continued free cash<sup>4</sup> generation.
- **Strong solvency position, with Underwriting subsidiary achieving a post-dividend Solvency II coverage ratio of 151%** (31 December 2019: 151%) and a pre-dividend Solvency II coverage ratio of 169%.
- **Interim dividend proposed of 4.5p per share** (30 June 2019: 4.5p per share).
- **The Group continues to deliver, at pace, on its strategic initiatives. It has continued to invest in enhancing data, pricing and anti-fraud systems** to enable the Group to select the best customers and offer them a better price. The Group's claims transformation initiatives continues to develop and progress, with the claims net promoter score increasing by 16 points in the last 12 months.
- **There have also been further increases in digital adoption** with 950,000 mobile app downloads and a 45% reduction in customer service calls per LCP.
- **The Group continues to prioritise and make progress on its Environmental, Social and Governance ('ESG') Agenda**, and, most recently, includes the integration of ESG considerations into its investment strategy and decision making.

### COVID-19 review

- **The Group has taken significant actions to support customers, colleagues and the community** throughout the pandemic, including premium reductions, the waiving of fees and charitable donations totalling tens of millions of pounds. The Group has continued to employ all colleagues on full salaries, and has not required any Government funding support.
- **The Group's rapid response to COVID-19** enabled an early transition to home working for its colleagues. Although we expect homeworking to continue for a large number of colleagues for the coming months, following the Government's guidelines, our offices have been made COVID-19 safety compliant, to ensure the wellbeing of colleagues.
- **The Group is committed to its communities.** Enhanced support has been provided to NHS and care worker customers, including free RAC breakdown, priority service and extra courtesy car cover. The Group has also established a dedicated community fund for local charities and a colleague hardship fund to assist those colleagues and their families that find themselves in need at this time of financial hardship for many.
- **Motor claims frequencies reduced** following the COVID-19 lockdown restrictions. Claims frequencies have since increased during the second quarter and July as these restrictions have eased, but remain lower than the equivalent period last year.
- **Claim severities continued to increase** predominantly as a result of the underlying inflation in repair costs, combined with interruptions in the repair networks and supply of parts caused by COVID-19 and increased car rental costs, with repairs typically taking longer than anticipated.
- **Retail income from mid-term policy adjustment requests from customers has reduced** due to, for example, customers not changing their vehicles as frequently.
- **Pricing discipline remains a key focus for the Group.** The Group will continue to monitor claims developments carefully in the second half of the year and reflect these in pricing strategies consistent with its target loss ratio range.

*Notes<sup>1 to 4</sup> refer to the end of the Financial Review section for definitions and explanations.*

### Outlook statement

The Group has delivered profitable growth over the six months to 30 June 2020. Underlying business performance is strong and the delivery of benefits from technology and strategic initiatives is in line with management expectations. Trading and claims trends will continue to be monitored closely in line with the development of the COVID-19 pandemic.

The Group continues to invest in its future as an agile, technology driven, low cost operator. These initiatives will ensure the Group remains well placed to capitalise on its strategy and long term profitable growth opportunities.

### Webcast

The Group will host an update webcast for investors and analysts at 08:00am GMT on 5 August 2020. Details are available on the Group's website [www.hastingsplc.com](http://www.hastingsplc.com).

## Forward looking statements

This results announcement, and associated presentation and conference calls, may contain forward looking statements, including statements about market trends and our strategy, investments, future operations, industry forecasts, regulatory framework and levels of leverage and indebtedness. Forward looking statements provide our current expectations, intentions or forecasts of future events. Forward looking statements include statements about expectations, beliefs, plans, objectives, intentions, assumptions and other statements that are not statements of historical fact. Words or phrases such as “anticipate”, “believe”, “continue”, “ongoing”, “estimate”, “expect”, “intend”, “may”, “plan”, “potential”, “predict”, “project”, “target”, “seek” or similar words or phrases, or the negatives of those words or phrases, may identify forward looking statements, but the absence of these words does not necessarily mean that a statement is not forward looking.

Forward looking statements are subject to known and unknown risks and uncertainties and are based on potentially inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward looking statements. Our actual results could differ materially from those anticipated in our forward looking statements for many reasons, including the factors described in the section entitled “Managing our risks” in our 2019 Annual Report. In addition, even if our actual results are consistent with the forward looking statements, those results or developments may not be indicative of results or developments in subsequent periods.

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## Business review

The Group reports another period of policy growth in a period of unprecedented disruption to the UK society and economy as a result of the COVID-19 pandemic.

During this time, the Group has prioritised its customers and colleagues, waiving fees for customers on policy amendments and cancellations, as well as some premium reductions. To support NHS and frontline healthcare workers through the difficult times, the Group has provided enhanced support for these customers, including free RAC breakdown, priority service and extra courtesy car cover. The agility and digital capability of the Group has enabled it to minimise the disruptions to its operations and supported its colleagues throughout the lockdown period by investing in additional IT equipment, and enhancing existing equipment to ensure that the majority of colleagues can effectively work from home. The Group has also made available a colleague hardship fund, to assist those colleagues and their families suffering financial hardship as a result of the COVID-19 pandemic. The Group has continued to employ all of its colleagues on their full salaries, and has not requested any Government funding or support. During the pandemic, the Group has taken positive steps to support its repair network partners, including financial assistance to help with the additional costs of PPE equipment and sanitisation of vehicles, and additional contribution to help counter cost inflation on parts caused by supply chain disruptions.

As a result of the lockdown measures the UK Government introduced, motor vehicle traffic reduced by an average of 47%<sup>5</sup> from the start of the lockdown to 30 June 2020 compared to an equivalent day prior to the lockdown and subsequently the Group has experienced decreased claims frequencies in the second quarter, with signs of these increasing as restrictions have begun to ease, but still remaining lower than prior years. The Group has also seen an increase in claims severities, due to higher property damage repair costs, reflecting increased vehicle sophistication, continued inflation of paint, parts and labour, and some disruption in the repair network as a result of the lockdown restrictions the UK Government has in place.

The Group's strong customer retention rates and some improvement in new business competitiveness has contributed to a 4% increase in live customer policies in the six months to 30 June 2020, and a 5% year on year growth from 30 June 2019. The market share of UK private car insurance increased to 8.1%, from 7.7% at 31 December 2019.

Hastings has increased gross written premiums by 3% via an increase in LCP offset by a reduction in average premiums, primarily due to a change in the risk mix of policies written and some targeted premium reductions provided to customers in the second quarter to reflect lower claims frequencies.

The Group delivered an adjusted operating profit of £78.3m (30 June 2019: £59.7m) and profit after tax of £54.8m for the six months to 30 June 2020 (30 June 2019: £38.2m). The decreased claims frequencies have been offset by an increase in claims severities, reduced fee income as a result of reduced policy adjustments and support given to customers during the pandemic, and an increase in operating expenditure to support colleagues and the community through COVID-19. This increase in operating expenditure to support customers, colleagues and the community during COVID-19 as well as the Group's additional investment in its colleagues, customer service and strategic initiatives has contributed to an increase in the Group's expense ratio<sup>1</sup> to 16.6% (30 June 2019: 15.8%). Hastings continues to maintain focus on its strategic initiatives to drive future profitability and growth, despite disruptions to current working practices.

The Group has continued its strong cash generation and remains well capitalised. The Group's net debt remained stable at £239.4m as at 30 June 2020 (31 December 2019: £232.4m). The Group has access to a committed £110m Revolving Credit Facility ('RCF') which remains undrawn. The Board has proposed an interim dividend of 4.5p, consistent with prior year, reflecting the Board's confidence in the Group's performance.

## Operational review

Hastings continues to progress on its strategic initiatives and deliver operational benefits. More and more customers contact Hastings through digital channels; the Mobile App has had over 950,000 downloads to date, and 58% of customers are making policy adjustments online. Customer engagement and feedback on those channels continues to be positive.

Hastings' claims transformation initiatives continue to develop and progress, with initiatives spanning accidental damage, third party property damage and bodily injury, including taking an analytical approach to bodily injury strategies such as intervention and pre-medical settlement. The Group's focus on improving customer service has helped to increase the Group's claims customer net promoter score by 16 points year on year.

Hastings continues to invest in its pricing process and anti-fraud capabilities to enable the Group to select the best customers and offer them a better price, which has resulted in a step change in the pace of net rate changes, from 180 in the full year 2019 compared to 150 for June 2020 year to date. During the year, Hastings introduced new counter fraud software which enables Hastings to monitor a greater range of sophisticated claims fraud. Hastings continues to refine and optimise its next generation anti-fraud system, to further enhance our fraud detection capabilities.

## Environmental, Social and Governance

Hastings continues its focus on diversity and inclusion and has formed an Inclusion Council which is led by the Director of Sustainability and Inclusion, a dedicated senior leader within the business. The purpose of the Inclusion Council is to enable Hastings to set and deliver relevant diversity and inclusion objectives in a simple and straightforward way. Colleague wellbeing and inclusive leadership is at the core of the Group's culture and business model. Hastings always aspires to do the right thing for its colleagues, customers, company and community, irrespective of race, ethnicity, gender, age or religion. Hastings has partnered with the Black Leaders Network to show its commitment to tackling inequality within the workplace and community, and the recognition of the greater understanding required to learn and take action on inclusion.

The Group's target of having 30% female senior leaders by 2020 has been successfully achieved, with the Group remaining committed to plans that help support future female leader initiatives.

Hastings continues its ongoing commitment to protect the environment. The Group's new energy contract at its head office site provides electricity generated from biomass, and will be effective from October 2020. This new contract will help Hastings achieve a significant reduction in its carbon footprint by the type of energy used. Hastings is also targeting a 30% reduction in paper usage over the next twelve months by continuing its transition to more digital ways of working. Hastings continues to find opportunities to minimise its environmental impact.

As announced on 24 April 2020, Gary Hoffman resigned as Chair of the Board on 21 May 2020. Tom Colraine, the Company's Senior Independent Director ('SID') at that time, replaced Gary as Chair whilst the Company seeks Gary's permanent successor. Following Tom's appointment as Chair, he stepped down as Chair and member of the Remuneration Committee, and was replaced by Elizabeth Chambers as Chair of that Committee. Teresa Robson-Capps, an independent non-executive director of the Company since July 2016, replaced Tom as SID.

Although not a member of the Nomination Committee, Teresa, in her role as SID, is overseeing this succession process and appointment of the new permanent Board Chair. For all other purposes, Tom remains Chair of the Nomination Committee, a position he has held since May 2018.

