Hastings Group Holdings plc

Preliminary results announcement for the year ended 31 December 2018

28 February 2019

Hastings Group Holdings plc (the 'Group', or 'Hastings'), the technology driven insurance provider, today announces its annual results for the year ended 31 December 2018.

Hastings' solid results and strong cash generation in a competitive market demonstrates the Group's agility, digital focus and underwriting discipline that have been maintained whilst continuing to build enhanced capability for future growth.

Financial highlights

- **Continued strong profitability with a 4% increase in adjusted operating profit[1]** to £190.6m (2017: £184.1m). Excluding £14.6m of prior year VAT recovery and the £7.0m impact from adverse weather in the first quarter, adjusted operating profit was broadly flat at £183.0m.
- **Growth in live customer policies to 2.71 million,** increasing 2.5% from 2.64 million last year.
- **Increase in gross written premiums to £958.3m** for the year, up 3% from £930.8m last year, and a 6% growth in net revenue to £756.4m (2017: £715.6m).
- **Profit after tax increased by 3% to £130.6m** for the year (2017: £126.7m).
- **Calendar year loss ratio[3] of 75.0%,** at the bottom of the target range of 75% to 79% (2017: 73.0%), an increase over the prior year due to adverse weather in the first quarter and claims inflation being higher than premium inflation.
- **Strong free cash generation[4] of £167.7m**, a 42% increase over the prior year enabling the Group to achieve its net debt leverage multiple[5] target of around 1.0x during the year.
- **Strong solvency position, with Underwriting subsidiary achieving Solvency II coverage ratio of 161%** (2017: 167%), or 194% before deducting the anticipated dividend of £55.0m for the year ended 31 December 2018.
- **Diversification of debt structure with a successful seven year £250m 3% fixed rate senior bond issue**, replacing funds drawn under the Revolving Credit Facility and providing longer term financing and protection from interest rate increases.
- **Final dividend proposed for 2018 of 9.0p per share (2017: 8.5p per share),** which together with the interim dividend equates to a dividend payout ratio of 58.8% of adjusted profit after tax[6] (2017: 55.5%), and a 7% increase over the prior year.

Operational highlights

- **Successful completion of the Guidewire programme,** with the car and home build complete and majority of customers to be on the new platform in the first half of 2019, supporting operational efficiency.
- **New anti-fraud capabilities introduced including digital fraud tracking systems.** Action taken against 99 ghost broking rings this year.
- **Roll out of a new mobile app and enhanced functionality on the customer portal** enabling the most common policy changes to be made online, with additional functionality to be launched in 2019.
- **Launch of our electronic claims notification system and digital claims tracking capability,** enabling customers to both report a claim digitally and then track its progress online. 26% of total loss claims are now being settled through our end to end digital total loss tool.

- **Became a founder member of the UK Smart Mobility Living Lab,** a working group of select brands focusing on research and development in vehicle technology and the future of personal mobility solutions.
- **RAC partnership launched in the summer,** providing market leading breakdown service to customers.
- **Launch of gender, ethnic and age workforce diversity programmes,** strengthening the diversity and power of the workforce.
- **Expanded panel of home underwriters** with additional 3 underwriters, demonstrating good performance since launch.
- **Additions to leadership team and Board** with appointment of John Worth as Chief Financial Officer, Mark Parker as Chief Operating Officer and Elizabeth G. Chambers as an independent non-executive director, further enhancing capability and diversity.

***Notes**[1 to 6] refer to the end of the Financial review section for definitions and explanations.*

Toby van der Meer, Chief Executive Officer, commented:

"I am pleased to announce a solid set of results for 2018, continuing our track record of profitable growth. We have grown adjusted operating profit by 4% to £190.6m and our customer numbers by 2.5% to 2.7 million, whilst maintaining our underwriting discipline with premium inflation ahead of the market. Our strong capital position and continuing cash generation means we are proposing a 7% increase in our full year dividend over last year, and are increasing our target dividend payout ratio to a range of 65% to 75% going forward.

"We remain focused on long term profitable growth, with our price comparison website and digital focused business model built to take advantage of an increasingly digital landscape.

"We have made good progress on building our next generation technology solutions including our core platform, pricing, anti-fraud and digital capabilities in particular. Now our Guidewire programme is complete, it provides us with a scalable platform for future growth and we continue to deliver major milestones for customer digitalisation. This includes the launch of our new mobile app that has already been downloaded over 150,000 times, and our new online self-serve functionality and digital claims notification and tracking. I am also delighted that our colleagues have given us our highest ever colleague engagement score, at a level associated with best in class employers.

"I would like to thank Richard Hoskins for everything he has done in overseeing Hastings' early years as a public company, and I look forward to welcoming John Worth as our new Chief Financial Officer in the coming months.

"As ever, my personal thanks also go to my 3,400 colleagues for what they do for our customers and each other, every day. It is their hard work, support and the culture they have created that makes Hastings different."

Outlook statement

The Group's outlook and guidance for the full year 2019 is unchanged. The Board remains confident in the Group's profitable growth opportunities driven by its competitive advantages of agile pricing, anti-fraud capabilities and digital distribution.

Webcast

The Group will host an update webcast for investors and analysts at 10:30am GMT on 28 February 2019. Details are available on the Group's website 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 2017 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.

For more information, please contact:

Hastings Group

Richard Hoskins

Chief Financial Officer

T: +44 (0)1424 738366 ir@hastingsplc.com

John Armstrong

Head of Investor Relations

T: +44 (0)1424 738366 ir@hastingsplc.com

Instinctif Partners

Tim Linacre / Lewis Hill

T: +44 (0)207 457 2020 hastings@instinctif.com

Chair's statement

"The Group's strategic goals, performance and growth are underpinned by an inclusive and supportive culture and robust governance"

Review

In May 2018, I took over as Chair of the Hastings Group following Mike Fairey's retirement. Mike guided the Company through the IPO and its early years as a listed entity, and established a strong, effective Board to underpin the Company's future growth and development. On behalf of the Board and our colleagues, I thank him for his contribution during his time with us. After due deliberation, and taking all circumstances into account, the Nomination Committee recommended that I take over the role of Chair. That recommendation was founded on the principles of continuity and stability, strong independent governance and effective strategic leadership and I was delighted to accept the appointment.

Board Composition and UK Corporate Governance Code ("the Code") Compliance

I joined Hastings in 2012 as Chief Executive Officer and helped lead the Company's profitable growth towards, through, and beyond its IPO in 2015. Following the IPO, my senior management team and I continued to grow and develop the Group sustainably under the stewardship of the Board led by Mike. Toby van der Meer, part of that senior management team as Managing Director of the Company's UK trading subsidiary, Hastings Insurance Services Limited ('HISL') since 2011, succeeded me as Chief Executive Officer in March 2018. Prior to proposing my appointment as Chair, the Board, through Tom Colraine as Senior Independent Director, met with the Group's major shareholders to discuss the proposals and hear their views. Engagement with shareholders continued prior to the AGM and my appointment was ratified by shareholders at the AGM, receiving 81% of the total votes cast. Dialogue, led by myself and Tom Colraine, continued with major investors on matters relating to corporate governance throughout the year and major shareholders remain supportive of our approach.

The predominance of Independent Directors on the Board has ensured that the principles of the Code continue to be applied and adhered to and that my non-independence upon appointment as Chair does not compromise those principles, or the effective oversight and challenge by the Board. The annual Board effectiveness evaluation was externally facilitated this year and the facilitator interviewed all Board Directors on a range of subjects including how the Board felt the transition had gone and whether there were any issues. The outcome of the evaluation was positive and the Board believe that my and Toby's transition into our respective new roles has validated its decision in making these appointments.

Strong independent governance and effective strategic leadership are key to the continued success of the Group and a number of changes to the composition of the Board were made during the year. In June, the founder shareholders elected not to have a nominated member of the Board under the terms of their relationship agreement with the Company, and Selina Sagayam, who had originally been appointed by the founder shareholders as their nominated member of the Board, resigned as Non-Executive Director. Having recognised Selina's valuable contribution to the Board, and her independent thought and challenge, the Nomination Committee recommended that she be re-appointed as an Independent Non-Executive Director; this appointment was confirmed by the Board at the end of June. Due to external commitments, Malcolm Le May stepped down as Independent Non-Executive Director in April; I thank him for his contribution. On behalf of the Board, I also welcome Libby Chambers who joined us in September. Libby is an experienced senior financial services executive, strategist and marketing leader within the UK and worldwide.

The composition of the Board at the time of the IPO received some criticism in terms of its gender diversity. I am pleased to say that following these changes 33% of Board members, and the majority of Independent Non-Executive Directors, are female. Further information on the changes to the composition of the Board and its Committees are covered within the Corporate Governance section later on in this Report.

In conjunction with Board diversity targets, it is also important to ensure that the Group itself is representative of its customer base. Further increasing diversity and promoting inclusivity amongst our colleagues, especially at management and senior management, remains a focus for us. The Board is committed to ensuring that there are no barriers to anyone who wishes to succeed within our Group and they can do so in an inclusive and supportive environment. Last year we signed up to the 30% Club to demonstrate our commitment to having more females in senior leadership roles. Our aim is for women to represent 30% of senior leaders in the Group by 2020 and we will continue to support and develop all colleagues whatever their background.

Culture

I believe in a strong cultural framework and the Company's 4Cs ways of working continues to ensure we do the right thing for our colleagues, customers, company and community. The 4Cs ensure that Directors and colleagues alike are aware of and personify our values and principles. Our ability to deliver on our strategy, operate efficiently and effectively, and continue to generate value for our stakeholders is underpinned by the 4Cs as we continue to grow a sustainable and financially stable Group in a responsible manner.

During my time as Chief Executive Officer, I was one of many mentors at the first Be the Change programme, an education programme that aims to raise the aspirations of local 13–14 year olds. This programme has now entered its fourth year and the support from colleagues from all levels as mentors has been amazing throughout. I am pleased to say that I continue to be involved in the Be the Change programme, and was recently appointed as Group ambassador to the programme.

Our colleagues are important stakeholders in the Group and their contribution to its overall success cannot be understated. We have a number of initiatives underway that help, support and assist our colleagues be it with their career, their pay and benefits or their wellbeing. We listen to our colleagues through our YourVoice engagement surveys, interaction with the Hastings Colleague Forum, coffee mornings and through colleague requests for small change to enhance their working environment. Our Wellbeing programme has been very successful and well received by all colleagues. This programme covers a diverse range of topics and issues so our colleagues are healthier, happier and stronger, both inside and outside of the workplace. The Group's support for colleagues also extends to the charitable work our colleagues undertake each year by enabling and encouraging them to participate in fundraising events and community days for local charities around Bexhill and Leicester. These worthwhile charities are chosen by the colleagues themselves and by focusing our support locally we all help to benefit the areas within which we live and work. Further information on wellbeing, community programmes and other corporate responsibility matters can be found later on in this Report.

I have continued to maintain contact with our colleagues since I became Chair, and I am pleased to announce that, in compliance with the new Code, I have been designated as the Group's Non-Executive Director responsible for representing colleagues' views and interests to the Board. This will further enable me to continue to interact with colleagues via the Hastings Colleague Forum and hear any concerns that should be raised with the Board.

Challenging times

Particularly in the challenging economic, political, and trading environment, the Board continues to support management and ensure that appropriate actions are taken to underpin a sustainable and profitable growth trajectory for the Group in the interests of all of its stakeholders.

Optimising shareholder value – dividends

The Board remains confident in the Group's long term prospects and is pleased to propose a final dividend of 9.0p per share. This dividend will be paid on 31 May 2019 to shareholders on the register on 23 April 2019 with an ex-dividend date of 18 April 2019. This is the Company's second dividend for the year having paid 4.5p per share in November, taking the full year dividend to 13.5p per share. This final dividend is subject to shareholder approval at the Annual General Meeting to be held on 23 May 2019.

Gary Hoffman

Chair

27 February 2019

Chief Executive Officer's Statement

"I'm pleased to report the progress made in positioning the Group for the next stage of our journey and have set out ambitious plans for the future. I'm proud to lead the Hastings family and send my personal thanks to a great team of over 3,400 colleagues."

Built for growth

Having taken over as Chief Executive Officer in March 2018, I'm pleased to say that the role has been as enjoyable as I hoped and expected. It's not been a year without its challenges, including a competitive market backdrop and adverse weather in the first half, however I am proud of how our teams have performed through this environment and the progress we have made on initiatives to drive Hastings forward to the next stage of its journey.

The Group has come a long way from a small challenger to the much larger listed company we are today and I strongly believe that we remain well positioned for the future. Consumer switching is set to continue and digital channels, including price comparison websites in particular, continue to grow at the expense of more traditional distribution models, all of which play into our core strategy. We also welcome the ongoing regulatory changes including plans to reform whiplash claims and pricing practices. Such changes will create new opportunities for nimble, customer oriented players with the right business models.

We are however not standing still and we have now set out some fresh and ambitious plans for the future to ensure the Group is well positioned to continue taking advantage of the changing market environment. Our vision is built on specific initiatives and investments with the aim of developing and strengthening our existing capabilities, setting us up to be the market leaders in pricing, anti-fraud and digital, at significantly larger scale. This will continue to be underpinned by our focus on delivering strong returns for our shareholders, including for the many Colleagues who are shareholders, through the enhanced dividend payout ratio of 65% to 75%. We expect this strategy to deliver attractive and sustainable long term growth.

We have already made some great strides over the last twelve months, particularly in improving our digital proposition. Amongst a range of new digital capabilities, we launched our mobile app this year and we are one of the first insurance providers in the UK to go live with a full scale proposition, providing customers with another easy way to manage their insurance, as well as keeping us low cost. Making insurance easy for our customers is a key focus and there is more to come, particularly on our digital agenda in future.

Fundamental to our success is our colleagues and culture, as framed by our 4Cs approach. One of my key personal commitments is therefore to make sure that we continue to invest in and develop our existing colleagues and enhance talent and capability. To support this, we are investing in more training and career development, creating more flexibility around working hours, and actively managing the diversity agenda, including ensuring the progression of women into senior roles. We are also doing more internally to have fun together, support our local communities and charity causes, and investing in mental and physical wellbeing. Overall I'm very pleased that our colleague engagement scores were our highest ever in 2018 and it is an honour and privilege to lead such a great team of over 3,400 colleagues.

I'd like to finish by thanking Gary for his support as our Chair, as well as Richard, who will be retiring as Chief Financial Officer, for everything he has done in taking us from a newly listed public company to where we are today.

Toby van der Meer

Chief Executive Officer

27 February 2019

Chief Financial Officer's statement

Solid results and strong cash generation

“We’ve delivered a solid result and strong cash generation in a competitive market environment. We maintained our pricing discipline and increased customer numbers whilst raising our prices in a market of falling average premiums. We continue to invest in our digital capabilities and operational efficiencies to ensure we are built to deliver our growth ambitions.”

We’ve delivered a solid set of results in competitive market conditions. Despite the downward pressure on average market premiums during the year, the Group achieved a 1.2% growth in average written premiums whilst growing live customer policies (‘LCP’) by 2.5%. The trading results reflect the success of Hastings’ straightforward approach and digital business model which have seen the Group grow policies to 2.71 million, and increase its UK private car market share[2] to 7.5%.

The Group maintained its rigorous focus on underwriting discipline and achieved a loss ratio of 75.0% for the year, at the bottom end of the target range of 75% to 79%. Claims inflation exceeded premium inflation during the year as the industry experienced a stabilisation of claims frequencies but an increase in average claims costs driven by higher repair and third party costs. The Group will continue to maintain its disciplined pricing strategy as it prioritises protecting its margins over volume growth.

We’ve continued to invest in the development of enhanced anti-fraud capabilities and digital functionality, including delivering electronic claims notification, claims tracking and online self-serve functionality this year. A key milestone has been to complete our Guidewire programme which is now live for car and home customers. Together with the existing Guidewire claims platform, this gives us an end to end, state of the art platform to handle all our claims and policy administration functions. This investment has already started to provide benefits and, as well as future operational efficiencies, enables the Group to strengthen its digital advantage and increase digital functionality for our customers.

The Group successfully issued £250m of 3% fixed rate investment grade seven year senior bonds in May 2018 providing long term financing and protection from future interest rate increases. Net debt decreased from the beginning of the year, and we achieved our net debt leverage multiple target of around 1.0x in the first half, driven by continued growth in both adjusted operating profit and operational cash flows. Group free cash generation was strong, increasing 42% compared to 2017.

We are proposing a final dividend of 9.0p per share, which, together with the interim dividend, represents a 7% increase from last year and an overall payout ratio of 58.8%.

I am proud of what Hastings has achieved during my four years as Chief Financial Officer. We have significantly grown the number of our customers and colleagues, increased profitability, deleveraged to achieve our target and secured long term financing for the Group. As announced in January, I have decided to retire from Hastings and John Worth will succeed me as Chief Financial Officer. I am confident that John’s extensive experience will help to deliver continued profitable growth and enhanced value for our 4Cs and shareholders.

Richard Hoskins

Chief Financial Officer

27 February 2019

Financial review

Summary consolidated statement of profit or loss

	Year ended					
	31 December 2018			31 December 2017		
	Underlying trading[7]	Non-trading items[7]	Total	Underlying trading[7]	Non-trading items[7]	Total
	£m	£m	£m	£m	£m	£m
Gross written premiums	958.3	-	958.3	930.8	-	930.8
Net earned premiums	440.7	-	440.7	410.1	-	410.1
Other revenue	308.7	-	308.7	298.7	-	298.7
Investment and interest income	7.0	-	7.0	6.8	-	6.8
Net revenue	756.4	-	756.4	715.6	-	715.6
Net claims incurred	(330.6)	-	(330.6)	(299.5)	-	(299.5)
Acquisition costs	(74.6)	-	(74.6)	(64.9)	-	(64.9)
Other expenses	(160.6)	-	(160.6)	(167.1)	-	(167.1)
Adjusted operating profit[1]	190.6			184.1		
Amortisation and depreciation	(7.5)	(21.5)	(29.0)	(5.5)	(21.5)	(27.0)
Finance costs	(8.5)	(0.2)	(8.7)	(7.8)	(0.3)	(8.1)
Taxation	(26.1)	3.8	(22.3)	(26.2)	3.9	(22.3)
Profit after tax	148.5	(17.9)	130.6	144.6	(17.9)	126.7

Net revenue is up 6% over a strong 2017, to £756.4m, reflecting the growth in customer numbers and earn through of higher written premiums. Adjusted operating profit increased by 4% to £190.6m, and profit after tax increased by 3% to £130.6m, including the recognition of a £14.6m VAT refund relating to prior years and a £7.0m impact from the adverse weather events experienced in the first quarter. Adjusted operating profit before these items would have been broadly flat on 2017, driven by the growth of our book, higher net earned premiums and retail income, offset by an increase in our calendar year loss ratio.

Gross written premiums

	Year ended	
	31 December 2018	31 December 2017
Gross written premiums by product	£m	£m
Private car	919.5	888.1
Van	13.6	20.9
Bike	18.1	16.0
Home	7.1	5.8
Total gross written premiums	958.3	930.8
Total gross earned premiums	949.9	856.1

The Group successfully increased gross written premiums by 3%, driven by the 2.5% growth in LCP and the 1.2% increase in average motor written premiums, despite the backdrop of continued market price reductions observed throughout 2018. The Group's UK car market share increased to 7.5% from 7.3%.

Financial review

The Group sees significant opportunity for growth in both its core motor and home markets. Hastings has increased customer numbers for the tenth year in a row and is an established brand in a market of 32 million cars and 21 million homes. Customers in both of these markets are increasingly using digital channels, primarily price comparison websites (‘PCW’), to purchase their insurance. These market dynamics coupled with the continued programme of investment in digital capabilities means Hastings is well positioned to drive future growth.

Advantage Insurance Company Limited (‘AICL’), the Group’s Underwriting business has continued underwriting home policies as the lead insurer and this proposition continues to be selectively rolled out to customers ensuring that a disciplined underwriting approach is applied. Growth in home is further supported by the addition of three new panel members, with Lloyds Bank General Insurance, Integra and RSA having joined our panel during the second half of 2018.

Net revenue

	Year ended	
Net revenue by type	31 December 2018 £m	31 December 2017 £m
Net earned premiums	440.7	410.1
Fees and commission	101.2	101.3
Ancillary product income	49.6	50.6
Premium finance interest	104.0	94.4
Reinsurance commissions	35.3	37.0
Other income	18.6	15.4
Other revenue	308.7	298.7
Investment and interest income	7.0	6.8
Net revenue	756.4	715.6

Net revenue grew by 6% to £756.4m for the year (31 December 2017: £715.6m) due to the earn through of higher average written premiums and growth in LCP. Net earned premiums increased by 7% to £440.7m over the prior period (31 December 2017: £410.1m), whilst fees and commissions and ancillary product income were broadly flat with volume increases offset by some minor pricing structure changes. Premium finance interest income benefitted from the combination of higher average premiums and an increase in the number of customers choosing to pay in monthly instalments.

Reinsurance commissions were down 5% as the increase in earned premiums was offset by the higher loss ratio.

Financial review

Loss ratio, expense ratio and combined operating ratio

Combined operating ratio reconciliation	Year ended 31 December 2018	31 December 2017
Accident year loss ratio	76.1%	73.8%
Prior year development	(1.1%)	(0.8%)
Calendar year loss ratio[3]	75.0%	73.0%
Expense ratio[3]	14.4%	14.0%
Combined operating ratio[3]	89.4%	87.0%

The calendar year loss ratio of 75.0% is at the bottom end of the Group's target loss ratio of 75% to 79%. The increase from 2017 is principally due to adverse weather and market wide claims inflation. During the first quarter, the Group incurred £7.0m of additional weather related claims costs as a result of 'Storm Emma' and the 'Beast from the East'. The Group experienced broadly flat claims frequency overall but increased claims severity. Claims inflation increased during the year to 6%, reflecting increased cost in vehicle repairs due to enhanced vehicle sophistication, credit hire cost increases and the weather event in the first half.

The expense ratio increased slightly to 14.4% due to the rise in the rate of Motor Insurers' Bureau underwriting levies. The combined operating ratio increased to 89.4% (2017: 87.0%) reflecting the increase in both the loss ratio and expense ratio.

Taxation

The tax charge for the year was £22.3m (2017: £22.3m), representing an effective tax rate ('ETR') of 14.6% (2017: 15.0%). While the tax charge has remained flat, the ETR has decreased due to a reduction in the UK corporation tax rate and changes to the mix of taxable profit earned by Underwriting, which is taxed in Gibraltar, and Retail, which is taxed in the UK. The Group's future ETR will depend upon the mix of profits taxable in the UK and Gibraltar as well as the prevailing tax rates.

During the year, the First-tier Tribunal found in favour of Hastings Insurance Services Limited ('HISL') and concluded that insurance intermediary supplies provided by HISL and received by AICL should be treated as outside the scope of VAT. This decision resulted in the receipt of £14.6m of input VAT in respect of prior periods with a resulting reduction in other operating expenses.