The Board is aware that Tom's membership of the Audit Committee is not in compliance with the UK Corporate Governance Code in his role as Board Chair but it believes that, as the changes to the Board took place close to the half year reporting cycle, his continued membership of this Committee is important to ensure continuity of oversight in relation to financial and non-financial reporting matters at this time. A process is currently underway to appoint a replacement independent non-executive director to this Committee once matters relating to this half year have been completed.

The Company will announce the appointment of Tom's replacement as Board Chair and the separate appointment of a member of the Audit Committee as soon as each process is completed.

## Key Performance Indicators ('KPIs')

The Group's KPIs, which are defined on pages 18 to 21 of the Hastings Group Holdings plc 2019 Annual Report, are summarised below:

	Six months ended		Year ended
	30 June 2020	30 June 2019	31 December 2019
<b>Financial KPIs</b>			
Profit after tax (£m)	54.8	38.2	69.7
Adjusted operating profit <sup>2</sup> (£m)	78.3	59.7	109.7
Adjusted operating profit margin (%)	19.9%	16.1%	14.8%
Calendar year loss ratio <sup>1</sup> (%)	75.6%	81.1%	82.6%
Expense ratio <sup>1</sup> (%)	16.6%	15.8%	15.4%
Combined operating ratio (%)	92.2%	96.9%	98.0%
Solvency II coverage ratio (%)	151%	160%	151%
Net debt leverage multiple (x) <sup>3</sup>	1.9	1.5	2.1
<b>Non-financial KPIs</b>			
Share of total stock (UK private car) <sup>6</sup> (%)	8.1%	7.8%	7.7%
Live customer policies (million)	2.96	2.81	2.85

## Financial review

### Summary consolidated statement of profit or loss

	Six months ended					
	30 June 2020			30 June 2019		
	Underlying trading <sup>7</sup>	Non-trading items <sup>7</sup>	Total	Underlying trading <sup>7</sup>	Non-trading items <sup>7</sup>	Total
	£m	£m	£m	£m	£m	£m
Gross written premiums	514.9	-	514.9	499.2	-	499.2
Net earned premiums	218.8	-	218.8	215.6	-	215.6
Other revenue	170.5	-	170.5	149.8	-	149.8
Investment and interest income	3.4	-	3.4	4.9	-	4.9
<b>Net revenue</b>	<b>392.7</b>	<b>-</b>	<b>392.7</b>	<b>370.3</b>	<b>-</b>	<b>370.3</b>
Net claims incurred	(165.5)	-	(165.5)	(174.9)	-	(174.9)
Acquisition costs	(36.8)	-	(36.8)	(39.3)	-	(39.3)
Other expenses	(112.1)	-	(112.1)	(96.4)	-	(96.4)
<b>Adjusted operating profit<sup>2</sup></b>	<b>78.3</b>			<b>59.7</b>		
Impact of Ogden rate change	-			8.4		
<b>Adjusted operating profit before Ogden rate change</b>	<b>78.3</b>			<b>68.1</b>		
Amortisation and depreciation	(9.0)	(0.8)	(9.8)	(7.5)	(1.2)	(8.7)
Finance costs	(4.8)	(0.2)	(5.0)	(4.8)	(0.1)	(4.9)
Taxation	(8.8)	0.1	(8.7)	(8.1)	0.2	(7.9)
<b>Profit after tax</b>	<b>55.7</b>	<b>(0.9)</b>	<b>54.8</b>	<b>39.3</b>	<b>(1.1)</b>	<b>38.2</b>

Net revenue is up at £392.7m (30 June 2019: £370.3m), reflecting the growth in customer numbers and reinsurance income commissions as a result of the reduction in the calendar year loss ratio. The reduced loss ratio is due to the decrease in claims frequencies predominantly caused by the lockdown travel restrictions introduced by the UK Government in March 2020, with increases being experienced since the restrictions started to ease. The lower claims frequencies have been partially offset by continued inflation in repair and third party credit hire costs, which has elevated further due to the impact of the UK Government lockdown restrictions on the repair network.

Retail income in light of COVID-19 has been impacted, in particular, due to reduced fee income from mid-term policy adjustments, and the impact of the actions the Group has taken to support policyholders in financial difficulties.

Adjusted operating profit increased by 31% to £78.3m, or increased by 15% excluding the impact of the Ogden rate change in 2019. The increase has primarily been driven by an improvement in the calendar year loss ratio as a result of reduced claims frequencies in the second quarter, due to the restrictions that were introduced by the UK Government at the start of the COVID-19 pandemic, offset by an increase in claims severities, reduced fee income and increased operating expenditure.

Operating expenditure has increased as a result of the Group's additional investment in its colleagues and community during the COVID-19 pandemic and the Group has invested in upgrading existing and purchasing new IT equipment to ensure that colleagues have been fully equipped to be able to work from home effectively. The Group has made available a community fund for local charities and a colleague hardship fund to assist those colleagues and their families that find themselves in need at this time of financial hardship for many. Other operating expenses have also increased due to an increase in Motor Insurers' Bureau underwriting levies, as well as the Group's continuous investment in its strategic initiatives.

Profit after tax increased by 43% to £54.8m for the six months to 30 June 2020 (30 June 2019: £38.2m).

## Financial review

### Gross written premiums

	Six months ended	
	30 June 2020	30 June 2019
	£m	£m
Gross written premiums by product		
Private car	496.2	480.1
Van	6.0	5.0
Bike	8.6	10.2
Home	4.1	3.9
Total gross written premiums	514.9	499.2
Total gross earned premiums	476.4	475.8

Gross written premiums have increased by 3% which has predominantly been driven by a 5% increase in LCP, and has been offset by a reduction in average motor written premiums. The reduction in average premium is primarily due to the continued impact of the change in the risk profile of business written and some targeted price reductions in the second quarter to reflect the reduced claims frequencies.

The Group's UK car market share increased to 8.1% from 7.7% at 31 December 2019.

Advantage Insurance Company Limited ('AICL'), the Group's Underwriting business, continues to underwrite home policies, alongside the Group's third party home panel insurers. The Group's home policies have increased 27% in the last 12 months.

### Net revenue

	Six months ended	
	30 June 2020	30 June 2019
	£m	£m
Net revenue by type		
Net earned premiums	218.8	215.6
Fees and commission	49.0	52.1
Ancillary product income	31.1	29.2
Premium finance interest	49.1	52.2
Reinsurance commissions	32.9	6.9
Other income	8.4	9.4
Other revenue	170.5	149.8
Investment and interest income	3.4	4.9
Net revenue	392.7	370.3

Net revenue increased by 6% to £392.7m (30 June 2019: £370.3m) due to the growth in LCP, and higher reinsurance commissions as a result of a lower calendar year loss ratio due to the lower claim frequencies in light of the COVID-19 lockdown restrictions put in place. These increases have been offset by the earn through of lower average written premiums and lower fee income due to reduced policy adjustments, and fee waivers provided to financially support customers during the pandemic.

Net earned premiums increased by 1% to £218.8m over the prior period (30 June 2019: £215.6m) which is driven by an increase in LCP offset by the earn through of lower average premiums.

## Financial review (continued)

### Loss ratio, expense ratio and combined operating ratio

	Six months ended	
	30 June 2020	30 June 2019
Combined operating ratio reconciliation		
Accident year loss ratio before the impact of change in Ogden rate	76.4%	79.6%
Prior year development before the impact of change in Ogden rate	(0.8%)	(0.5%)
Calendar year loss ratio before the impact of change in Ogden rate	75.6%	79.1%
Impact of change in Ogden rate	-	2.0%
Calendar year loss ratio <sup>1</sup>	75.6%	81.1%
Calendar year loss ratio <sup>1</sup>	75.6%	81.1%
Expense ratio <sup>1</sup>	16.6%	15.8%
Combined operating ratio <sup>1</sup>	92.2%	96.9%

The travel restrictions put in place by the UK Government in March 2020 have led to a decrease in claims frequencies compared to the same period last year and so has led to a reduction in the Group's calendar year loss ratio to 75.6%. The Group has seen increases in claims frequencies since the UK Government started to ease the restrictions, but they still remain lower than prior year. The lower claims frequencies have been offset by an increase in claims severities as a result of higher repair costs due to the increased sophistication of vehicles combined with some disruption to the supply chain which could continue as lockdown eases. The Group's approach to reserving at 30 June 2020 reflects these ongoing uncertainties. Overall the Group's loss ratio is currently within the full year loss ratio target range of 75%-79%.

The expense ratio increased to 16.6% due to the additional expenses incurred in light of COVID-19 to support colleagues, colleagues and the local communities. The increase is also as a result of an increase in Motor Insurers' Bureau underwriting levies, the continued investment in the Group's colleagues and customer service, as well as the Group's investment in its strategic initiatives, which ensures the Group remains well placed to capitalise on its strategy and long term profitable growth opportunities.

### Insurance contract liabilities

Total insurance contract liabilities of £2,047.8m at 30 June 2020 (30 June 2019: £1,985.6m) comprise £515.9m (30 June 2019: £504.1m) of unearned premiums, which are deferred and recognised in the Statement of Profit or Loss in subsequent periods, and outstanding claims liabilities of £1,531.9m (30 June 2019: £1,481.5m). Gross outstanding claims liabilities have increased due to the greater exposure from the 5% increase in LCP and the additional management margin included in the current year.

The Group applies a consistent reserving methodology to calculate an internal actuarial best estimate and includes additional margin for risk over and above this. The Group's reinsurance programme, described below, manages insurance risk and protects against volatile movements typically caused by large bodily injury claims.

### Reinsurance contracts

Reinsurance assets, comprising reinsurers' share of outstanding claims liabilities and unearned premiums, increased to £1,372.0m as at 30 June 2020 (30 June 2019: £1,350.0m).

The Group uses excess of loss and quota share reinsurance arrangements to limit its exposure to claims. The excess of loss programme limits the Group's exposure on any individual motor event to £1.0m and the quota share arrangement provides 50% cover on motor claims incurred, after the excess of loss recoveries. These arrangements reduce the volatility that could otherwise be caused by individual large claims.

The Group carefully manages risk within the portfolio by working with a range of high quality, highly regarded and stable reinsurers and closely monitoring the performance and credit ratings of these reinsurers.

## Financial review (continued)

### Cash and net debt

	As at	
	30 June 2020	30 June 2019
	£m	£m
Loans and borrowings	245.8	244.8
Add back transaction costs	4.2	5.2
Gross debt	250.0	250.0
<i>Deduct:</i>		
Retail free cash <sup>4</sup>	(10.2)	(26.9)
Corporate free cash <sup>4</sup>	(0.4)	(4.9)
Free cash <sup>4</sup>	(10.6)	(31.8)
Net debt <sup>3</sup>	239.4	218.2
Adjusted operating profit (for the preceding twelve months)	128.3	145.2
Net debt leverage multiple	1.9x	1.5x

As at 30 June 2020 the net debt leverage multiple was 1.9x after the payment of the final dividend in May 2020. The net debt leverage multiple has increased from 1.5x last year as a result of the reduced free cash and the lower adjusted operating profit for the preceding 12 months.

The Group's net debt remains stable and the Group remains cash generative. The Group remains comfortable with the level and structure of debt which is provided through a long term fixed rate Bond repayable in 2025. The Group's Revolving Credit Facility ('RCF') has a commitment of £110.0m and the term of the RCF ends in May 2023 and remains undrawn.

The following table shows the net debt movement for the period:

	Six months ended	
	30 June 2020	30 June 2019
	£m	£m
Opening net debt	232.4	230.9
Retail free cash generated <sup>4</sup>	(47.0)	(44.0)
AICL dividend received	(10.0)	(55.0)
Group free cash generated	(57.0)	(99.0)
Retail and Corporate taxation paid	9.2	11.6
Capital expenditure	11.9	7.9
Dividends paid	36.3	59.5
Interest, corporate and refinancing costs	6.6	7.3
Closing net debt	239.4	218.2

During the first half of the year, the Group generated £57.0m of free cash, a 42% decrease from 30 June 2019. The Group continued to be cash generative, with retail cash increasing £3.0m to £47.0m for the six months to 30 June 2020. The AICL dividend received of £10.0m was lower than 2019 (2019: £55.0m) principally due to timing of intergroup dividend payments in the second half of 2019.

## Financial review (continued)

### Investments

	As at	
	30 June 2020	31 December 2019
	£m	£m
Cash and cash equivalents and investments by credit rating		
AAA and AA	397.8	323.3
A	280.3	254.3
BBB	140.7	142.5
Less than BBB	16.8	11.9
Not rated	14.9	12.3
Total cash and cash equivalents and investments	850.5	744.3

The Group's conservative investment strategy primarily focuses on capital preservation and seeks to align the duration of the assets with the underlying insurance liabilities. As at 30 June 2020, the Group's percentage of the total portfolio of investments rated A or equivalent and above was 80% (31 December 2019: 78%). The weighted average credit rating of the investment portfolio is AA- (31 December 2019: A+).

The Group's cash and cash equivalents and investment portfolio primarily comprises investment grade fixed income debt securities, money market funds and investment funds managed by third parties.

Although investment markets are experiencing volatility due to uncertainty relating to the pandemic, the Group's investment strategy has not changed.

### Return on capital employed

	Six months ended	
	30 June 2020	30 June 2019
	£m	£m
Average AICL deployed capital <sup>8</sup>	290.2	282.1
Average HISL deployed capital <sup>8</sup>	51.4	59.4
Average corporate free cash <sup>4</sup>	1.1	4.1
Average capital employed	342.7	345.6
Net income <sup>9</sup>	55.7	39.3
Return on capital employed	32.5%	22.7%

Return on capital employed measures the capital efficiency of the Group and reflects net income over average capital employed. The Group's return on capital employed increased during the year primarily driven by the increased net income compared to prior year.

## Financial review (continued)

### Dividends

The interim dividend proposed is £29.8m (30 June 2019: £29.8m), a payout of 4.5p per share (30 June 2019: 4.5p per share). Dividends continue to be satisfied by the Group's free cash, which comprises Retail free cash generated and dividends received from AICL.

During the period, the Group generated free cash of £57.0m (30 June 2019: £99.0m). The reduction in free cash generated is predominantly due to a reduced dividend from AICL in the current year, however the Board is confident the Group will continue to be cash generative. At 30 June 2020, the Group had distributable reserves of £1,232.0m.

### Solvency

The table below presents the unaudited Solvency II coverage ratio for AICL, the Group's Underwriting business, on a standard formula basis with undertaking specific parameters applied:

	As at	
	30 June 2020	31 December 2019
<i>Solvency II:</i>		
Own funds (£m)	284.7	277.5
Solvency Capital Requirement (£m)	189.0	183.8
Solvency II coverage ratio	151%	151%

### Notes

- 1 Calendar year loss ratio is a measure of underwriting performance, representing net claims incurred as a percentage of net earned premiums. Expense ratio is a measure of underwriting operational efficiency, representing the Group's share of incurred operational and acquisition expenses over net earned premiums. The combined operating ratio is a measure of the Group's overall underwriting performance and is the sum of the calendar year loss ratio and the expense ratio. See page 34 for a reconciliation of the calendar year loss ratio, expense ratio and combined operating ratio.
- 2 Adjusted operating profit is defined as profit before taxation expense, finance costs, amortisation and depreciation and non-trading costs.
- 3 Net debt represents gross debt, before the deduction of arrangement fees, less Group free cash. Net debt leverage multiple represents the Group's net debt expressed relative to 12 months trailing adjusted operating profit.
- 4 Group free cash consists of Retail free cash and Corporate free cash. Retail free cash comprises cash held by the Retail business in excess of the regulatory capital required, and excluding cash held on behalf of insurers. Corporate free cash comprises cash held in Group entities which are not subject to FCA or Solvency regulations. See page 35 for reconciliation of cash and cash equivalents to free cash and Group free cash generated.
- 5 The percentage reduction in motor vehicle traffic is calculated as a comparison of the average motor vehicle traffic between the period of 23 March 2020 to 30 June 2020 against the equivalent day in the first week of February 2020 and is sourced from the COVID-19 transport use statistics from the Department for Transport.
- 6 Total stock for UK private car is sourced from internal data and data from the Department for Transport.
- 7 Non-trading items are defined as expenses or earnings that are not representative of the operating activities of the Group and include Group reorganisation, refinancing and transaction costs and the impact of accounting for business combinations.
- 8 The deployed capital of HISL and AICL represents respectively the average of HISL's net tangible assets and the average of AICL's IFRS net assets during each year.
- 9 Net income is defined as profit after tax excluding the post-tax impact of non-trading items.

## Financial review (continued)

### Managing our risks

The Directors continue to identify, assess and manage the principal immediate and longer term risks facing the Group, including those that would threaten its business model, future performance, resilience, solvency or liquidity.

The Group considers its principal risks to be as follows:

- **Insurance Risk:** The risk that total losses (paid and reserved) exceed premiums charged.
- **Financial Risk:** Various types of risk associated with financing and financial transactions, leading to financial loss and uncertainty as to its extent.
- **Strategic Risk:** Medium to long term risks affecting the Group's ability to meet strategic objectives and deliver the Three Year Plan.
- **Conduct Risk:** The risk that the Group's operating model, culture, products, practices and actions inadvertently result in unfair outcomes for customers
- **Data Governance Risk:** The risk that the culture, organisational set up or data management within the Group breeds, incentivise or facilitates data misuse or theft, including cyber related risk.
- **Operational Risk:** The risk of loss resulting from inadequate or failed policies or controls, people, poor culture and systems.
- **Legal & Regulation:** The risk of loss as a result of a breach in existing legal or regulatory requirements.

A full description of these risks, including the potential impact, monitoring and mitigations are set out on pages 29 – 36, "Managing our risk" section, of the Hastings Group Holdings plc 2019 Annual Report.

#### Coronavirus ('COVID-19'):

The COVID-19 global pandemic is continuing to develop and is causing unprecedented disruption to the UK and worldwide economy and society. The Group is closely monitoring the situation, and is following the advice of the UK Government. The Group will continue to exercise caution in response to uncertainties resulting from the pandemic and the economic downturn.

Based on current understanding of the pandemic's implications (which will continue to evolve), it is not expected that the pandemic will significantly impact the structure or demand for motor and household insurance products in the UK over the medium and longer term.

The potential short, medium and long term impact of the COVID-19 pandemic on business activities is repeatedly considered against the principal risks contained with the Group's comprehensive risk taxonomy.

Robust governance, systems and controls support strategic, operational and financial resilience programmes to mitigate any adverse impacts of the COVID-19 pandemic. Whilst the full extent of the COVID-19 pandemic is as yet unknown, the Group continues to operate, generate revenues, retain colleagues and service customers during the UK Government mandated lockdown and beyond, and expects to be able to continue to do so as the position develops further; this has been achieved through increased home working, enhanced cyber security, pricing disciplines, product development and other mitigation actions it has implemented.

The Group continues to support, respond to and engage with regulators in their response to COVID-19 to prevent consumer and market detriment.

## Condensed Consolidated Financial Statements

### Condensed Consolidated Statement of Profit or Loss

for the six months ended 30 June 2020

	Note	Six months ended		Year ended
		30 June 2020	30 June 2019	31 December 2019
		£m	£m	£m
Gross written premiums	6	514.9	499.2	961.6
Gross earned premiums	6	476.4	475.8	965.0
Earned premiums ceded to reinsurers	6	(257.6)	(260.2)	(525.7)
<b>Net earned premiums</b>	6	218.8	215.6	439.3
Other revenue	7	170.5	149.8	291.6
Investment and interest income	8	3.4	4.9	10.4
<b>Net revenue</b>		392.7	370.3	741.3
Claims incurred	9	(326.3)	(468.4)	(875.1)
Reinsurers' share of claims incurred	9	160.8	293.5	512.4
<b>Net claims incurred</b>	9	(165.5)	(174.9)	(362.7)
Acquisition costs		(36.8)	(39.3)	(76.4)
Other expenses	10	(112.1)	(96.4)	(192.5)
<b>Adjusted operating profit<sup>1</sup></b>		78.3	59.7	109.7
Amortisation and depreciation	10	(9.8)	(8.7)	(17.8)
Finance costs	12	(5.0)	(4.9)	(9.8)
<b>Profit before tax</b>		63.5	46.1	82.1
Taxation expense		(8.7)	(7.9)	(12.4)
<b>Total profit attributable to the equity holders of the parent</b>		54.8	38.2	69.7
<b>Earnings per share attributable to the equity holders of the parent (expressed in pence per share)</b>				
<b>Basic earnings per share</b>	13	8.3p	5.8p	10.6p
<b>Diluted earnings per share</b>	13	8.3p	5.8p	10.6p

All results arose from continuing operations.

The accompanying Notes form an integral part of these Condensed Consolidated Financial Statements.

<sup>1</sup> Adjusted operating profit represents profit before taxation expense, finance costs, amortisation and depreciation and non-trading costs. This is a non-IFRS measure used by management to measure the underlying trading of the business and is provided for information.