Financial review

Summary consolidated balance sheet

	As at	
	31 December 2018 £m	31 December 2017 £m
Assets		
Goodwill	470.0	470.0
Intangible assets	80.5	87.4
Property and equipment	22.7	14.2
Reinsurance assets	1,212.1	1,087.7
Deferred acquisition costs	34.5	31.1
Insurance and other receivables	458.9	432.9
Financial assets at fair value	558.0	539.6
Cash and cash equivalents	146.0	154.6
Total assets	2,982.7	2,817.5
Liabilities		
Loans and borrowings	244.3	272.0
Insurance contract liabilities	1,820.8	1,665.6
Insurance and other payables	258.1	251.0
Deferred income tax liabilities	8.5	16.0
Total liabilities	2,331.7	2,204.6
Net assets	651.0	612.9

The Group increased net assets from £612.9m to £651.0m as at 31 December 2018, after making dividend payments of £85.5m. In addition to increasing retained earnings, the continued growth of the business has increased working capital, insurance contract liabilities and related reinsurance assets.

Insurance contract liabilities

Total insurance contract liabilities of £1,820.8m at 31 December 2018 (31 December 2017: £1,665.6m) comprise £480.7m (31 December 2017: £472.3m) of unearned premiums, which are deferred and recognised in the Statement of Profit or Loss in subsequent periods, and outstanding claims liabilities of £1,340.1m (31 December 2017: £1,193.3m). Gross outstanding claims liabilities have increased due to the greater exposure from the increase in LCP and the impact of claims inflation.

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

Reinsurance contracts

	As at	
Reinsurance contract assets by credit rating	31 December 2018 £m	31 December 2017 £m
AA	848.5	683.2
A	362.4	404.5
BBB	1.2	-
Total reinsurance assets	1,212.1	1,087.7

Reinsurance assets, comprising reinsurers' share of outstanding claims liabilities and unearned premiums, increased to £1,212.1m as at 31 December 2018 (31 December 2017: £1,087.7m) due to greater exposure from the increase in LCP and the increase in costs of accidental and third party property damage.

Financial review

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 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. The Group has successfully renegotiated its motor reinsurance programme for 2019 to maintain the same level of coverage as in previous periods.

Cash and net debt

	As at	
	31 December 2018	**31 December 2017**
	£m	**£m**
Loans and borrowings	244.3	272.0
Add back transaction costs	5.7	3.0
Gross debt	250.0	275.0
Deduct:		
Retail free cash[4]	(15.7)	(16.1)
Corporate free cash[4]	(3.4)	(4.6)
Free cash[4]	(19.1)	(20.7)
Net debt[5]	230.9	254.3
Adjusted operating profit	190.6	184.1
Net debt leverage multiple	1.2x	1.4x

The Group achieved its target of around 1.0x net debt leverage during the first half of the year, reflecting the continuing profitable growth of the business combined with its strong cash generation. As at 31 December 2018 the net debt leverage multiple was 1.2x, after the payment of the interim dividend, a reduction from 1.4x last year. Including the £55.0m Underwriting dividend for the year ended 31 December 2018, which was approved by the Board of AICL in February 2019 and is expected to be paid in March 2019, the net debt leverage multiple would have been 0.9x.

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

	Year ended	
	31 December 2018	**31 December 2017**
	£m	**£m**
Opening net debt	254.3	255.7
Retail free cash generated[4]	(127.7)	(114.1)
AICL dividend received	(40.0)	(4.0)
Group free cash generated	(167.7)	(118.1)
Retail and Corporate taxation paid	20.5	17.9
Capital expenditure	20.0	17.3
Dividends paid	85.5	70.3
Interest, corporate and refinancing costs	16.1	11.2
Discount on issue of 3% Bonds	2.2	-
Closing net debt	230.9	254.3

Financial review

During the year, the Group generated £167.7m of free cash (31 December 2017: £118.1m) driven by the growth in Retail free cash generated and the £40.0m dividend declared and paid by AICL.

Refinancing

The Group successfully issued £250m of investment grade seven year senior bonds (the 'Bond') with a fixed interest rate of 3% to provide committed, longer term financing and reduce exposure to interest rate movements. Together with free cash generated by the business, the Bond proceeds were used to fully repay the balance outstanding under the Revolving Credit Facility ('RCF'). Consequently, the RCF commitment was reduced to £110m and extended to May 2023. It was undrawn at the year end.

Investments

Cash and cash equivalents and investments by credit rating	As at 31 December 2018 £m	 31 December 2017 £m
AAA and AA	305.2	278.4
A	227.9	239.4
BBB	147.4	153.1
Less than BBB	12.8	10.9
Not rated	10.7	12.4
Total cash and cash equivalents and investments	704.0	694.2

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 31 December 2018, the Group's percentage of the total portfolio of investments rated A or equivalent and above was 76% (31 December 2017: 75%). The weighted average credit rating of the investment portfolio continued to be A+ (31 December 2017: 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.

Return on capital employed

	Year ended 31 December 2018 £m	 31 December 2017 £m
Average AICL deployed capital[8]	293.6	255.0
Average HISL deployed capital[8]	40.7	34.2
Average corporate free cash[4]	4.0	4.8
Average capital employed	338.3	294.0
Net income[9]	148.5	144.6
Return on capital employed	43.9%	49.2%

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 decreased during the year reflecting the increase in capital employed across the Group, strengthening the Group's overall capital position.

Dividends

	Year ended	
	31 December 2018	31 December 2017
Dividend payout ratio	£m	£m
Net income	148.5	144.6
Share based payment expense (including social security charges)	3.1	5.7
Tax on share based payment expense	(0.4)	(1.0)
Adjusted profit after tax[6]	151.2	149.3
Interim dividend paid	29.6	26.9
Final dividend proposed	59.3	55.9
Total dividends in respect of financial year	88.9	82.8
Dividend payout ratio	58.8%	55.5%

The proposed final dividend for the year ended 31 December 2018 is £59.3m (31 December 2017: £55.9m), a payout of 9.0p per share (31 December 2017: 8.5p per share). The increased dividend payout ratio of 58.8% is at the top of the end of the Group's current target payout ratio of 50% to 60% of adjusted profit after tax. For 2019 and beyond, the target payout ratio has been increased to a range of 65% to 75% of adjusted profit after tax.

Dividends are satisfied by the Group's free cash, which is derived from cash generated by Retail, and dividends received from AICL. During the year, the Group generated free cash of £167.7m, representing a 42% increase from £118.1m last year.

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	
	31 December 2018	31 December 2017
Solvency II:		
Own funds (£m)	270.4	286.1
Solvency Capital Requirement (£m)	168.2	171.7
Solvency II coverage ratio	161%	167%

The solvency ratio at 31 December 2018 is stated after taking into account the £55.0m proposed dividend to be paid by AICL, which was approved by the board of AICL in February 2019 and is expected to be paid to Group during March 2019. The solvency ratio before deducting this anticipated dividend would have been 194% (2017: 190%).

Notes

1 Adjusted operating profit is defined as profit before taxation expense, finance costs, amortisation and depreciation and non-trading costs.

2 Total stock for UK private car is sourced from the Department for Transport.

3 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 45 for a reconciliation of the calendar year loss ratio, expense ratio and combined operating ratio.

4 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 46 for reconciliation of cash and cash equivalents to free cash and Group free cash generated.

5 Net debt leverage multiple represents the Group's net debt expressed relative to 12 months trailing adjusted operating profit.

6 Adjusted profit after tax for the purposes of the dividend payout ratio is profit after tax adjusted to exclude the post tax impact of non-trading items and share scheme costs.

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 net assets during each year.

9 Net income is defined as profit after tax excluding the post tax impact of non-trading items.

Financial information

Consolidated Statement of Profit or Loss

for the year ended 31 December 2018

		Year ended					
		31 December 2018			31 December 2017		
		Underlying trading	Non-trading items[1]	Total	Underlying trading	Non-trading items[1]	Total
	Note	£m	£m	£m	£m	£m	£m
Gross written premiums	6	958.3	-	958.3	930.8	-	930.8
Gross earned premiums	6	949.9	-	949.9	856.1	-	856.1
Earned premiums ceded to reinsurers	6	(509.2)	-	(509.2)	(446.0)	-	(446.0)
Net earned premiums	6	440.7	-	440.7	410.1	-	410.1
Other revenue	7	308.7	-	308.7	298.7	-	298.7
Investment and interest income	8	7.0	-	7.0	6.8	-	6.8
Net revenue		756.4	-	756.4	715.6	-	715.6
Claims incurred	9	(774.6)	-	(774.6)	(786.9)	-	(786.9)
Reinsurers' share of claims incurred	9	444.0	-	444.0	487.4	-	487.4
Net claims incurred	9	(330.6)	-	(330.6)	(299.5)	-	(299.5)
Acquisition costs		(74.6)	-	(74.6)	(64.9)	-	(64.9)
Other expenses	10	(160.6)	-	(160.6)	(167.1)	-	(167.1)
Adjusted operating profit[2]		190.6			184.1		
Amortisation and depreciation	10	(7.5)	(21.5)	(29.0)	(5.5)	(21.5)	(27.0)
Finance costs	12	(8.5)	(0.2)	(8.7)	(7.8)	(0.3)	(8.1)
Profit before tax		174.6	(21.7)	152.9	170.8	(21.8)	149.0
Taxation expense	13	(26.1)	3.8	(22.3)	(26.2)	3.9	(22.3)
Total profit attributable to the equity holders of the parent		148.5	(17.9)	130.6	144.6	(17.9)	126.7
Earnings per share attributable to the equity holders of the parent (expressed in pence per share)							
Basic earnings per share	14			19.9p			19.3p
Diluted earnings per share	14			19.8p			19.2p

All results arose from continuing operations.

[1] Non-trading items are defined as expenses or earnings that are not representative of the underlying activities of the Group and include reorganisation, refinancing and transaction costs and the impact of accounting for business combinations as described in Note 11.

[2] 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.

Financial information

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2018

	Note	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Total profit attributable to the equity holders of the parent		130.6	126.7
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Fair value loss on available for sale investments		(6.8)	(2.0)
Total items that may be subsequently reclassified to profit or loss		(6.8)	(2.0)
Items that may not be subsequently reclassified to profit or loss			
Revaluation loss on property		(0.4)	(0.1)
Total items that may not be subsequently reclassified to profit or loss		(0.4)	(0.1)
Total other comprehensive loss		(7.2)	(2.1)
Total comprehensive income attributable to the equity holders of the parent		123.4	124.6

Financial information

Consolidated Balance Sheet

as at 31 December 2018

	Note	31 December 2018 £m	31 December 2017 £m
Assets			
Goodwill		470.0	470.0
Intangible assets		80.5	87.4
Property and equipment		22.7	14.2
Deferred income tax assets		6.6	6.6
Reinsurance assets	15	1,212.1	1,087.7
Deferred acquisition costs		34.5	31.1
Prepayments		7.6	5.3
Insurance and other receivables	16, 18	444.7	421.0
Financial assets at fair value	18	558.0	539.6
Cash and cash equivalents	17, 18	146.0	154.6
Total assets		2,982.7	2,817.5
Liabilities			
Loans and borrowings	18, 19	244.3	272.0
Insurance contract liabilities	15	1,820.8	1,665.6
Insurance and other payables	18, 20	243.4	239.8
Deferred income tax liabilities		8.5	16.0
Current tax liabilities		14.7	11.2
Total liabilities		2,331.7	2,204.6
Equity			
Share capital		13.2	13.1
Share premium		172.6	172.6
Merger reserve		(756.0)	(756.0)
Other reserves		(5.0)	2.5
Retained earnings		1,226.2	1,180.7
Total equity		651.0	612.9
Total equity and liabilities		2,982.7	2,817.5