## Condensed Consolidated Financial Statements

### Condensed Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2020

	Note	Six months ended		Year ended
		30 June 2020	30 June 2019	31 December 2019
		£m	£m	£m
Total profit attributable to the equity holders of the parent		54.8	38.2	69.7
<b>Other comprehensive income</b>				
<i>Items that may be subsequently reclassified to profit or loss</i>				
Fair value gain on available for sale investments		2.2	6.4	7.3
Total items that may be subsequently reclassified to profit or loss		2.2	6.4	7.3
<i>Items that may not be subsequently reclassified to profit or loss</i>				
Revaluation gain on property		-	-	0.3
Total items that may not be subsequently reclassified to profit or loss		-	-	0.3
Total other comprehensive profit		2.2	6.4	7.6
<b>Total comprehensive income attributable to the equity holders of the parent</b>		<b>57.0</b>	<b>44.6</b>	<b>77.3</b>

The accompanying Notes form an integral part of these Condensed Consolidated Financial Statements.

## Condensed Consolidated Financial Statements

### Condensed Consolidated Balance Sheet

as at 30 June 2020

	Note	30 June 2020 £m	30 June 2019 £m	31 December 2019 £m
<b>Assets</b>				
Goodwill		470.0	470.0	470.0
Intangible assets		92.9	81.6	87.7
Property and equipment		23.8	23.2	22.6
Deferred income tax assets		7.5	4.7	5.6
Reinsurance assets	14	1,372.0	1,350.0	1,365.0
Deferred acquisition costs		36.0	35.0	34.3
Prepayments		10.3	8.7	8.9
Current tax assets		5.4	-	-
Insurance and other receivables	15, 17	432.4	486.2	441.6
Financial assets at fair value	17	610.2	567.5	583.4
Cash and cash equivalents	16, 17	240.3	150.9	160.9
<b>Total assets</b>		<b>3,300.8</b>	<b>3,177.8</b>	<b>3,180.0</b>
<b>Liabilities</b>				
Loans and borrowings	17, 18	245.8	244.8	245.3
Insurance contract liabilities	14	2,047.8	1,985.6	2,023.7
Deferred income tax liabilities		9.6	6.6	8.0
Current tax liabilities		-	8.5	3.2
Insurance and other payables	17, 19	331.3	294.8	257.7
<b>Total liabilities</b>		<b>2,634.5</b>	<b>2,540.3</b>	<b>2,537.9</b>
<b>Equity</b>				
Share capital		13.2	13.2	13.2
Share premium		172.8	172.6	172.6
Merger reserve		(756.0)	(756.0)	(756.0)
Other reserves		4.3	1.2	2.3
Retained earnings		1,232.0	1,206.5	1,210.0
<b>Total equity</b>		<b>666.3</b>	<b>637.5</b>	<b>642.1</b>
<b>Total equity and liabilities</b>		<b>3,300.8</b>	<b>3,177.8</b>	<b>3,180.0</b>

The accompanying Notes form an integral part of these Condensed Consolidated Financial Statements.

## Condensed Consolidated Financial Statements

### Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 June 2020

		Share capital	Share premium	Merger reserve	Other reserves	Retained earnings	Total equity
		£m	£m	£m	£m	£m	£m
<b>Year ended 31 December 2019</b>							
As at 1 January 2019		13.2	172.6	(756.0)	(5.0)	1,226.2	651.0
Total profit attributable to the equity holders of the parent		-	-	-	-	69.7	69.7
Total other comprehensive income		-	-	-	7.6	-	7.6
Total comprehensive income for the year		-	-	-	7.6	69.7	77.3
<i>Transactions with equity holders of the parent</i>							
Share based payments		-	-	-	-	3.2	3.2
Acquisition of own shares		-	-	-	(0.3)	-	(0.3)
Dividends paid		21	-	-	-	(89.1)	(89.1)
Total transactions with equity holders of the parent		-	-	-	(0.3)	(85.9)	(86.2)
As at 31 December 2019		13.2	172.6	(756.0)	2.3	1,210.0	642.1
<b>Six months ended 30 June 2020</b>							
	Note	Share capital	Share premium	Merger reserve	Other reserves	Retained earnings	Total equity
		£m	£m	£m	£m	£m	£m
Impact on remeasurement of right-of-use-asset		-	-	-	-	(0.2)	(0.2)
As at 1 January 2020		13.2	172.6	(756.0)	2.3	1,209.8	641.9
Total profit attributable to the equity holders of the parent		-	-	-	-	54.8	54.8
Total other comprehensive income		-	-	-	2.2	-	2.2
Total comprehensive income for the period		-	-	-	2.2	54.8	57.0
<i>Transactions with equity holders of the parent</i>							
Issue and sale of new shares		-	0.2	-	-	-	0.2
Share based payments		-	-	-	-	3.7	3.7
Acquisition of own shares		-	-	-	(0.2)	-	(0.2)
Dividends paid		21	-	-	-	(36.3)	(36.3)
Total transactions with equity holders of the parent		-	0.2	-	(0.2)	(32.6)	(32.6)
As at 30 June 2020		13.2	172.8	(756.0)	4.3	1,232.0	666.3
<b>Six months ended 30 June 2019</b>							
As at 1 January 2019		13.2	172.6	(756.0)	(5.0)	1,226.2	651.0
Total profit attributable to the equity holders of the parent		-	-	-	-	38.2	38.2
Total other comprehensive income		-	-	-	6.4	-	6.4
Total comprehensive income for the period		-	-	-	6.4	38.2	44.6
<i>Transactions with equity holders of the parent</i>							
Share based payments		-	-	-	-	1.2	1.2
Tax on share based payments		-	-	-	-	0.4	0.4
Acquisition of own shares		-	-	-	(0.2)	-	(0.2)
Dividends paid		21	-	-	-	(59.5)	(59.5)
Total transactions with equity holders of the parent		-	-	-	(0.2)	(57.9)	(58.1)
As at 30 June 2019		13.2	172.6	(756.0)	1.2	1,206.5	637.5

The accompanying Notes form an integral part of these Condensed Consolidated Financial Statements.

## Condensed Consolidated Financial Statements

### Condensed Consolidated Statement of Cash Flows

for the six months ended 30 June 2020

	Note	Six months ended		Year ended
		30 June 2020	30 June 2019	31 December 2019
		£m	£m	£m
Profit after tax		54.8	38.2	69.7
<i>Adjustments for:</i>				
Depreciation of property and equipment	10	3.1	3.1	5.8
Amortisation of intangible assets	10	6.7	5.6	12.0
Net fair value losses / (gains) on financial assets recognised in profit or loss	8	0.9	(0.7)	(1.7)
Other interest income	8	(4.3)	(4.2)	(8.7)
Loss on disposal of property and equipment		-	-	1.0
Finance costs	12	5.0	4.9	9.8
Taxation expense		8.7	7.9	12.4
Share based payment charge		3.7	1.2	3.3
Change in insurance and other receivables and prepayments		2.2	(43.5)	6.8
Change in insurance and other payables		70.6	53.1	13.4
Change in reinsurance assets		(6.8)	(137.7)	(152.6)
Change in deferred acquisition costs		(1.7)	(0.5)	0.2
Change in insurance contract liabilities		23.7	164.2	202.4
Taxation paid		(13.3)	(13.7)	(27.8)
<b>Net cash flows from operating activities</b>		<b>153.3</b>	<b>77.9</b>	<b>146.0</b>
Purchase of property and equipment		(0.6)	(4.3)	(3.6)
Acquisition of intangible assets		(11.4)	(6.3)	(18.8)
Interest received		9.8	9.2	16.4
Outlays for acquisition of financial assets at fair value		(140.5)	(125.1)	(212.8)
Proceeds from disposal of financial assets at fair value		110.8	118.5	188.0
<b>Net cash flows from investing activities</b>		<b>(31.9)</b>	<b>(8.0)</b>	<b>(30.8)</b>
Purchase of own shares		(0.2)	(0.2)	(0.3)
Repayment of lease liabilities		(1.9)	(1.5)	(3.4)
Interest paid on loans and borrowings		(3.8)	(3.8)	(7.5)
Dividends paid	21	(36.3)	(59.5)	(89.1)
<b>Net cash flows from financing activities</b>		<b>(42.0)</b>	<b>(65.0)</b>	<b>(100.3)</b>
<b>Net movement in cash and cash equivalents</b>		<b>79.4</b>	<b>4.9</b>	<b>14.9</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>160.9</b>	<b>146.0</b>	<b>146.0</b>
Net movement in cash and cash equivalents		79.4	4.9	14.9
<b>Cash and cash equivalents at end of period</b>	16	<b>240.3</b>	<b>150.9</b>	<b>160.9</b>

The accompanying Notes form an integral part of these Condensed Consolidated Financial Statements.

## Notes to the Condensed Consolidated Financial Statements

### 1. Basis of preparation

Hastings Group Holdings plc's (the 'Company', 'Hastings', 'HGH') registered office and principal place of business is at Conquest House, Collington Avenue, Bexhill-on-Sea, TN39 3LW, United Kingdom. The Company's registered number is 09635183.

The Condensed Consolidated Financial Statements have been approved by the Directors and comprise the consolidated results of the Company and its subsidiaries (together referred to as the 'Group') for the six months ended 30 June 2020 and comparative figures for the six months ended 30 June 2019 and for the year ended 31 December 2019.

The unaudited Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

These Condensed Consolidated Financial Statements are not statutory accounts. The statutory accounts for the year ended 31 December 2019 were prepared in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS'), have been audited and reported on by the Company's auditors and have been delivered to the Registrar of Companies. The auditor's report was:

- (i) unqualified;
- (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and
- (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The external auditor has reviewed the Condensed Consolidated Financial Statements in accordance with their report included on page 39. The Consolidated Financial Statements for the year ended 31 December 2019 are available on the Company website [www.hastingsplc.com](http://www.hastingsplc.com).

### Principal activities

The principal activities of the Group are the broking and underwriting of UK private car, van, bike and home insurance.

### Going concern

The financial performance and position of the Group, its cash flows, liquidity position and borrowing facilities are set out in the primary statements and the subsequent notes. Whilst the full extent of the coronavirus ('COVID-19') global pandemic is as yet unknown, the Group has continued to operate, generate revenues and service customers during the Government's mandated lockdown, by transitioning its staff to home working, and expects to be able to continue to work remotely for the foreseeable future.

The Directors have considered the likely financial impacts that could result from the pandemic, including the subsequent economic consequences, and the potential impact on the Group, from severe, but plausible, downside stresses that could result from the pandemic or resulting economic downturn. The stresses considered the potential impacts, including changes to claims frequency and severity related to COVID-19, new business volumes and retention rates, the value of Group's investment portfolio, additional operating costs and changes to customer payment behaviour. Throughout the severe but plausible stress scenarios, the Group continues to have significant liquidity headroom against its revolving credit facility, which is undrawn. Further analysis of the Group's operations, capital management strategy, risk management practices and growth strategy may be found in the Hastings Group Holdings plc 2019 Annual Report.

Having considered the foregoing items, the Group's approved budget and cash flow forecasts for the next 12 months and beyond, and after making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Condensed Consolidated Financial Statements.

### Basis of measurement

The Condensed Consolidated Financial Statements are presented in Pounds Sterling. Amounts are rounded to the nearest million with one decimal place (i.e. £0.1m) except where otherwise indicated.

The preparation of Condensed Consolidated Financial Statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amounts, events and actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to these Condensed Consolidated Financial Statements are disclosed in Note 3.

The Condensed Consolidated Financial Statements are prepared on the historical cost basis, except for certain financial assets and property which are measured at their fair value or revalued amounts.

## Notes to the Condensed Consolidated Financial Statements

### Basis of consolidation

The Condensed Consolidated Financial Statements incorporate the financial statements of the Company and all of its subsidiary undertakings. Accounting policies have been consistently applied throughout the Group.

Subsidiaries are investees controlled by the Group. The Group controls an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. Subsidiaries are consolidated from the date on which control commences until the date when control ceases. Intercompany balances and transactions are eliminated in the Condensed Consolidated Financial Statements.

### IFRS developments

The following accounting standards and amendments to IFRS have been endorsed and have become effective in the EU during the period:

#### *Amendments to IAS 1 and IAS 8 – Definition of Material*

The amendments clarify the definition of material and align the definitions used across IFRS Standards. The IASB issued the amendments on 31 October 2018, the EU endorsed these amendments on 29 November 2019 and they are effective from 1 January 2020. These amendments do not have a significant impact on the Group's Condensed Consolidated Financial Statements.

#### *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)*

The amendments provide guidance to address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate benchmark. The amendments address issues for hedging relationships directly affected by uncertainties arising from the interest rate benchmark reform, including cross-currency interest rate swaps, and provide relief for highly probable and prospective assessments required by IFRS 9 and IAS 39 and retrospective assessments under IAS 39. The IASB issued these amendments on 26 September 2019, which are effective from 1 January 2020. The EU endorsed the amendments on 15 January 2020. These amendments do not have a significant impact on the Group's Condensed Consolidated Financial Statements.

#### *Amendments to IFRS 3 Business Combinations*

The IASB amended the definition of a business to help entities determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments removed clarified the minimum requirements for a business, removed the necessity to assess the market participant's ability to replace missing elements, provided more guidance for the assessment on whether an acquired process is substantive and introduced an optional concentration test to permit a simplified assessment. The amendments are applicable to transactions which the acquisition date is on or after 1 January 2020. The IASB issued the amendments on 22 October 2018, which are effective from 1 January 2020. The EU endorsed the amendments on 22 April 2020. There are no business combinations during the period, therefore these amendments do not have any impact on the Group's Condensed Consolidated Financial Statements.

#### *Issued accounting standards not yet adopted*

Accounting standards or amendments to IFRS issued by the IASB that are not yet effective that could be expected to have a material impact on the Condensed Consolidated Financial Statements are included on pages 135 and 136 of the Hastings Group Holdings plc 2019 Annual Report.

## 2. Accounting policies

The Group's accounting policies as disclosed on pages 136 to 144 of the Hastings Group Holdings plc 2019 Annual Report, have been applied consistently to all periods presented in these Condensed Consolidated Financial Statements. There have been no changes to accounting policies during the period.

## 3. Judgements in applying accounting policies and critical accounting estimates

The preparation of financial statements in accordance with IFRS requires the Directors to make judgements and assumptions that affect the assets and liabilities recognised as at the reporting date and the income and expense recognised during the reporting period as well as the content of any disclosures. Although these judgements and assumptions are based on the Directors' best knowledge of the amounts, events and actions, actual results may differ from these judgements and assumptions.

## Other information

### Judgements

The judgements that have been applied in preparing the Condensed Consolidated Financial Statements that could have a significant effect on the amounts recognised are as follows:

#### Taxation uncertainties

In preparing the Condensed Consolidated Financial Statements judgement is required in assessing the likely outcome or range of outcomes of uncertain tax liabilities and contingent liabilities and what could be considered probable or remote, to determine whether assets or liabilities should be recognised under relevant accounting standards. HMRC continues its enquiry into the attribution of profits for tax purposes in the Group's operating subsidiaries. This enquiry has created potential for uncertainty in the Group's income tax treatment. The Group has considered the requirements of IFRIC 23, including the requirement to consider the likelihood of the tax authorities accepting the basis of the Group's income tax filings. Additionally information regarding these judgements is disclosed in Note 22 Contingent liabilities.

#### Critical accounting estimates

The major source of estimation uncertainty that brings a significant risk of a material adjustment to the carrying value of amounts recognised in the Condensed Consolidated Financial Statements continues to be estimation of claims liabilities, as detailed on pages 144 to 146 of the Hastings Group Holdings plc 2019 Annual Report.

There have been no significant changes to the methods used to estimate claims liabilities, however the impact of COVID-19 has increased the uncertainty around, and judgement required in these estimates, as it brings a material change to underlying claim development patterns. Claim frequencies fell sharply when the UK lockdown was introduced in March 2020, but have subsequently increased to closer to normal levels. The Group has seen evidence that the lockdown has slowed down the reporting of claims, and the Group's estimation methods for claims liabilities make adjustments to compensate. The Group anticipates increased vehicle repair costs post-lockdown as a result of supply chain constraints, and a higher proportion of larger bodily injury claims as a result of higher vehicle speeds on relatively empty roads. However, the true impact will take some time to become clear. The Group has taken a reserving position as at 30 June 2020 that reflects the increased claims uncertainties caused by the pandemic.

The following table sets out the impact on profit after tax and total equity that would result from a 1%, 5% and 10% variance in the estimated cost of settling open outstanding claims, due to either a move in frequency or severity as a result of COVID-19 or other reserving estimates, as at end of the reporting period:

Change in reserving assumptions	Six months ended 30 June 2020					
	1%	5%	10%	(1)%	(5)%	(10)%
(Adverse) / favourable impact on profit after tax of % change in repair costs (£m)	(1.1)	(5.5)	(11.0)	1.1	5.5	11.0
(Adverse) / favourable impact on profit after tax of % change in personal injury costs (£m)	(5.6)	(28.0)	(56.0)	5.6	28.0	56.0
(Adverse) / favourable impact on profit after tax of % change in total claim costs (£m)	(6.7)	(33.5)	(67.0)	6.7	33.5	67.0

  

Change in reserving assumptions	Six months ended 30 June 2019					
	1%	5%	10%	(1)%	(5)%	(10)%
(Adverse) / favourable impact on profit after tax of % change in repair costs (£m)	(1.0)	(5.0)	(10.0)	1.0	5.0	10.0
(Adverse) / favourable impact on profit after tax of % change in personal injury costs (£m)	(5.4)	(27.0)	(54.0)	5.4	27.0	54.0
(Adverse) / favourable impact on profit after tax of % change in total claim costs (£m)	(6.4)	(32.0)	(64.0)	6.4	32.0	64.0

The above table assumes the loss transfer point for profit commission on quota share contracts has not been reached in any accident year. Once the loss transfer point is reached, the Group's exposure to subsequent claims costs in that accident year is reduced by 50%.

## 4. Insurance contracts risk management

A key risk from operating in the general insurance industry is the exposure to insurance risk arising from underwriting insurance contracts. Insurance contracts transfer risk to the insurer by indemnifying the customers against adverse effects arising from the occurrence of specified uncertain future events. The risk is that the actual amount of claims to be paid in relation to contracts will be different from the amount estimated at the time the contract was designed and priced, which is before the losses relating to it are known. Hence the insurance business involves inherent uncertainty.

## Other information

A fundamental part of the Group's overall risk management strategy is the effective governance and management of risks that impact the amount, timing and uncertainty of cash flows arising from insurance contracts. The Group's risk management objectives and policies for mitigating insurance risk are provided on pages 146 to 148 of the Hastings Group Holdings plc 2019 Annual Report and there have been no changes to this during the period.

## 5. Segmental reporting

### Segment performance

The tables below present the Group's results by reportable segment:

	Underwriting	Retail	Corporate	Consolidation adjustments	Group
Six months ended 30 June 2020	£m	£m	£m	£m	£m
Net earned premiums	241.4	-	-	(22.6)	218.8
Other revenue	33.1	170.1	-	(32.7)	170.5
Investment and interest income	3.2	0.3	-	(0.1)	3.4
Net revenue	277.7	170.4	-	(55.4)	392.7
Net claims incurred	(165.5)	-	-	-	(165.5)
Total expenses	(67.8)	(133.9)	(4.1)	56.9	(148.9)
Adjusted operating profit	44.4	36.5	(4.1)	1.5	78.3
Amortisation and depreciation					(9.8)
Finance costs					(5.0)
Profit before tax					63.5

Included within other revenue is £60.2m recognised by the Retail segment arising from transactions with the Underwriting segment. Other revenue recognised by the Underwriting segment includes £0.2m arising from transactions with the Retail segment.

	Underwriting	Retail	Corporate	Consolidation adjustments	Group
Six months ended 30 June 2019	£m	£m	£m	£m	£m
Net earned premiums	241.5	-	-	(25.9)	215.6
Other revenue	7.1	175.3	0.1	(32.7)	149.8
Investment and interest income	4.7	0.6	0.1	(0.5)	4.9
Net revenue	253.3	175.9	0.2	(59.1)	370.3
Net claims incurred	(174.9)	-	-	-	(174.9)
Total expenses	(70.6)	(121.1)	(3.3)	59.3	(135.7)
Adjusted operating profit	7.8	54.8	(3.1)	0.2	59.7
Amortisation and depreciation					(8.7)
Finance costs					(4.9)
Profit before tax					46.1

Included within other revenue is £59.6m recognised by the Retail segment arising from transactions with the Underwriting segment.