Financial information

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

		Share capital £m	Share premium £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
As at 1 January 2017		13.1	172.6	(756.0)	4.9	1,119.0	553.6
Total profit attributable to the equity holders of the parent		-	-	-	-	126.7	126.7
Total other comprehensive income		-	-	-	(2.1)	-	(2.1)
Total comprehensive income for the year		-	-	-	(2.1)	126.7	124.6
Transactions with equity holders of the parent							
Share based payments		-	-	-	-	4.8	4.8
Tax on share based payments		-	-	-	-	0.5	0.5
Acquisition of own shares		-	-	-	(0.3)	-	(0.3)
Dividends paid	21	-	-	-	-	(70.3)	(70.3)
Total transactions with equity holders of the parent		-	-	-	(0.3)	(65.0)	(65.3)
As at 31 December 2017		13.1	172.6	(756.0)	2.5	1,180.7	612.9
Impact of implementing IFRS 15		-	-	-	-	(1.3)	(1.3)
Impact of implementing IFRS 16		-	-	-	-	(0.3)	(0.3)
Tax on opening balance adjustments		-	-	-	-	0.4	0.4
Adjusted as at 1 January 2018		13.1	172.6	(756.0)	2.5	1,179.5	611.7
Total profit attributable to the equity holders of the parent		-	-	-	-	130.6	130.6
Total other comprehensive income		-	-	-	(7.2)	-	(7.2)
Total comprehensive income for the period		-	-	-	(7.2)	130.6	123.4
Transactions with equity holders of the parent							
Share based payments		-	-	-	-	2.1	2.1
Tax on share based payments		-	-	-	-	(0.4)	(0.4)
Acquisition of own shares		-	-	-	(2.2)	-	(2.2)
Issue of shares		0.1	-	-	-	(0.1)	-
Dividends paid	21	-	-	-	-	(85.5)	(85.5)
Capital contribution		-	-	-	1.9	-	1.9
Total transactions with equity holders of the parent		0.1	-	-	(0.3)	(83.9)	(84.1)
As at 31 December 2018		13.2	172.6	(756.0)	(5.0)	1,226.2	651.0

Financial information

Consolidated Statement of Cash Flows

for the year ended 31 December 2018

	Note	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Profit after tax		130.6	126.7
Adjustments for:			
Depreciation of property and equipment	10	5.0	2.6
Amortisation of intangible assets	10	24.0	24.4
Net fair value losses/(gains) on financial assets recognised in profit or loss	8	1.3	(0.4)
Other interest income	8	(8.3)	(6.4)
Loss on disposal of property and equipment		1.3	-
Finance costs	12	8.7	8.1
Taxation expense	13	22.3	22.3
Share based payment charge		2.1	4.8
Change in insurance and other receivables and prepayments		(30.0)	(69.3)
Change in insurance and other payables		(6.5)	37.4
Change in reinsurance assets		(124.2)	(265.4)
Change in deferred acquisition costs		(3.0)	(6.9)
Change in insurance contract liabilities		154.4	365.4
Taxation paid		(26.3)	(21.6)
Net cash flows from operating activities		151.4	221.7
Purchase of property and equipment		(3.1)	(3.1)
Acquisition of intangible assets		(17.2)	(14.2)
Interest received		17.4	6.8
Outlays for acquisition of financial assets at fair value		(202.0)	(231.1)
Proceeds from disposal of financial assets at fair value		166.4	98.6
Net cash flows from investing activities		(38.5)	(143.0)
Purchase of own shares		(2.2)	(0.3)
Repayment of lease liabilities		(1.2)	-
Proceeds from new loans and borrowings	19	247.8	-
Repayment of loans and borrowings	19	(275.0)	(15.0)
Interest paid on loans and borrowings		(6.2)	(6.0)
Other interest and refinancing costs paid		(1.1)	(0.5)
Capital contribution		1.9	-
Dividends paid	21	(85.5)	(70.3)
Net cash flows from financing activities		(121.5)	(92.1)
Net movement in cash and cash equivalents		(8.6)	(13.4)
Cash and cash equivalents at beginning of year		154.6	168.0
Net movement in cash and cash equivalents		(8.6)	(13.4)
Cash and cash equivalents at end of year	17	146.0	154.6

Financial information

Notes

1. Basis of preparation

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

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

The financial information included in this preliminary results announcement comprises the consolidated results of the Company and its subsidiaries ('the Group') for the year ended 31 December 2018 and comparative figures for the year ended 31 December 2017. The financial information presented does not comply with the full disclosure requirements of International Financial Reporting Standards as adopted by the EU ('IFRS') and is an abridged statement of the full Consolidated Financial Statements. The full Consolidated Financial Statements have been prepared and approved by the Directors in accordance with the Companies Act 2006 and International Financial Reporting Standards as adopted by the EU (IFRS) that are in effect at 31 December 2018.

The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The Consolidated Financial Statements for the year ended 31 December 2017 are available on the Company website and the Consolidated Financial Statements for the year ended 31 December 2018 will be published on the Company website in due course.

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. Further analysis of the Group's operations, capital management strategy, risk management practices and growth strategy may be found in the Strategic 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 Consolidated Financial Statements.

Basis of measurement

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

The preparation of consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the 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 Consolidated Financial Statements, are disclosed in Note 3.

The 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.

Basis of consolidation

The Consolidated Financial Statements incorporate the financial statements of the Company and all of its subsidiary undertakings for the years ended 31 December 2018 and 31 December 2017.

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 Consolidated Financial Statements.

Financial information

Adoption of new IFRS

This is the first set of the Group's annual financial statements in which IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases have been applied.

IFRS 15 Revenue from Contracts with Customers ('IFRS 15')

The Group implemented IFRS 15, which replaced IAS 18 Revenue, with effect from 1 January 2018 and applied to insurance broking activities recognised from this date. Income from underwriting activities continues to be recognised in accordance with IFRS 4 Insurance Contracts.

IFRS 15 provides a five step framework for the recognition of revenue from contracts with customers and has resulted in broking income being allocated amongst performance obligations as defined by the Standard.

The Group has used the cumulative effect method whereby comparatives are not restated and the cumulative impact of adjustments is recognised in the balance sheet at the date of initial application. The Group's revised accounting policy for revenue from insurance broking activities has been provided in Note 2.

IFRS 16 Leases ('IFRS 16')

The Group early adopted IFRS 16 and implemented this from 1 January 2018 applying the accounting requirements to all leases and contracts containing leases entered into from 1 January 2018. For contracts entered into before 1 January 2018, the Group applied IFRS 16 accounting provisions to contracts that had already been recognised as operating leases under IAS 17 Leases ('IAS 17') and IFRIC 4 Determining whether an Arrangement contains a Lease ('IFRIC 4'), in accordance with the transition provisions. The Group has elected to apply the exemption in respect of short term and low value leases as these are not material to the Group.

IFRS 16 implements a single comprehensive lease accounting model for lessees, whereby lessees recognise leases on the balance sheet. At the commencement of a lease, or contract containing a lease, the Group recognises a right of use asset and a lease liability on the balance sheet. Subsequently, the asset is depreciated and interest is recognised on the liability.

The Group's lease contracts are primarily for the use of property and computer hardware. On transition, the Group used a modified retrospective method whereby comparatives have not been restated and the cumulative impact of opening balance adjustments is recognised in retained earnings at the date of initial application.

IFRIC 22 Foreign currency transactions and advance consideration ('IFRIC 22')

IFRIC 22 Foreign currency transactions and advance consideration was effective from 1 January 2018. The Interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. Implementation of IFRIC 22 did not have a material impact on the Group.

IFRS developments

The following accounting standards and amendments to IFRS have been issued by the IASB but are not yet effective:

Amendments to IFRS 4 Insurance Contracts ('IFRS 4') Applying IFRS 9 Financial Instruments with IFRS 4

On 3 November 2017, the EU endorsed Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts, permitting entities with a predominance of insurance activities to defer the implementation of IFRS 9 to align the IFRS 9 implementation with IFRS 17 Insurance Contracts. The Group satisfies the exemption criteria within IFRS 4 Insurance Contracts, as the Group does not carry out any significant activities unconnected to insurance, and has applied this temporary exemption.

IFRS 9 Financial Instruments

IFRS 9 sets out comprehensive requirements relating to the classification and measurement of financial instruments. The standard was endorsed by the EU on 22 November 2016 and is effective from 1 January 2018 unless the amendments to IFRS 4 that are discussed above are applied. The Group has applied these amendments and deferred application of IFRS 9, together with any subsequent amendments, in line with IFRS 17 Insurance Contracts.

Financial information

IFRS 17 Insurance Contracts

The IASB issued IFRS 17 Insurance Contracts on 18 May 2017. IFRS 17 provides a comprehensive framework for accounting for insurance contracts and it is anticipated to impact the treatment and measurement of income, expenses, assets and liabilities arising from insurance contracts. The standard is effective from 1 January 2021, subject to endorsement. In November 2018 the IASB proposed a one year delay to the date of adoption, if approved, this will delay the effective date to 1 January 2022.

Management are currently in the process of reviewing the accounting implications of IFRS 17 alongside IFRS 9 and assessing the impact of proposed changes on current accounting practice whilst also considering the ongoing discussions between the IASB and EFRAG which could result in further changes to the published standards and amendments.

IFRIC 23 Uncertainty over income tax treatments ('IFRIC 23')

In June 2017, the IASB published IFRIC 23 Uncertainty over Income Tax Treatments which provides additional guidance on the application of IAS 12 Income Taxes. The standard is effective for annual reporting beginning on or after 1 January 2019 and has been endorsed by the EU. The adoption of these amendments is not currently expected to have a material impact on the Group's financial statements.

2. Accounting policies

Revenue recognition

Insurance premiums, reinsurance and profit commission

Premiums related to insurance contracts are recognised as revenue, gross of commissions and net of insurance premium taxes proportionally over the period of cover provided. Premiums with an inception date after the period end are held in the Consolidated Balance Sheet in deferred income. Outstanding premiums from customers at the year end are recognised within insurance receivables.

Premiums ceded to reinsurers are recognised in profit or loss in the same period as the related direct insurance business, and in accordance with the terms of each reinsurance contract held.

Under certain reinsurance contracts, profit commission may become receivable or payable in respect of a particular underwriting year dependent on the difference between the ultimate loss ratio and the loss ratio threshold set out in the contract. Profit commission receivable or payable at each reporting date is recognised based on the estimated ultimate loss ratio for that underwriting year at the reporting date. Any movement on the profit commission receivable or payable in the period is recognised in profit or loss within reinsurance commissions.

Other reinsurance commissions are recognised in profit or loss within reinsurance commissions in the period to which they relate.

Revenue from contracts with customers

Revenue from contracts with customers arises primarily from insurance broking activities which consists principally of fees and commissions relating to the arrangement of third party underwritten insurance contracts and ancillary products. The Group's performance obligation under such contracts is to broker contracts between customers and third party underwriters or service providers.

The Group satisfies its performance obligations for these contracts at a point in time; revenue from insurance brokerage activities is recognised at the point of sale to the customer and revenue from other retail income is recognised when the ad hoc service has been completed. Revenue arising from insurance broking activities is measured on an agency basis, net of cost, at the fair value of the income receivable after adjusting for any allowance for expected future cancellation refunds.

The Group may also provide contracts for the provision of other ad hoc, point in time services to customers. Such income is recognised when the performance obligation has been satisfied at the expected value of consideration.

Premium finance interest

Premium finance interest, earned on sales where customers choose to pay in monthly instalments instead of one single, upfront payment, is recognised in profit or loss over the term of the related agreement using the effective interest method.

Investment and interest income

Investment and interest income from financial assets comprises interest income and net gains and losses on certain financial assets held at fair value. Interest income for all interest-bearing financial assets, including available for sale financial assets, is recognised in profit or loss within investment and interest income using the effective interest rate method.