## Other information

	Underwriting	Retail	Corporate	Consolidation adjustments	Group
Year ended 31 December 2019	£m	£m	£m	£m	£m
Net earned premiums	488.7	-	-	(49.4)	439.3
Other revenue	8.1	330.3	-	(46.8)	291.6
Investment and interest income	10.0	1.1	0.1	(0.8)	10.4
Net revenue	506.8	331.4	0.1	(97.0)	741.3
Net claims incurred	(362.7)	-	-	-	(362.7)
Total expenses	(112.8)	(237.4)	(6.9)	88.2	(268.9)
Adjusted operating profit	31.3	94.0	(6.8)	(8.8)	109.7
Amortisation and depreciation					(17.8)
Finance costs					(9.8)
Profit before tax					82.1

Included within other revenue is £95.3m recognised by the Retail segment arising from transactions with the Underwriting segment. Other revenue recognised by the Underwriting segment includes £0.4m arising from transactions with the Retail segment.

## Segment assets and liabilities

The tables below present the Group's assets and liabilities by reportable segment as at each reporting date.

	Underwriting	Retail	Corporate	Consolidation adjustments	Group
As at 30 June 2020	£m	£m	£m	£m	£m
Goodwill	-	1.9	-	468.1	470.0
Intangible assets	-	90.4	-	2.5	92.9
Investments in subsidiaries	-	-	1,279.9	(1,279.9)	-
Investments	4.2	-	-	(4.2)	-
Property and equipment	1.1	19.6	0.6	2.5	23.8
Deferred income tax assets	-	-	0.2	7.3	7.5
Reinsurance assets	1,370.4	-	-	1.6	1,372.0
Deferred acquisition costs	35.6	49.4	-	(49.0)	36.0
Prepayments	1.7	10.1	0.1	(1.6)	10.3
Current tax assets	3.5	1.9	-	-	5.4
Insurance and other receivables	432.7	366.7	0.8	(367.8)	432.4
Financial assets at fair value	609.8	0.4	-	-	610.2
Cash and cash equivalents	176.3	63.6	0.4	-	240.3
<b>Total assets</b>	<b>2,635.3</b>	<b>604.0</b>	<b>1,282.0</b>	<b>(1,220.5)</b>	<b>3,300.8</b>
Loans and borrowings	-	-	245.8	-	245.8
Insurance contract liabilities	2,070.0	-	-	(22.2)	2,047.8
Deferred income tax liabilities	-	1.7	-	7.9	9.6
Insurance and other payables	259.0	449.2	2.7	(379.6)	331.3
<b>Total liabilities</b>	<b>2,329.0</b>	<b>450.9</b>	<b>248.5</b>	<b>(393.9)</b>	<b>2,634.5</b>
<b>Total equity</b>	<b>306.3</b>	<b>153.1</b>	<b>1,033.5</b>	<b>(826.6)</b>	<b>666.3</b>

## Other information

	Underwriting	Retail	Corporate	Consolidation adjustments	Group
As at 30 June 2019	£m	£m	£m	£m	£m
Goodwill	-	1.9	-	468.1	470.0
Intangible assets	-	77.5	-	4.1	81.6
Investments in subsidiaries	-	-	1,276.5	(1,276.5)	-
Investments	4.2	-	-	(4.2)	-
Property and equipment	1.2	19.9	-	2.1	23.2
Deferred income tax assets	-	-	0.1	4.6	4.7
Reinsurance assets	1,350.0	-	-	-	1,350.0
Deferred acquisition costs	28.7	48.0	-	(41.7)	35.0
Prepayments	2.3	7.0	0.1	(0.7)	8.7
Insurance and other receivables	472.6	357.9	(8.7)	(335.6)	486.2
Financial assets at fair value	567.5	-	-	-	567.5
Cash and cash equivalents	81.4	64.5	5.0	-	150.9
<b>Total assets</b>	<b>2,507.9</b>	<b>576.7</b>	<b>1,273.0</b>	<b>(1,179.8)</b>	<b>3,177.8</b>
Loans and borrowings	-	-	244.8	-	244.8
Insurance contract liabilities	2,009.4	-	-	(23.8)	1,985.6
Deferred income tax liabilities	-	0.8	-	5.8	6.6
Current tax liabilities	1.3	7.2	-	-	8.5
Insurance and other payables	235.7	402.5	2.9	(346.3)	294.8
<b>Total liabilities</b>	<b>2,246.4</b>	<b>410.5</b>	<b>247.7</b>	<b>(364.3)</b>	<b>2,540.3</b>
<b>Total equity</b>	<b>261.5</b>	<b>166.2</b>	<b>1,025.3</b>	<b>(815.5)</b>	<b>637.5</b>

  

	Underwriting	Retail	Corporate	Consolidation adjustments	Group
As at 31 December 2019	£m	£m	£m	£m	£m
Goodwill	-	1.9	-	468.1	470.0
Intangible assets	-	84.4	-	3.3	87.7
Investments in subsidiaries	-	-	1,277.4	(1,277.4)	-
Investments	4.2	-	-	(4.2)	-
Property and equipment	1.1	18.1	0.9	2.5	22.6
Deferred income tax asset	-	-	0.1	5.5	5.6
Reinsurance assets	1,363.2	-	-	1.8	1,365.0
Deferred acquisition costs	32.4	49.0	-	(47.1)	34.3
Prepayments	1.9	8.1	0.1	(1.2)	8.9
Insurance and other receivables	413.8	341.6	2.1	(315.9)	441.6
Financial assets at fair value	583.4	-	-	-	583.4
Cash and cash equivalents	114.7	44.3	1.9	-	160.9
<b>Total assets</b>	<b>2,514.7</b>	<b>547.4</b>	<b>1,282.5</b>	<b>(1,164.6)</b>	<b>3,180.0</b>
Loans and borrowings	-	-	245.3	-	245.3
Insurance contract liabilities	2,044.1	-	-	(20.4)	2,023.7
Deferred income tax liability	-	2.5	-	5.5	8.0
Current tax liabilities	-	3.1	-	0.1	3.2
Insurance and other payables	196.3	383.2	3.4	(325.2)	257.7
<b>Total liabilities</b>	<b>2,240.4</b>	<b>388.8</b>	<b>248.7</b>	<b>(340.0)</b>	<b>2,537.9</b>
<b>Total equity</b>	<b>274.3</b>	<b>158.6</b>	<b>1,033.8</b>	<b>(824.6)</b>	<b>642.1</b>

## Other information

### 6. Insurance premiums

	Six months ended 30 June 2020			Six months ended 30 June 2019		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	£m	£m	£m	£m	£m	£m
Written premiums	514.9	(283.3)	231.6	499.2	(273.8)	225.4
Unearned premiums reserve brought forward at start of the period	477.4	(254.6)	222.8	480.7	(261.1)	219.6
Unearned premiums reserve carried forward at end of the period	(515.9)	280.3	(235.6)	(504.1)	274.7	(229.4)
<b>Total earned premiums</b>	<b>476.4</b>	<b>(257.6)</b>	<b>218.8</b>	<b>475.8</b>	<b>(260.2)</b>	<b>215.6</b>

  

	Year ended 31 December 2019		
	Gross	Reinsurers' share	Net
	£m	£m	£m
Written premiums	961.6	(519.3)	442.3
Unearned premiums reserve brought forward at start of year	480.8	(261.0)	219.8
Unearned premiums reserve carried forward at end of year	(477.4)	254.6	(222.8)
<b>Total earned premiums</b>	<b>965.0</b>	<b>(525.7)</b>	<b>439.3</b>

### 7. Other revenue

	Six months ended		Year ended
	30 June 2020	30 June 2019	31 December 2019
	£m	£m	£m
Fees and commission	49.0	52.1	99.8
Ancillary product income	31.1	29.2	54.8
Premium finance interest	49.1	52.2	105.6
Reinsurance commissions	32.9	6.9	7.7
Other retail income	8.4	9.4	23.7
<b>Total other revenue</b>	<b>170.5</b>	<b>149.8</b>	<b>291.6</b>

Fees and commission on panel providers, ancillary product income and other retail income are recognised as revenue from contracts with customers as defined by IFRS 15.

### 8. Investment and interest income

	Six months ended		Year ended
	30 June 2020	30 June 2019	31 December 2019
	£m	£m	£m
Net fair value (losses)/gains on financial assets at fair value	(0.9)	0.7	1.7
Interest income from debt securities	3.9	3.7	7.8
Interest income from loans and receivables	0.4	0.5	0.9
<b>Total investment and interest income</b>	<b>3.4</b>	<b>4.9</b>	<b>10.4</b>

## Other information

### 9. Claims incurred

	Six months ended 30 June 2020			Six months ended 30 June 2019		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	£m	£m	£m	£m	£m	£m
Current period	373.2	(206.0)	167.2	446.0	(273.7)	172.3
Prior periods	(46.9)	45.2	(1.7)	22.4	(19.8)	2.6
Total claims incurred	326.3	(160.8)	165.5	468.4	(293.5)	174.9

  

	Year ended 31 December 2019		
	Gross	Reinsurers' share	Net
	£m	£m	£m
Current period	893.2	(533.4)	359.8
Prior periods	(18.1)	21.0	2.9
Total claims incurred	875.1	(512.4)	362.7

Current period claims relate to claim events that occurred in the current year. Prior period claims relate to the reassessment of claim events that occurred in previous years.