Discounts

Premium discounts on policies underwritten by parties external to the Group are deducted from fees and commission within other revenue. Premium discounts for policies underwritten by the Group are deducted from gross written premiums and are recognised proportionally over the period of cover provided.

Other discounts on revenue are deducted from the revenue streams to which they relate.

Financial information

Insurance contracts and reinsurance assets

Claims liabilities

Gross outstanding claims liabilities are recognised at the value of expected future payments relating to claims incurred at the reporting date. The expected future payments include those in relation to claims reported but not yet paid or not yet paid in full, and claims incurred but not reported ('IBNR'). The liabilities are not discounted to present value, except for periodic payment orders ('PPOs'). PPOs are awarded as a result of certain large bodily injury claims made under insurance contracts. Such awards are generally for a fixed instalment over an indeterminate time period. Claims settled, or expected to be settled, by means of a PPO are recognised at the present value of expected future cash flows of the award granted over the expected term of the PPO, and are recognised immediately when the award is considered probable. Discounting is implicit within these reserving calculations at each period end for each expected PPO.

While the Directors consider that the gross outstanding claims liabilities and the related reinsurance assets are fairly stated on the basis of the information currently available to them, the amount that claims liabilities ultimately settle at will vary as a result of subsequent information and events and may result in significant adjustments to the amounts recognised.

Adjustments to the amounts of outstanding claims liabilities established in prior years are reflected in profit or loss for the period in which the adjustments are made. The methods used, and the estimates made, are peer reviewed quarterly and subject to biannual independent reviews.

Reinsurance contracts

Contracts entered into under which the Group is compensated for losses on insurance contracts are classified as reinsurance contracts held.

The benefits to which the Group is entitled under its reinsurance contracts consist of short term balances due from reinsurers, recognised as reinsurance receivables; and longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts, recognised as reinsurance assets.

Reinsurance assets are measured consistently with the amounts recognised for the associated reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance assets are not discounted to present value, except those relating to PPOs, in line with the underlying liabilities.

Reinsurance liabilities are primarily premiums payable to reinsurers under reinsurance contracts held and are recognised when due. Amounts recoverable from or payable to reinsurers are measured in a manner that is consistent with the amounts recognised for the associated provision for insurance contract liabilities and in accordance with the terms of each reinsurance contract held.

The Group assesses its reinsurance assets for impairment on an annual basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in profit or loss.

Where obligations with reinsurers are commuted, the related reinsurance assets and liabilities are settled in the period in which the commutation agreement is signed, on the basis that the reinsurer is discharged from all obligations relating to the contract. Any gain or loss is recognised in profit or loss in the same period.

Co-insurance contracts

Contracts entered into under which the Group shares the risk with a co-insurance partner at inception of the policy are classified as co-insurance contracts held.

Where the Group is the secondary co-insurer, the Group only recognises its share of the premium as an insurance receivable and related claims liability. Where the Group acts as the lead co-insurer, the gross premium is recognised as an insurance receivable, with a related co-insurance payable to the co-insurer.

The Group recognises co-insurance premiums and claims liabilities in the profit or loss in the period to which they relate.

Unearned premiums reserve

Premiums on policies with an inception date before the period end but with unexpired risks after the period end are held in the Consolidated Balance Sheet in the unearned premiums reserve within insurance contract liabilities. The gross unearned premiums reserve and the reserve for unearned premiums ceded to reinsurers are presented separately.

A review of the carrying amount of the unearned premiums reserve is conducted at each reporting date. If current estimates of the present value of the expected future cash flows relating to future claims arising from the rights and obligations under current insurance contracts exceed the unearned premiums reserve less related costs including deferred acquisition costs, then the unearned premiums reserve is deemed to be deficient.

The test is performed at the level of a portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio. If any deficiency arises from the test, first an impairment of deferred acquisition costs is recognised in profit or loss, and then if necessary an unexpired risks reserve is recognised in the Consolidated Balance Sheet, through profit or loss. Any movement on that reserve is recognised in profit or loss.

Salvage and subrogation recoveries

Certain insurance contracts permit the Group to salvage recoveries through the sale of property acquired in settling a claim. The Group may also have the right to subrogation recoveries, where third parties are pursued for the payment of costs.

Salvage and subrogation recoveries, gross of any amounts which fall under reinsurance contracts held, are included in insurance and other receivables and the corresponding reinsurance amounts arising from reinsurance contracts are included in insurance and other payables. Salvage recoveries are recognised at the amount that can be reasonably recovered from the disposal of the property. Subrogation reimbursements are recognised at the amount that can be reasonably expected to be recovered from action against the liable third party.

Deferred acquisition costs

Costs that are directly related to the acquisition of new insurance contracts underwritten by the Group are recognised in the Consolidated Balance Sheet as deferred acquisition costs.

They are subsequently charged to the statement of profit or loss evenly over the 12 month coverage period of the related insurance contract, in line with recognition of the corresponding premiums.

Acquisition costs incurred obtaining customers with an insurance contract underwritten by an external insurer are initially recognised within deferred acquisition costs and are then subsequently charged in the statement of profit or loss at each annual renewal date over the expected life of the customer relationship.

Claims handling expenses

The Group accrues for claims handling expenses incurred in processing and settling all incurred claims that remain outstanding at the reporting date, including those not yet reported. The liability, which is not discounted for the time value of money, is determined based on past claims handling experience and is reported within insurance and other payables in the Consolidated Balance Sheet. Claims handling expenses are recognised in the Consolidated Statement of Profit or Loss within other expenses as the claims are incurred.

Employee benefits

Pension contributions

The Group operates a defined contribution pension scheme. The amount charged to profit or loss in respect of pension costs is the amount of contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Consolidated Balance Sheet. The Group has no obligation to make any further payments to the plans other than the contributions due. Scheme assets are held separately from the Group in an independently administered fund.

Share based payments

The Group operates equity settled share based payment schemes under which participants may receive free share awards or nil cost options, depending on the scheme. Awards may have service and performance conditions attached.

The fair value of a share based payment award is determined at grant date and expensed on a straight line basis over the vesting period, with a corresponding increase recognised directly in equity. Expected vesting in respect of both service conditions and non-market performance conditions is reviewed annually and adjustments are made retrospectively to the cumulative expense recognised.

Non-trading items

Non-trading items are expenses or earnings, and the related tax impacts thereof, which the Directors believe are not representative of the underlying activities of the Group and have therefore been presented separately in the Consolidated Statement of Profit or Loss. These include expenses incurred in the course of the Goldman Sachs investment on 8 January 2014.

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, estimates 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, estimates and assumptions are based on the Directors' best knowledge of the amounts, events and actions, actual results may differ from these judgements and assumptions.

Judgements

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

Taxation uncertainties

In preparing the 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 the relevant accounting standards. Management review these judgements at least annually and obtain external expert advice and opinions to inform and support their decisions. Additional information regarding these judgements are disclosed in Notes 13 and 22.

Critical accounting estimates

The major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Claims liabilities

The estimation of liabilities arising from claims made under insurance contracts and the related reinsurance recoveries are the Group's most critical accounting estimates. Estimates, and the resulting loss ratios, are informed by detailed actuarial analysis and reflect a balanced assessment of risk and probability, resulting in a sufficiently prudent liability to give the Directors confidence that the Group is adequately provisioned to meet its future liabilities.

The actuarial best estimate of outstanding claims includes the estimate of expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original estimated liability. In order to reduce the risk of underestimation of these liabilities, a margin is maintained over and above the Group's internal actuarial best estimate of outstanding claims liabilities.

In calculating the estimated cost of unpaid claims, the Group uses a variety of estimation techniques, including statistical analysis of historic experience, which assumes that the development pattern of the current claims will be consistent with past experience.

A component of these estimation techniques is the estimation of the cost of notified but not paid claims. In estimating the cost of these, the Group has regard to the claim circumstances as reported, information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous years.

The estimation of claims incurred but not reported ('IBNR') is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where information about the claim event is available.

Classes of business where the IBNR proportion of the total outstanding claims liabilities is high will typically display greater variations between the initial estimates and the final outcomes because of the greater degree of difficulty of estimating those reserves. Classes of business where claims are typically reported relatively quickly after the claim event will tend to display lower levels of volatility.

Where possible the Group adopts multiple techniques to estimate the required level of claims liabilities. This provides greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected, taking into account the characteristics of the business class and the extent of the development of each accident year.

Allowance is made for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims, including:

- changes in Group processes which might accelerate the development and/or recording of paid or incurred claims compared with the statistics from previous years;
- changes in the legal environment;
- the effect of inflation from both increases in severity and frequency;
- changes in the mix of business;
- the impact of large losses and likelihood of periodic payment orders; and
- movements in industry benchmarks.

Short tail claims, such as straightforward property damage cases, are normally reported soon after the incident and are generally settled within the months following the reported incident. Hence any development on short tail claims is normally limited to the period in which the incident occurred and the following period. For long tail claims, such as the more complicated bodily injury cases, it can be more than one period before a claim is reported and several periods before it is settled, hence the original estimation involves greater uncertainty and it is inherently more likely that there will be a greater disparity between the original and current estimates. It is for these long tail claims that the development of the outstanding claims liability generally occurs over a number of periods.

Large third party injury claims typically involve costs that relate to future periods, such as covering the loss of future earnings or the ongoing cost of care, and will either be settled through a lump sum settlement or through a periodic payment order (‘PPO’). Such claims, including PPOs, are generally assessed individually, either being measured on a case by case basis or projected separately in order to reduce the possible distortive effect of the development and incidence.

Where a claim has been settled through a PPO or it is expected that a PPO will be awarded, the liability is calculated using discounted cash flows and assumptions of mortality and real interest rates over the lifetime of the claimant.

The personal injury discount rate (or ‘Ogden rate’) is a rate set by the UK Government’s Lord Chancellor that is used by the Courts to calculate lump sum personal injury compensation payments. The Civil Liability Act received Royal Assent on 20 December 2018 thereby legislating the determination of the Ogden rate based on a reference investment portfolio. This process is underway and there is a degree of uncertainty around the final outcome. Should the Ogden rate be set within the 0% to 1% range, as originally guided by the Ministry of Justice, the possible range of outcomes would not result in a significant adjustment to the reported net insurance claims liabilities and net claims cost recorded in the financial statements.

The development of claims from prior periods is set out in Note 15. Given the uncertainty in establishing the outstanding claims liabilities, it is likely that the final outcome will be different from the original liability established.

The following table sets out the adverse impact on profit after tax and total equity that would result from a 1% deterioration in the ultimate loss ratio used for each accident year for which material amounts remain outstanding:

	Year ended			
	31 December 2015	**31 December 2016**	**31 December 2017**	**31 December 2018**
Impact of 1% change (£m)	4.7	6.0	7.4	8.1

Reinsurance assets

The Group uses both non proportional excess of loss reinsurance and quota share reinsurance arrangements. The calculation of reinsurance recoveries is intrinsically linked to the calculation of outstanding claims liabilities, and requires the same estimation processes.

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.

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.

Risk management objectives and policies for mitigating insurance risk

A disciplined approach to risk management is adopted in accordance with strict protocols. It is believed that this approach provides the greatest long term likelihood of being able to meet the objectives of all stakeholders, including customers, lenders and shareholders. The risk management activities can be broadly separated into underwriting (acceptance and pricing of risk), reinsurance, claims management and investment management. The objective of these risk management functions is to enhance the longer term financial performance of the overall insurance operations.

Acceptance of risk

The Board of Directors of the Group's Underwriting subsidiary, Advantage Insurance Company Limited ('AICL') approves the underwriting and pricing policy, and reviews and monitors the underwriting and pricing standards and strategies. AICL's underwriting strategy is focused on a sophisticated data driven approach to pricing and underwriting through:

- collating and analysing comprehensive data from customers;
- tight control over the pricing guidelines in order to target profitable business lines; and
- fast and flexible response to market trends.