### 10. Expenses

	Six months ended		Year ended
	30 June 2020	30 June 2019	31 December 2019
	£m	£m	£m
<i>Profit before taxation is stated after charging:</i>			
Employee benefits	60.8	50.1	101.5
Auditor remuneration	0.3	0.2	0.7
Other administration and distribution costs	51.0	46.1	90.3
Other expenses	112.1	96.4	192.5
Amortisation of intangible assets	6.7	5.6	12.0
Depreciation of property and equipment	3.1	3.1	5.8
Amortisation and depreciation	9.8	8.7	17.8

## Other information

### 11. Non-trading items

	Six months ended		Year ended
	30 June 2020	30 June 2019	31 December 2019
	£m	£m	£m
Non-operational amortisation of intangibles recognised on acquisition	0.8	1.2	2.0
Non-trading amortisation	0.8	1.2	2.0
Non-cash unwind of fair value adjustments arising on business combination	0.2	0.1	0.2
Non-trading finance costs	0.2	0.1	0.2
Tax effect of the above non-trading items	(0.1)	(0.2)	(0.4)
Total non-trading items	0.9	1.1	1.8

### 12. Finance costs

	Six months ended		Year ended
	30 June 2020	30 June 2019	31 December 2019
	£m	£m	£m
Interest on 3% senior bonds due 2025	3.8	3.6	7.4
Fees and Interest on Revolving Credit Facility	0.3	0.4	0.7
Non-cash amortisation of loans and borrowings	0.5	0.5	1.1
Interest on lease liabilities	0.2	0.2	0.4
Other interest expense	0.2	0.2	0.2
Total interest expense	5.0	4.9	9.8

## Other information

### 13. Earnings per share

	Six months ended		Year ended
	30 June 2020	30 June 2019	31 December 2019
Profit attributable to the equity holders of the parent (£m)	54.8	38.2	69.7
<i>Adjusted for non-trading items:</i>			
Non-trading items net of taxation (£m)	0.9	1.1	1.8
Net income (£m)	55.7	39.3	71.5
Basic weighted average number of Ordinary Shares in issue (m)	659.9	658.2	659.1
Potential Ordinary Shares and contingently issuable shares (m)	1.8	0.6	1.0
Weighted average number of shares adjusted for dilutive potential Ordinary Shares (m)	661.7	658.8	660.1
Basic earnings per share	8.3p	5.8p	10.6p
Non-trading items net of taxation per share	0.1p	0.2p	0.2p
Adjusted earnings per share	8.4p	6.0p	10.8p
Diluted earnings per share	8.3p	5.8p	10.6p
Adjusted diluted earnings per share	8.4p	6.0p	10.8p

### 14. Reinsurance assets and insurance contract liabilities

	As at 30 June 2020			As at 30 June 2019		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	£m	£m	£m	£m	£m	£m
Claims incurred and reported	1,021.3	(711.8)	309.5	1,034.0	(712.6)	321.4
Claims incurred but not reported	510.6	(379.9)	130.7	447.5	(362.7)	84.8
Outstanding claims liabilities	1,531.9	(1,091.7)	440.2	1,481.5	(1,075.3)	406.2
Unearned premiums reserve	515.9	(280.3)	235.6	504.1	(274.7)	229.4
Total insurance contract liabilities	2,047.8	(1,372.0)	675.8	1,985.6	(1,350.0)	635.6
				As at 31 December 2019		
				Gross	Reinsurers' share	Net
				£m	£m	£m
Claims incurred and reported				1,086.1	(737.9)	348.2
Claims incurred but not reported				460.2	(372.5)	87.7
Outstanding claims liabilities				1,546.3	(1,110.4)	435.9
Unearned premiums reserve				477.4	(254.6)	222.8
Total insurance contract liabilities				2,023.7	(1,365.0)	658.7

All insurance contracts are annual policies and as such the unearned premiums reserve is released within 12 months of the reporting date.

## Other information

	As at 30 June 2020			As at 30 June 2019		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	£m	£m	£m	£m	£m	£m
Outstanding claims liabilities brought forward at start of year	1,546.3	(1,110.4)	435.9	1,340.1	(951.0)	389.1
Claims paid	(339.9)	172.6	(167.3)	(337.0)	167.4	(169.6)
Movement in liabilities	325.5	(153.9)	171.6	478.4	(291.7)	186.7
Outstanding claims liabilities carried forward	1,531.9	(1,091.7)	440.2	1,481.5	(1,075.3)	406.2
Unearned premiums reserve brought forward at start of year	477.4	(254.6)	222.8	480.7	(261.1)	219.6
Deferral in period	514.9	(283.3)	231.6	499.2	(273.8)	225.4
Release in period	(476.4)	257.6	(218.8)	(475.8)	260.2	(215.6)
Unearned premiums reserve carried forward	515.9	(280.3)	235.6	504.1	(274.7)	229.4
Total insurance contract liabilities	2,047.8	(1,372.0)	675.8	1,985.6	(1,350.0)	635.6

	As at 31 December 2019		
	Gross	Reinsurers' share	Net
	£m	£m	£m
Outstanding claims liabilities brought forward at start of year	1,340.1	(951.0)	389.1
Claims paid	(689.8)	350.2	(339.6)
Movement in liabilities	896.0	(509.6)	386.4
Outstanding claims liabilities carried forward at end of year	1,546.3	(1,110.4)	435.9
Unearned premiums reserve brought forward at start of year	480.8	(261.1)	219.7
Deferral in period	961.6	(519.2)	442.4
Release in period	(965.0)	525.7	(439.3)
Unearned premiums reserve carried forward at end of year	477.4	(254.6)	222.8
Total insurance contracts liabilities	2,023.7	(1,365.0)	658.7

Movement in liabilities comprises changes in outstanding claims liabilities relating to claim events in previous periods and the expected cost of current year claims.

## 15. Insurance and other receivables

	As at		
	30 June 2020	30 June 2019	31 December 2019
	£m	£m	£m
Insurance receivables	363.3	349.9	331.1
Salvage and subrogation recoveries	32.6	49.0	46.6
Reinsurance receivables	16.9	53.8	26.1
Interest receivable	6.4	6.2	7.7
Other receivables	13.2	27.3	30.1
Total insurance and other receivables	432.4	486.2	441.6

## Other information

### 16. Cash and cash equivalents

	As at		
	30 June 2020	30 June 2019	31 December 2019
	£m	£m	£m
Cash at bank and in hand	45.2	56.9	45.0
Money market funds	189.9	79.2	110.7
Short term deposits	5.2	14.8	5.2
Total cash and cash equivalents	240.3	150.9	160.9

Cash and cash equivalents include balances of £9.2m (30 June 2019: £8.1m) relating to cash and cash equivalents held on behalf of third party insurers on an agency basis.

### 17. Financial instruments, capital management and related disclosures

#### a) Financial assets and liabilities

The Group's financial instruments can be analysed as follows:

##### *At amortised cost*

The carrying values of all financial instruments carried at amortised cost are considered to be an approximation of fair value and the table below analyses these by balance sheet classification:

	As at		
	30 June 2020	30 June 2019	31 December 2019
	£m	£m	£m
<i>Financial assets</i>			
Insurance and other receivables (excluding salvage and subrogation assets)	399.8	437.2	395.0
Total financial assets at amortised cost	399.8	437.2	395.0
<i>Financial liabilities</i>			
Loans and borrowings	245.8	244.8	245.3
Insurance and other payables (excluding salvage and subrogation payables and deferred income)	289.7	250.0	218.4
Total financial liabilities at amortised cost	535.5	494.8	463.7

##### *At fair value*

The table below analyses financial assets carried at fair value by level within the fair value hierarchy. Debt securities and investment funds are valued by reference to the most recent observable market trade unless there is evidence of impairment. Where such trades are not sufficiently regular for the sales to be classified as an open market, these are classified as level 2.

## Other information

	As at 30 June 2020			As at 30 June 2019		
	Level 1 £m	Level 2 £m	Total £m	Level 1 £m	Level 2 £m	Total £m
<i>Fair value through profit or loss</i>						
Investment funds	33.9	11.9	45.8	-	44.8	44.8
Total financial assets at fair value through profit or loss	33.9	11.9	45.8	-	44.8	44.8
<i>Available for sale</i>						
Debt securities	7.4	557.0	564.4	-	522.7	522.7
Total available for sale financial assets	7.4	557.0	564.4	-	522.7	522.7
Total financial assets at fair value	41.3	568.9	610.2	-	567.5	567.5
<b>As at 31 December 2019</b>						
				Level 1 £m	Level 2 £m	Total £m
<i>Fair value through profit or loss</i>						
Investment funds				35.1	10.1	45.2
Total financial assets at fair value through profit or loss				35.1	10.1	45.2
<i>Available for sale</i>						
Debt securities				49.6	488.6	538.2
Total available for sale financial assets				49.6	488.6	538.2
Total financial assets at fair value				84.7	498.7	583.4

Investment funds comprise funds with investments in debt securities, equities, derivatives and cash and cash equivalents. The Group's investment in available for sale financial assets is mainly comprised of fixed income debt securities.

Insurance and other receivable assets with a fair value of £12.9m at 30 June 2020 will be within the scope of IFRS 9 (30 June 2019: £22.0m). All of these assets are considered to give rise to cash flows that are solely for payments of principal and interest. Of these assets, £0.5m are considered not to have a low credit risk (30 June 2019: £1.0m).

### b) Credit risk

The credit rating of the investment managers and banks with which the Group has significant credit risk, in relation to its investments in cash and cash equivalents and financial assets at fair value, were as follows:

## Other information

	Debt securities £m	Investment funds £m	Cash and cash equivalents £m	Total £m
<i>As at 30 June 2020</i>				
AAA	80.4	2.5	190.4	273.3
AA	123.1	1.4	-	124.5
A	224.2	6.2	49.9	280.3
BBB	132.0	8.7	-	140.7
Less than BBB	4.7	12.1	-	16.8
Not rated	-	14.9	-	14.9
<b>Total</b>	<b>564.4</b>	<b>45.8</b>	<b>240.3</b>	<b>850.5</b>
<i>As at 30 June 2019</i>				
AAA	77.4	4.2	79.6	161.2
AA	128.6	3.5	-	132.1
A	165.9	8.2	71.3	245.4
BBB	149.2	7.7	-	156.9
Less than BBB	1.6	10.9	-	12.5
Not rated	-	10.3	-	10.3
<b>Total</b>	<b>522.7</b>	<b>44.8</b>	<b>150.9</b>	<b>718.4</b>
<i>As at 31 December 2019</i>				
AAA	47.7	4.0	112.1	163.8
AA	157.1	2.4	-	159.5
A	198.5	7.0	48.8	254.3
BBB	134.9	7.6	-	142.5
Less than BBB	-	11.9	-	11.9
Not rated	-	12.3	-	12.3
<b>Total</b>	<b>538.2</b>	<b>45.2</b>	<b>160.9</b>	<b>744.3</b>

The Group's maximum exposure to credit risk at 30 June 2020 is £2,654.9m (30 June 2019: £2,554.6m), being the carrying value of insurance and other receivables, reinsurance assets, financial assets and cash and cash equivalents. Insurance receivables are monitored closely with a view to minimising the collection period of those items.