The underwriting of large numbers of uncorrelated individual risks reduces the variability in overall claims experience. Management information systems are maintained that provide up to date, reliable data on the risks to which the business is exposed at any point in time. Efforts are made, including by the use of plain language policy terms, to ensure there is no misalignment between what customers perceive will be paid when a policy is initially entered and what is actually paid when a claim is made.

Pricing

Statistical models are used which combine historical and projected data to calculate premiums and monitor claims patterns. The data used includes historical pricing and claims analysis as well as current conditions and developments in the market.

All data used is subject to rigorous verification and reconciliation processes.

Claims management

Initial claim determination is managed by claims handlers with the requisite degree of experience and competence with the assistance of, where appropriate, a loss adjuster or other party with specialist knowledge.

It is the Group's policy to respond to and settle claims quickly whenever possible and to pay claims fairly, based on customers' full entitlement in line with consumer and regulator expectations.

When PPOs are awarded as a result of claims made under insurance contracts, there is a risk that these may be of a high value and for a long term. As such, management performs detailed reviews of expected PPOs throughout the claims process to identify the expected ultimate value of such claims as early as possible and reserve appropriately.

Reinsurance contracts

Reinsurance contracts are used both to limit exposure to claims pervasively across the business, and specifically to limit exposure to large single claims and the accumulation of claims that arise from the same event or the accumulation of similar events.

The Group uses excess of loss reinsurance arrangements and the effect of such arrangements is that the Group should not suffer net motor insurance losses (before quota share arrangements) in excess of £0.5m on any individual loss event between 1 January 2003 and 31 December 2014 (subject to an aggregate deductible of £5.0m in 2014), and in excess of £1.0m on any individual loss event from 1 January 2015 onwards.

Additionally, the Group has a 50% quota share arrangement in place, applicable on all motor insurance policies incepted by AICL since 1 January 2011.

The Group also uses excess of loss reinsurance arrangements for home insurance policies, the effect of which is that the Group does not suffer total net home insurance losses of more than £0.5m up to a cap of £9.3m liability per event on any individual event between 1 January 2016 and 31 March 2018 and in excess of £1.0m up to a cap of £19.3m on any individual loss event from 1 April 2018 onwards.

The use of reinsurance contracts does not discharge AICL's liability as primary insurer. If a reinsurer fails to pay a claim, AICL remains liable for the payment to the policyholder. As part of managing reinsurance contract risk and controlling exposure to reinsurance counterparty default, the creditworthiness of reinsurers is considered on a quarterly basis by reviewing their financial strength. In addition, management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. The recent payment history of reinsurers is also used to update the reinsurance purchasing strategy. The credit ratings of the Group's reinsurers are disclosed in Note 18.

Investment management

Assets and liabilities are managed so as to effectively match the expected pattern of claims payments with the assets that are held to back outstanding claims liabilities. The mix of investment between cash and cash equivalents and marketable securities is managed to ensure that the Group has the ability to meet expected and unexpected requirements for cash. See Note 18 for further details.

Terms and conditions of insurance contracts

The terms and conditions attached to insurance contracts affect the level of insurance risk accepted. Insurance contracts written are entered into on a standard form basis. Insurance contracts are entered into on an annual basis and at the time of entering into a contract certain terms and conditions are negotiable or, in the case of renewals, renegotiable. There are no embedded derivatives that are separately recognised from a host insurance contract.

Concentrations of insurance risk

The exposure to concentrations of insurance risk is mitigated by a portfolio which is diversified across many different individual customers living in different parts of the UK. Therefore, the Directors do not believe there are significant concentrations of insurance risk.

5. Segmental reporting

Segments

The Group has two reportable trading segments and a corporate head office, as described below. These segments represent the principal split of business that is regularly reported to the Group's Board.

Underwriting

The Underwriting segment comprises the Underwriting business which is based in Gibraltar. It includes AICL and its investment in Conquest House Limited. The principal activity of AICL is the underwriting of general insurance, predominantly private car insurance in the UK. Since 2015, AICL has underwritten UK home policies under a co-insurance arrangement both as secondary insurer, and from 2017 as lead insurer. Conquest House Limited owns property which is utilised by the Group.

Retail

The principal activity of the Retail segment is the provision of insurance intermediary services to the private car, van, bike and home markets in the UK through the UK trading subsidiary Hastings Insurance Services Limited ('HISL'), much of which is underwritten by the Underwriting segment. Intermediary services are also provided on behalf of a panel of external third party insurers.

Corporate

The Corporate segment comprises the combined results of the Group's head office companies, whose primary activities are as holding and finance companies.

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Consolidation adjustments

Consolidation adjustments comprise the adjustments required to consolidate the Group's results under IFRS, including the elimination of intercompany balances, revenue between operating segments and investments in subsidiaries. Transactions between the Group's two reportable segments and corporate head office are recognised in accordance with the Group's accounting policies and are carried out at arm's length.

Adjusted operating profit

Adjusted operating profit, is a non-IFRS measure used by management and represents profit before taxation expense, finance costs, amortisation and depreciation and non-trading costs.

Segment performance

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

Year ended 31 December 2018	Underwriting £m	Retail £m	Corporate £m	Consolidation adjustments £m	Group £m
Net earned premiums	490.8	-	-	(50.1)	440.7
Other revenue	36.4	331.6	0.4	(59.7)	308.7
Investment and interest income	6.2	1.3	-	(0.5)	7.0
Net revenue	533.4	332.9	0.4	(110.3)	756.4
Net claims incurred	(330.6)	-	-	-	(330.6)
Other expenses	(130.9)	(208.1)	(7.0)	110.8	(235.2)
Adjusted operating profit	71.9	124.8	(6.6)	0.5	190.6
Amortisation and depreciation					(29.0)
Finance costs					(8.7)
Profit before tax					152.9

Included within other revenue is £115.8m recognised by the Retail segment and £0.4m recognised by the Corporate 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.

Year ended 31 December 2017	Underwriting £m	Retail £m	Corporate £m	Consolidation adjustments £m	Group £m
Net earned premiums	448.8	-	-	(38.7)	410.1
Other revenue	37.1	335.3	0.3	(74.0)	298.7
Investment and interest income	6.7	0.1	-	-	6.8
Net revenue	492.6	335.4	0.3	(112.7)	715.6
Net claims incurred	(299.5)	-	-	-	(299.5)
Other expenses	(121.7)	(220.4)	(7.2)	117.3	(232.0)
Adjusted operating profit	71.4	115.0	(6.9)	4.6	184.1
Amortisation and depreciation					(27.0)
Finance costs					(8.1)
Profit before tax					149.0

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Included within other revenue recognised by the Retail segment is £112.3m 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.

As at 31 December 2018	Underwriting £m	Retail £m	Corporate £m	Consolidation adjustments £m	Group £m
Goodwill	-	1.9	-	468.1	470.0
Intangible assets	-	75.2	-	5.3	80.5
Investments in subsidiaries	-	-	1,275.7	(1,275.7)	-
Investments	4.2	-	-	(4.2)	-
Property and equipment	1.2	19.4	-	2.1	22.7
Deferred income tax assets	-	-	0.6	6.0	6.6
Reinsurance assets	1,212.6	-	-	(0.5)	1,212.1
Deferred acquisition costs	30.3	46.8	-	(42.6)	34.5
Prepayments	1.0	7.1	0.1	(0.6)	7.6
Insurance and other receivables	451.2	315.8	(9.3)	(313.0)	444.7
Financial assets at fair value	558.0	-	-	-	558.0
Cash and cash equivalents	86.7	55.9	3.4	-	146.0
Total assets	2,345.2	522.1	1,270.5	(1,155.1)	2,982.7
Loans and borrowings	-	-	244.3	-	244.3
Insurance contract liabilities	1,846.6	-	-	(25.8)	1,820.8
Insurance and other payables	192.6	370.8	2.5	(322.5)	243.4
Deferred income tax liabilities	0.1	0.6	-	7.8	8.5
Current tax liabilities	3.2	11.4	-	0.1	14.7
Total liabilities	2,042.5	382.8	246.8	(340.4)	2,331.7
Total equity	302.7	139.3	1,023.7	(814.7)	651.0

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As at 31 December 2017	Underwriting £m	Retail £m	Corporate £m	Consolidation adjustments £m	Group £m
Goodwill	-	1.9	-	468.1	470.0
Intangible assets	-	60.4	-	27.0	87.4
Investments in subsidiaries	-	-	1,274.2	(1,274.2)	-
Investments	4.2	-	-	(4.2)	-
Property and equipment	1.7	8.6	-	3.9	14.2
Deferred income tax assets	-	2.5	0.7	3.4	6.6
Reinsurance assets	1,084.8	-	-	2.9	1,087.7
Deferred acquisition costs	30.8	-	-	0.3	31.1
Prepayments	0.5	5.3	0.1	(0.6)	5.3
Insurance and other receivables	410.4	307.2	12.9	(309.5)	421.0
Financial assets at fair value	539.6	-	-	-	539.6
Cash and cash equivalents	90.5	59.5	4.6	-	154.6
Total assets	2,162.5	445.4	1,292.5	(1,082.9)	2,817.5
Loans and borrowings	-	-	272.0	-	272.0
Insurance contract liabilities	1,688.4	-	-	(22.8)	1,665.6
Insurance and other payables	187.2	360.3	2.2	(309.9)	239.8
Deferred income tax liabilities	0.1	-	-	15.9	16.0
Current tax liabilities	2.3	9.0	-	(0.1)	11.2
Total liabilities	1,878.0	369.3	274.2	(316.9)	2,204.6
Total equity	284.5	76.1	1,018.3	(766.0)	612.9

Underwriting’s investments consist of a property, Conquest House, which is leased to another Group company. This is classified as property and equipment in the Consolidated Balance Sheet.

6. Insurance premiums

	Year ended 31 December 2018			Year ended 31 December 2017		
	Gross £m	Reinsurers' share £m	Net £m	Gross £m	Reinsurers' share £m	Net £m
Written premiums	958.3	(522.8)	435.5	930.8	(489.2)	441.6
Unearned premiums reserve brought forward at start of the period	472.3	(247.5)	224.8	397.6	(204.3)	193.3
Unearned premiums reserve carried forward at end of the period	(480.7)	261.1	(219.6)	(472.3)	247.5	(224.8)
Total earned premiums	949.9	(509.2)	440.7	856.1	(446.0)	410.1

7. Other revenue

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Fees and commission	101.2	101.3
Ancillary product income	49.6	50.6
Premium finance interest	104.0	94.4
Reinsurance commissions	35.3	37.0
Other retail income	18.6	15.4
Total other revenue	308.7	298.7

8. Investment and interest income

	Year ended	
	31 December 2018 £m	31 December 2017 £m
Net fair value (losses)/gains on financial assets at fair value	(1.3)	0.4
Interest income	8.3	6.4
Total investment and interest income	7.0	6.8

9. Claims incurred

	Year ended 31 December 2018			Year ended 31 December 2017		
	Gross £m	Reinsurers' share £m	Net £m	Gross £m	Reinsurers' share £m	Net £m
Current period	789.1	(453.8)	335.3	749.5	(446.9)	302.6
Prior periods	(14.5)	9.8	(4.7)	37.4	(40.5)	(3.1)
Total claims incurred	774.6	(444.0)	330.6	786.9	(487.4)	299.5

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

	Year ended	
	31 December 2018 £m	31 December 2017 £m
Profit before taxation is stated after charging:		
Operating lease rentals – buildings	-	1.8
Employee benefits	95.6	92.3
VAT refund in respect of prior periods	(14.6)	-
Auditor remuneration	0.6	0.6
Other administration and distribution costs	79.0	72.4
Other expenses	160.6	167.1
Amortisation of intangible assets	24.0	24.4
Depreciation of property and equipment	5.0	2.6
Amortisation and depreciation	29.0	27.0

On 19 January 2018, the First-tier Tribunal proceedings found in favour of Hastings Insurance Services Limited ('HISL') and concluded that certain input VAT incurred by HISL in relation to insurance intermediary services can be recovered. As a result, £14.6m of additional recoverable input VAT in respect of prior periods has been recognised in the current period as a reduction in other expenses. See note 22.

11. Non-trading items

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Non-operational amortisation of intangibles recognised on acquisition	21.5	21.5
Non-trading amortisation	21.5	21.5
Non-cash unwind of fair value adjustments arising on business combination	0.2	0.3
Non-trading finance costs	0.2	0.3
Tax effect of the above non-trading items	(3.8)	(3.9)
Total non-trading items	17.9	17.9

Non-trading items are defined as expenses or earnings, together with the related tax impacts, that are not representative of the underlying activities of the Group. These include Group reorganisation and transaction expenses, and the impact of the Goldman Sachs investment on 8 January 2014. This was accounted for as a business combination, requiring assets and liabilities to be fair valued. The amortisation of intangibles and the unwind of fair value adjustments are the result of these fair value adjustments.

12. Finance costs

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Interest on 3% senior bonds due 2025	4.6	-
Interest on Revolving Credit Facility	2.5	6.8
Non-cash amortisation of loans and borrowings	1.0	0.9
Other interest expense	0.6	0.4
Total interest expense	8.7	8.1

Non-cash amortisation of loans and borrowings comprises amortisation of directly attributable transaction costs and applicable discounts, recognised under the effective interest method.

13. Taxation expense

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Current tax		
Corporation tax on profits for the year	30.7	26.3
Adjustments for prior years	(0.5)	0.1
Current taxation expense	30.2	26.4
Deferred tax		
Deferred taxation movement relating to temporary differences	(7.9)	(3.9)
Adjustments for prior years	-	(0.2)
Deferred taxation expense	(7.9)	(4.1)
Total taxation expense	22.3	22.3

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The Group's tax expense mostly comprises taxation charged on the UK based Retail business profits, which attract a tax rate of 19% (2017: 19.25%) and the Gibraltar based Underwriting business whose profits are taxed at 10% (2017: 10%). The UK corporation tax rate will be reduced to 17% from 1 April 2020. The Gibraltar rate of tax has remained at 10% and is expected to remain at this level for the foreseeable future.

Factors affecting total taxation expense are:

	Year ended	
	31 December 2018 £m	**31 December 2017 £m**
Profit before tax	152.9	149.0
Applicable tax charge at the statutory tax rate of 19% (2017: 19.25%):	29.1	28.7
Impact of different tax rate in Gibraltar: 10% (2017: 10%)	(5.6)	(6.0)
Non-taxable income	(1.2)	(0.8)
Adjustment relating to prior periods	(0.5)	(0.1)
Expenses and provisions not deductible for tax purposes	0.5	0.5
Total taxation expense	22.3	22.3

For the year ended 31 December 2018 the UK Corporation tax rate applicable to the Company was 19% (31 December 2017: 19.25%).

Within the tax reconciliation, the impact of the different tax rate in Gibraltar is the difference between the UK tax rate and the Gibraltar tax rate applied to the Underwriting business' profits.

Non-taxable income comprises investment income arising within the Underwriting business in Gibraltar.

Expenses and provisions not deductible for tax purposes comprises disallowed expenditure such as business entertainment expenses and certain expenditure deemed capital under tax legislation.

14. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the equity holders of the parent by the weighted average number of Ordinary Shares in issue during the period.

Adjusted earnings per share is a non-IFRS measure calculated by dividing net income attributable to the equity holders of the parent by the weighted average number of Ordinary Shares in issue during the period. Net income is profit after tax adjusted for non-trading items including reorganisation and transaction costs, the impact of accounting for business combinations and the related tax effect. The Directors believe this figure provides a better indication of the Group's trading performance.

Diluted earnings per share and adjusted diluted earnings per share are calculated respectively by dividing the profit attributable to the equity holders of the parent, and the net income attributable to the equity holders of the parent, by the weighted average number of Ordinary Shares in issue during the year adjusted for the dilutive impact of unvested shares and contingently issuable shares arising from the share based payment arrangements.

Financial information

	Year ended	
	31 December 2018	31 December 2017
Profit attributable to the equity holders of the parent (£m)	130.6	126.7
Adjusted for non-trading items:		
Non-trading items net of taxation impact (£m)	17.9	17.9
Net income (£m)	148.5	144.6
Basic weighted average number of Ordinary Shares in issue (m)	656.9	657.1
Potential Ordinary Shares and contingently issuable shares (m)	2.2	2.5
Weighted average number of shares adjusted for dilutive potential Ordinary Shares (m)	659.1	659.6
Basic earnings per share	19.9p	19.3p
Non-trading items net of taxation per share	2.7p	2.7p
Adjusted earnings per share	22.6p	22.0p
Diluted earnings per share	19.8p	19.2p
Adjusted diluted earnings per share	22.5p	21.9p

15. Reinsurance assets and insurance contract liabilities

	As at 31 December 2018			As at 31 December 2017		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	£m	£m	£m	£m	£m	£m
Claims incurred and reported	1,000.9	(692.0)	308.9	870.7	(606.1)	264.6
Claims incurred but not reported	339.2	(259.0)	80.2	322.6	(234.1)	88.5
Outstanding claims liabilities	1,340.1	(951.0)	389.1	1,193.3	(840.2)	353.1
Unearned premiums reserve	480.7	(261.1)	219.6	472.3	(247.5)	224.8
Total insurance contract liabilities	1,820.8	(1,212.1)	608.7	1,665.6	(1,087.7)	577.9

	As at 31 December 2018			As at 31 December 2017		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	£m	£m	£m	£m	£m	£m
Outstanding claims liabilities brought forward at start of year	1,193.3	(840.2)	353.1	901.9	(617.7)	284.2
Claims paid	(648.0)	329.2	(318.8)	(533.2)	272.8	(260.4)
Movement in liabilities	794.8	(440.0)	354.8	824.6	(495.3)	329.3
Outstanding claims liabilities carried forward	1,340.1	(951.0)	389.1	1,193.3	(840.2)	353.1
Unearned premiums reserve brought forward at start of year	472.3	(247.5)	224.8	397.6	(204.3)	193.3
Deferral in period	958.3	(522.8)	435.5	930.8	(489.2)	441.6
Release in period	(949.9)	509.2	(440.7)	(856.1)	446.0	(410.1)
Unearned premiums reserve carried forward	480.7	(261.1)	219.6	472.3	(247.5)	224.8
Total insurance contract liabilities	1,820.8	(1,212.1)	608.7	1,665.6	(1,087.7)	577.9

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

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

Claims development

The following table shows the development of the originally estimated gross ultimate claims liabilities relative to the current estimates of gross ultimate claims liabilities, both net of salvage and subrogation recoveries. Claims development refers to the financial adjustment in the current accounting period relating to claims incurred in previous accounting periods because of new and more up to date information that has become available and to reflect changes in inflation.

The development is presented for each of the most recent eight accident periods and all historic periods prior to these from incorporation of the Group's underwriter in 2002 as estimated at each reporting date. The table also shows a reconciliation of the gross outstanding claims liabilities, net of salvage and subrogation recoveries, to the gross outstanding claims liabilities in the Consolidated Balance Sheet as at 31 December 2018.

The information is presented on an accident period basis. The fair value acquisition adjustment relates to business combination accounting as a result of the Goldman Sachs investment (Note 11).

	Year ended									
	Prior periods	31 December 2011	31 December 2012	31 December 2013	31 December 2014	31 December 2015	31 December 2016	31 December 2017	31 December 2018	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Development										
At end of current year	770.0	172.1	267.0	326.4	409.5	496.2	649.8	705.3	789.1	4,585.4
One year earlier	765.7	159.8	257.6	317.1	386.9	500.7	673.4	749.5	-	3,810.7
Two years earlier	761.8	163.0	252.6	326.4	384.3	491.1	644.8	-	-	3,024.0
Three years earlier	765.2	170.6	243.2	312.0	369.4	451.7	-	-	-	2,312.1
Four years earlier	762.8	168.5	247.6	304.5	368.6	-	-	-	-	1,852.0
Five years earlier	753.4	177.1	254.0	306.4	-	-	-	-	-	1,490.9
Six years earlier	750.6	174.4	240.4	-	-	-	-	-	-	1,165.4
Seven years earlier	740.3	167.2	-	-	-	-	-	-	-	907.5
Payments to date	(739.7)	(163.1)	(219.7)	(277.0)	(347.7)	(386.9)	(433.3)	(421.9)	(307.7)	(3,297.0)
Gross outstanding claims liabilities, net of salvage and subrogation recoveries	30.3	9.0	47.3	49.4	61.8	109.3	216.5	283.4	481.4	1,288.4
Reconciliation to gross outstanding claims liabilities										
Anticipated salvage and subrogation recoveries										53.0
Fair value acquisition adjustment										(1.3)
Gross outstanding claims liabilities										1,340.1

The following table shows the development of the outstanding claims liabilities net of both reinsurance assets and salvage and subrogation recoveries, together with a reconciliation of these to the net outstanding claims liabilities as at 31 December 2018:

	Year ended									
	Prior periods	31 December 2011	31 December 2012	31 December 2013	31 December 2014	31 December 2015	31 December 2016	31 December 2017	31 December 2018	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Development										
At end of current year	638.3	93.0	104.3	124.9	173.7	208.0	256.9	287.5	335.3	2,221.9
One year earlier	638.3	92.9	104.1	124.7	171.3	204.3	253.2	302.6	-	1,891.4
Two years earlier	638.7	93.5	105.4	125.3	169.1	203.4	256.4	-	-	1,591.8
Three years earlier	641.1	94.4	104.9	125.2	165.5	200.6	-	-	-	1,331.7
Four years earlier	640.9	95.0	108.8	130.8	163.4	-	-	-	-	1,138.9
Five years earlier	637.8	97.4	114.6	136.4	-	-	-	-	-	986.2
Six years earlier	642.3	98.4	117.1							857.8
Seven years earlier	644.4	97.4								741.8
Payments to date	(635.0)	(92.9)	(103.3)	(122.2)	(164.2)	(187.4)	(209.6)	(202.6)	(141.8)	(1,859.0)
Net outstanding claims liabilities, net of salvage and subrogation recoveries	3.3	0.1	1.0	2.7	9.5	20.6	47.3	84.9	193.5	362.9
Reconciliation to net outstanding claims liabilities										
Anticipated salvage and subrogation recoveries										53.0
Reinsurers' share of salvage and subrogation recoveries										(26.2)
Fair value acquisition adjustment										(0.6)
Net outstanding claims liabilities										389.1

Conditions and trends that have affected the development of the liabilities in the past may or may not occur in the future, and accordingly, conclusions about future results cannot necessarily be derived from the information presented in the tables above.

16. Insurance and other receivables

	As at	
	31 December 2018	31 December 2017
	£m	£m
Insurance receivables	309.8	297.7
Salvage and subrogation recoveries	53.1	61.9
Reinsurance receivables	51.0	33.3
Interest receivable	7.1	7.2
Other receivables	23.7	20.9
Total insurance and other receivables	444.7	421.0

17. Cash and cash equivalents

	As at	
	31 December 2018 £m	31 December 2017 £m
Cash at bank and in hand	55.4	44.0
Money market funds	75.9	94.6
Short term deposits	14.7	16.0
Total cash and cash equivalents	146.0	154.6

Cash and cash equivalents include balances of £10.6m (31 December 2017: £9.5m) relating to cash and cash equivalents held on behalf of other insurers on an agency basis.