The Group's exposure to reinsurers is analysed below by the credit rating of each reinsurer:

	As at		
	30 June 2020 £m	30 June 2019 £m	31 December 2019 £m
AA	1,044.3	979.4	1,020.9
A	327.7	369.4	344.1
Unrated	-	1.2	-
<b>Total reinsurance assets</b>	<b>1,372.0</b>	<b>1,350.0</b>	<b>1,365.0</b>

## Other information

### 18. Loans and borrowings

	As at		
	30 June 2020	30 June 2019	31 December 2019
	£m	£m	£m
3% senior bonds due 2025	250.0	250.0	250.0
Arrangement fees and discounts	(4.2)	(5.2)	(4.7)
Total loans and borrowings	245.8	244.8	245.3
Current	-	-	-
Non-current	245.8	244.8	245.3
Total loans and borrowings	245.8	244.8	245.3

### 19. Insurance and other payables

	As at		
	30 June 2020	30 June 2019	31 December 2019
	£m	£m	£m
Amounts owed to reinsurers	156.1	132.3	109.8
Reinsurers' share of salvage and subrogation recoveries	16.2	24.3	23.2
Insurance premium tax	35.2	33.0	26.1
Accrued expenses	61.2	53.4	52.5
Deferred income	25.4	20.5	16.1
Lease liabilities	10.4	11.0	10.7
Other payables	26.8	20.3	19.3
Total insurance and other payables	331.3	294.8	257.7
Current	321.0	270.9	248.3
Non-current	10.3	23.9	9.4
Total insurance and other payables	331.3	294.8	257.7

### 20. Related party transactions

The Group undertakes transactions with related parties in the normal course of business and all transactions with related parties are made on normal, arm's length, commercial terms. During the six months ended 30 June 2020, the Group was charged £5.2m by OUTsurance Shared Services Limited, a subsidiary of a company with significant influence, for the provision of insurance intermediary support services (30 June 2019: £4.0m). There was an outstanding balance payable of £0.9m as at 30 June 2020 (30 June 2019: £1.9m).

Other than this, there have been no material changes in related parties and or the related party transactions undertaken during this period and they have remained consistent with those disclosed in the Hastings Group Holdings plc 2019 Annual Report.

## Other information

### 21. Dividends

A final dividend in respect of the year ended 31 December 2019 amounting to £36.4m or 5.5p per share was paid on 29 May 2020 (2019: £59.5m).

On 4 August 2020, the Board proposed an interim dividend in respect of the year ended 31 December 2020 of 4.5p per share, or £29.8m (31 December 2019: £29.8m).

### 22. Contingent liabilities

The Group's legal entities are subject to review by tax authorities in the UK and Gibraltar. The Group commenced discussion with HMRC in December 2016 regarding aspects of its business model and the allocation of certain elements of its profit between the Group's operating subsidiaries, HISL in the UK and AICL in Gibraltar. During the period, management has engaged in correspondence and meetings with HMRC. Management has reviewed current and previous tax filings and considered the nature of the ongoing enquiries and does not consider it appropriate to provide for any additional tax due. The Group provides for potential tax liabilities that may arise on the basis of the amount expected to be paid to the tax authorities having taken into consideration any ongoing enquiries or reviews and based on guidance from professional firms. The final amounts paid may differ from the amounts provided depending on the ultimate resolution of such matters and any changes to the estimates or amounts payable in respect of prior periods are reported through adjustments relating to prior periods. In the event that the tax authorities do not ultimately accept the filed tax position, it is possible that the Group will have an additional tax liability. However the ongoing nature of the enquiry means that it is inherently difficult to predict a range of potential outcomes with certainty. Based on the information received from HMRC to date, management does not believe that it is probable that any additional amounts will ultimately become payable. Further information in respect of the enquiries has therefore not been provided in accordance with IAS 37 on the grounds it is not practicable to do so.

### 23. Events after the reporting period

The Independent Hastings Group Holdings plc ('HGH') directors (a sub-committee of the Board excluding Herman Bosman, the Rand Merchant Investment Holdings Limited ('RMI') representative) and the directors of Dorset Bidco Limited ('Bidco'), a consortium comprising Sampo Oyj ('Sampo') and RMI, have reached agreement on the terms of a recommended cash offer to acquire the issued and to be issued share capital of HGH not already owned or controlled by Sampo and RMI ('the Offer'). The Offer will be subject to shareholder approval and the receipt of regulatory and anti-trust approvals.

This is considered a non-adjusting event under IAS 10. Further details in respect of the Offer can be found on the Company's corporate website [www.hastingsplc.com](http://www.hastingsplc.com).

## Other information

### KPIs and Reconciliations

#### Combined operating ratio reconciliation

The following tables reconcile the Group's acquisition costs and other expenses to the combined costs and operating expenses used to calculate the combined operating ratio and its two component measures: expense ratio and loss ratio. The combined operating ratio is the primary indicator used to measure overall performance of the Underwriting business and shows the amount of each premium spent on either indemnity costs (the loss ratio) or underwriting operating expenses (the expense ratio). The combined operating ratio is therefore a measure of underwriting profitability.

	Six months ended		Year ended
	30 June 2020 £m	30 June 2019 £m	31 December 2019 £m
<b>Reconciliation of Acquisition costs and Other expenses to the Group's share of underwriting operating expenses.</b>			
Acquisition costs	36.8	39.3	76.4
Other expenses	112.1	96.4	192.5
Less: Retail and other operating expenses	(76.1)	(67.7)	(133.3)
Less: Reinsurers' share of underwriting operating expenses	(36.4)	(34.0)	(67.8)
Group's share of underwriting operating expenses	36.3	34.0	67.8
<b>Calculation of loss ratio, expense ratio and combined operating ratio:</b>			
<b>Loss ratio</b>			
Net claims incurred	165.5	174.9	362.7
Net earned premiums	218.8	215.6	439.3
Loss ratio (%)	75.6%	81.1%	82.6%
<b>Expense ratio</b>			
Group's share of underwriting operating expenses	36.3	34.0	67.8
Net earned premiums	218.8	215.6	439.3
Expense ratio (%)	16.6%	15.8%	15.4%
<b>Combined operating ratio</b>			
Net claims incurred	165.5	174.9	362.7
Group's share of underwriting operating expenses	36.3	34.0	67.8
Combined claims costs and operating expenses	201.8	208.9	430.5
Net earned premiums	218.8	215.6	439.3
Combined operating ratio (%)	92.2%	96.9%	98.0%

Retail and other operating expenses are those costs incurred by the Retail business and Corporate in the provision of broking and administration services, and therefore do not include claims handling costs and insurer service costs, which are recharged to the Underwriting business.

Reinsurers' share of underwriting operating expenses represents costs borne by reinsurance partners through commission, direct cost contributions or other profit share arrangements.

## Other information

### KPIs and Reconciliations

#### Free cash reconciliation

The following tables reconcile the Group's cash and cash equivalents per the Condensed Consolidated Financial Statements to the free cash reported in the Financial Review, and the increase in cash and cash equivalents to the Retail cash generated during the six months ended 30 June 2020.

Free cash is considered the more appropriate measure for use within the net debt calculation as it is not subject to Solvency II or other regulatory restrictions and Retail cash generated is the most accurate representation of the cash inflows available for unrestricted use.

	As at		
	30 June 2020	30 June 2019	31 December 2019
	£m	£m	£m
<b>Free cash reconciliation</b>			
Total cash and cash equivalents	240.3	150.9	160.9
<i>Deduct restricted cash:</i>			
Underwriting cash and cash equivalents	176.3	81.4	114.7
HISL cash held on behalf of AICL	39.5	24.7	16.4
HISL cash held on behalf of third party insurers	9.2	8.1	7.3
HISL regulatory cash requirement	4.7	4.9	4.9
Restricted cash held in regulated entities or on behalf of third parties	229.7	119.1	143.3
Closing free cash	10.6	31.8	17.6

	Six months ended		Year ended
	30 June 2020	30 June 2019	31 December 2019
	£m	£m	£m
<b>Free cash generated reconciliation</b>			
Net increase/(decrease) in cash and cash equivalents	79.4	4.9	14.9
Adjust for: net decrease in restricted cash	(86.4)	7.8	(16.4)
Net increase/(decrease) in free cash	(7.0)	12.7	(1.5)
<i>Add back:</i>			
Retail and Corporate taxation paid	9.2	11.6	18.1
Capital expenditure	11.9	7.9	21.6
Dividends paid	36.3	59.5	89.1
Interest, corporate and refinancing costs	6.6	7.3	13.7
Group free cash generated	57.0	99.0	141.0
<b>Deduct:</b>			
AICL dividend received	(10.0)	(55.0)	(65.0)
Retail free cash generated	47.0	44.0	76.0

The HISL regulatory cash requirement represents the amount of capital that is required to be held to meet FCA regulations under MPIRU 4.2.11.

## Other information

### KPIs and Reconciliations

#### Operating profit reconciliation

	Six months ended		Year ended
	30 June 2020	30 June 2019	31 December 2019
	£m	£m	£m
Underwriting adjusted operating profit	44.4	7.8	31.3
Retail adjusted operating profit	36.5	54.8	94.0
Net impact of corporate and consolidation adjustments	(2.6)	(2.9)	(15.6)
Adjusted operating profit	78.3	59.7	109.7
Underlying amortisation and depreciation	(9.0)	(7.5)	(15.8)
Underlying finance costs	(4.8)	(4.8)	(9.6)
Tax on underlying trading	(8.8)	(8.1)	(12.8)
Net income	55.7	39.3	71.5
Non-trading expenses, net of tax	(0.9)	(1.1)	(1.8)
Profit after tax	54.8	38.2	69.7

The underlying result excludes the impact of non-trading items. Non-trading items are defined as expenses or earnings that are not representative of the operating activities of the Group. These include reorganisation, refinancing and transaction costs and the impact of the Goldman Sachs investment on 8 January 2014 which was accounted for as a business combination. Non-trading items are presented in Note 11.

## Statement of directors' responsibilities in respect of the interim financial report

We confirm that to the best of our knowledge:

- the Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU
- the interim management report includes a fair review of the information required by:
  - (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the Condensed Consolidated Financial Statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  - (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

**Toby van der Meer**  
**Chief Executive Officer**

**4 August 2020**

## Independent auditor's review report

### INDEPENDENT REVIEW REPORT TO HASTINGS GROUP HOLDINGS PLC

#### Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 which comprises the Condensed Consolidated Statement of Profit or Loss, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Balance Sheet, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Statement of Cash Flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

#### Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

#### Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

#### The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

**Jessica Katsouris**  
**for and on behalf of KPMG LLP**  
*Chartered Accountants*  
15 Canada Square  
London  
E14 5GL  
4 August 2020

## Shareholder information

### Registered office

Conquest House  
Collington Avenue  
Bexhill-on-Sea  
East Sussex  
TN39 3LW

### Corporate website

The Company's corporate website is [www.hastingsplc.com](http://www.hastingsplc.com) where information about the Company and the Group is provided. The website also features the Group's financial reports and press releases as well as information about corporate responsibility and governance.

### Financial calendar

01 October 2020	–	Ex-dividend date
02 October 2020	–	Interim dividend record date
16 October 2020	–	Dividend reinvestment plan election date
06 November 2020	–	2020 Interim dividend payment date