18. 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	
	31 December 2018 £m	31 December 2017 £m
Financial assets		
Insurance and other receivables (excluding salvage and subrogation assets)	391.6	359.1
Total financial assets at amortised cost	391.6	359.1
Financial liabilities		
Loans and borrowings	244.3	272.0
Insurance and other payables (excluding salvage and subrogation payables and deferred income)	204.5	198.3
Total financial liabilities at amortised cost	448.8	470.3

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.

Financial information

	As at	
	31 December 2018 Level 2 £m	31 December 2017 Level 2 £m
Fair value through profit or loss		
Investment funds	59.0	65.7
Total financial assets at fair value through profit or loss	59.0	65.7
Available for sale		
Debt securities	499.0	473.9
Total available for sale financial assets	499.0	473.9
Total financial assets at fair value	558.0	539.6

The table below analyses the movement in financial assets carried at fair value:

	Investment funds £m	Debt securities £m	Total £m
As at 1 January 2017	48.5	355.1	403.6
Net increases to the fair value of assets held recognised in profit or loss	0.2	0.2	0.4
Net decreases to the fair value of assets held recognised in other comprehensive income	-	(2.0)	(2.0)
Net additions to assets held	17.0	120.6	137.6
As at 31 December 2017 and 1 January 2018	65.7	473.9	539.6
Net (decreases)/increases to the fair value of assets held recognised in profit or loss	(1.5)	0.2	(1.3)
Net decreases to the fair value of assets held recognised in other comprehensive income	-	(6.8)	(6.8)
Net (disposals)/additions to assets held	(5.2)	31.7	26.5
As at 31 December 2018	59.0	499.0	558.0

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 mainly comprises of fixed income debt securities.

b) Objectives, policies and procedures for managing financial risks

The Group is exposed to financial risk through its financial assets and liabilities. The most important components of financial risk for the Group are credit risk, market risk and liquidity risk.

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full as they fall due. The Group is exposed to credit risk through reinsurance assets, financial assets and cash and cash equivalents.

The Group manages its exposure to credit risk on high liquidity investments by pursuing a strategy whereby all investments in money market funds have credit ratings of AA or above. The credit ratings of the Group's banks are monitored on a regular basis and, where there is adverse movement, appropriate action would be determined by the Board's Risk Committee.

Investment funds and debt securities are assessed by management to ensure that the level of credit risk is acceptable, credit ratings are sufficiently strong and the investment is in line with the Group's investment policy.

The credit ratings of the underlying assets within investment funds, debt security counterparty and banks with which the Group has significant credit risk, in relation to its investments in cash and equivalents and financial assets at fair value, were as follows:

	Debt securities	Investment funds	Cash and cash equivalents	Total
	£m	£m	£m	£m
As at 31 December 2018				
AAA	62.7	6.3	76.1	145.1
AA	149.0	11.1	-	160.1
A	145.5	12.5	69.9	227.9
BBB	140.1	7.3	-	147.4
Less than BBB	1.7	11.1	-	12.8
Not rated	-	10.7	-	10.7
Total	499.0	59.0	146.0	704.0
As at 31 December 2017				
AAA	73.4	4.2	94.8	172.4
AA	98.8	7.2	-	106.0
A	178.4	18.9	42.1	239.4
BBB	123.3	12.1	17.7	153.1
Less than BBB	-	10.9	-	10.9
Not rated	-	12.4	-	12.4
Total	473.9	65.7	154.6	694.2

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

	As at	
	31 December 2018	31 December 2017
	£m	£m
AA	848.5	683.2
A	362.4	404.5
BBB	1.2	-
Total reinsurance assets	1,212.1	1,087.7

19. Loans and borrowings

	As at 31 December 2018 £m	As at 31 December 2017 £m
3% senior bonds due 2025	250.0	-
Revolving Credit Facility	-	275.0
Arrangement fees and discounts	(5.7)	(3.0)
Total loans and borrowings	244.3	272.0
Non-current	244.3	272.0
Total loans and borrowings	244.3	272.0

On 24 May 2018, the Group issued £250.0m of seven year fixed rate investment grade senior unsecured bonds (the ‘Bond’) rated BBB. The Bond has a 3% coupon rate, payable six monthly in arrear. The proceeds were used to pay down the Revolving Credit Facility (‘RCF’) and the commitment under this facility was reduced from £310.0m to £110.0m, and the term extended to May 2023. At 31 December 2018, the RCF was undrawn after repayment of the balance outstanding (31 December 2017: £275.0m).

20. Insurance and other payables

	As at 31 December 2018 £m	As at 31 December 2017 £m
Amounts owed to reinsurers	97.5	102.6
Reinsurers' share of salvage and subrogation recoveries	26.3	30.6
Insurance premium tax	27.8	28.0
Accrued expenses	50.3	50.6
Deferred income	12.6	10.9
Lease liabilities	9.8	-
Other payables	19.1	17.1
Total insurance and other payables	243.4	239.8
Current	233.0	238.2
Non-current	10.4	1.6
Total insurance and other payables	243.4	239.8

21. Dividends

A final dividend in respect of the year ended 31 December 2017 amounting to £55.9m or 8.5p per share was paid on 31 May 2018 (2017: £43.4m).

On 7 August 2018, the Board declared an interim dividend in respect of the year ended 31 December 2018 of 4.5p per share, or £29.6m which was paid on 9 November 2018.

On 27 February 2019, the Board proposed a final dividend in respect of the year ended 31 December 2018 of 9.0p per share, amounting to £59.3m and payable subject to shareholder approval.

22. Contingent liabilities

On 19 January 2018, the Group received the outcome of the First-tier Tribunal proceedings held in November 2016, which were brought by Hastings Insurance Services Limited ('HISL') as to whether insurance intermediary supplies provided by HISL and received by Advantage Insurance Company Limited ('AICL') should be treated as outside the scope of VAT. The First-tier Tribunal found in favour of HISL and concluded that the VAT incurred by HISL in relation to insurance intermediary supplies provided to AICL can be recovered. This has resulted in additional input VAT recoverable for periods up to 31 December 2017 of £14.6m which has been recognised as a credit to other expenses during the period.

On 16 March 2018, HMRC sought leave to appeal against the First-tier Tribunal decision and have the decision referred to the Upper Tribunal. HMRC were granted leave to appeal by the First-tier Tribunal on 14 June 2018 and submitted their Notice of appeal to the Upper Tribunal on 7 July 2018 and a date for a hearing at the Upper Tribunal has been set for 7 October 2019. Should HMRC prove successful in overturning the First-tier Tribunal judgement at the Upper Tribunal then the Group would potentially have to repay up to £18.4m of input VAT recovered to date as well as additional VAT recovered in respect of subsequent periods and associated costs. In the event that the Group lost at the Upper Tribunal, it would be open to the Group to seek leave to appeal the decision and have the case referred to the Court of Appeal, where if successful the Group would receive a refund of VAT repaid to HMRC. Having reviewed the strength of the First-tier tribunal decision and HMRC's appeal, and having considered legal advice received, the Board has assessed that it is more likely than not that the original judgement will be upheld. Therefore it is not considered probable that any refund will be required, and no provision or liability has been recognised.

The Group's legal entities are subject to review and enquiries 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 attribution of profits for tax purposes in the Group's operating subsidiaries. During the period the Group has engaged in correspondence and meetings with HMRC. Management have reviewed current and previous tax filings, and considered the nature of the ongoing discussion, and do 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 amounts expected to be paid to the tax authorities having taken consideration of 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 estimates or amounts payable in respect of prior periods are reported through adjustments relating to prior periods.

Financial 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.

During the year, there were changes in the commercial terms of certain reinsurance contracts that altered the earning of certain reinsurance commissions without changing the underlying results or net impact in profit or loss. As a result, the Group amended the calculation of the expense ratio to reflect the reinsurers' share of attributable underwriting expenses recovered through commission, direct cost contributions or other profit share arrangements. The change had no impact on the previously disclosed ratios.

	Year ended	
	31 December 2018 £m	**31 December 2017 £m**
Reconciliation of Acquisition costs and Other expenses to the Group's share of underwriting operating expenses.		
Acquisition costs	74.6	64.9
Other expenses	160.6	167.1
Less: Retail and other operating expenses	(108.0)	(120.6)
Less: Reinsurers' share of underwriting operating expenses	(63.6)	(54.1)
Group's share of underwriting operating expenses	63.6	57.3
Calculation of loss ratio, expense ratio and combined operating ratio:		
Loss ratio		
Net claims incurred	330.6	299.5
Net earned premiums	440.7	410.1
Loss ratio (%)	75.0%	73.0%
Expense ratio		
Group's share of underwriting operating expenses	63.6	57.3
Net earned premiums	440.7	410.1
Expense ratio (%)	14.4%	14.0%
Combined operating ratio		
Net claims incurred	330.6	299.5
Group's share of underwriting operating expenses	63.6	57.3
Combined claims costs and operating expenses	394.2	356.8
Net earned premiums	440.7	410.1
Combined operating ratio (%)	89.4%	87.0%

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 acquisition costs incurred in the sale of insurance contracts, 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.

Financial information

KPIs and Reconciliations

Free cash reconciliation

The following tables reconcile the Group's cash and cash equivalents per the 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 year ended 31 December 2018.

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	
Free cash reconciliation	**31 December 2018 £m**	**31 December 2017 £m**
Total cash and cash equivalents	146.0	154.6
Deduct restricted cash:		
Underwriting cash and cash equivalents	86.7	90.5
HISL cash held as agent on behalf of AICL and third party insurers	34.9	38.9
HISL regulatory cash requirement	5.3	4.5
Restricted cash held in regulated entities or on behalf of third parties	126.9	133.9
Closing free cash	19.1	20.7

	Year ended	
Free cash generated reconciliation	**31 December 2018 £m**	**31 December 2017 £m**
Net decrease in cash and cash equivalents	(8.6)	(13.4)
Adjust for: net decrease/(increase) in restricted cash	7.0	(0.2)
Net decrease in free cash	(1.6)	(13.6)
Add back:		
Retail and Corporate taxation paid	20.5	17.9
Capital expenditure	20.0	17.3
Dividends paid	85.5	70.3
Repayment of Revolving Credit Facility	275.0	15.0
Proceeds from issuance of 3% senior bonds	(247.8)	-
Interest, corporate and refinancing costs	16.1	11.2
Group free cash generated	167.7	118.1
Deduct:		
AICL dividend received	(40.0)	(4.0)
Retail free cash generated	127.7	114.1

The HISL regulatory cash requirement is the amount of capital that is required to be held as cash and cash equivalents to meet FCA regulations under Threshold Condition 2.4 (TC2.4).

Financial information

KPIs and Reconciliations

Operating profit reconciliation

	Year ended	
	31 December 2018 £m	31 December 2017 £m
Underwriting adjusted operating profit	71.9	71.4
Retail adjusted operating profit	124.8	115.0
Net impact of corporate and consolidation adjustments	(6.1)	(2.3)
Adjusted operating profit	190.6	184.1
Underlying amortisation and depreciation	(7.5)	(5.5)
Underlying finance costs	(8.5)	(7.8)
Tax on underlying trading	(26.1)	(26.2)
Net income	148.5	144.6
Non-trading expenses, net of tax	(17.9)	(17.9)
Profit after tax	130.6	126.7

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 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

18 April 2019	–	Ex-dividend date
23 April 2019	–	Final dividend record date
8 May 2019	–	Dividend reinvestment plan election date
23 May 2019	–	Annual General Meeting
31 May 2019	–	Dividend payment date *(subject to shareholder approval of Final dividend at the AGM)*
8 August 2019	–	Interim results announcement