Hastings Group Holdings plc
Annual Report 2018

Hastings

Built for growth

Hastings is ideally placed...

Hastings, the technology driven insurance provider, provides straightforward products and services to 2.71 million car, bike, van and home insurance customers, and employs over 3,400 colleagues across sites in Bexhill, Leicester, London and Gibraltar.

Strategic report

Hastings at a glance	02
How we are different	10
Chair's statement	12
Chief Executive Officer's statement	16
Market overview	18
Strategic focus	20
Key performance indicators	22
Chief Financial Officer's statement	26
Managing our risks	33
Corporate responsibility	41
Directors' report	57
Statement of Directors' responsibilities	60

Corporate governance

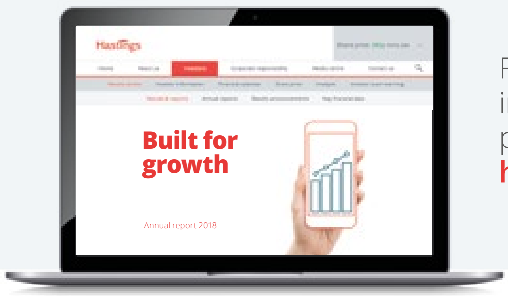
Chair Q&A	62
Board of Directors	64
Corporate governance statement	68
Audit Committee	76
Nomination Committee	83
Risk Committee	87
Remuneration Committee	90
Annual statement from the Remuneration Committee Chair	92
Annual Report on Remuneration	95
Independent Auditor's Report	112

Financial statements

Consolidated statement of profit or loss	119
Consolidated statement of comprehensive income	120
Consolidated balance sheet	121
Consolidated statement of changes in equity	122
Consolidated statement of cash flows	123
Notes to the consolidated financial statements	124
Parent Company balance sheet	167
Parent Company statement of changes in equity	168
Parent Company statement of cash flows	169
Notes to the Parent Company financial statements	170

Other information

KPIs and reconciliations	175
Glossary	178
Company information	179
Shareholder information	180



For further information please visit: **hastingsplc.com**

...to deliver ambitious growth plans

Our ambitious plans will be delivered through digital leadership, embracing new technology, and investing in our 4Cs way of working – which drives our decision making and continues to guide us as we grow.

Our 4Cs principles are simple: we believe by creating the right culture for our Colleagues, and giving them the right tools to do their job, they will do more for our Customers, enabling us to grow the Company profitably and sustainably and allowing us to invest in the Communities we serve.

Investing in our colleagues
We continually invest in supporting our colleagues and act on their feedback, read more on pages **02–03**

Helping our communities
We take our 4Cs full circle by investing in and playing an active part in our local communities, read more on pages **08–09**

Improving our service and digital proposition
Our digitally focused business is built for the way customers want to buy and manage their insurance, read more on pages **04–05**

Driving our vision and generating value
Our data, technology and digital capability supports our future growth and continued success, read more on pages **06–07**

Investing in our colleagues

We are committed to continued investment in the things that allow us to attract, retain and reward talented colleagues.

yourcareer

Over 90% of our customer facing colleagues moved up at least one level in the yourcareer framework in 2018, designed to provide colleagues with a clear career path. Yourcareer, with emphasis on digital and renewals commercial training, remains a key focus for 2019 (see page 42).

Weekday only shifts

All full time customer facing colleagues who previously worked evenings and weekends have the option of working weekday only shifts now and over 99% do! The shifts were introduced as a result of feedback about work/life balance.

"The advisor was extremely helpful, polite and friendly and resolved my issue straight away. I work in Quality Assurance in a call centre and thought she was fantastic!"

Retail Customer supported by Khomotso Moleke, OUTsurance

"My personal highlight is when the shifts got changed to no more late nights or weekends – fantastic."

Colleague response from feedback at recent Colleague Roadshows

"Having the opportunity to attend the Women in Data event was invaluable and important. The event was very inspiring and a great experience."

Biqing Wang
Pricing Analyst

Support future growth

Reward and recognition

Over 3,200 4Cs Awards nominations were made in 2018 for colleagues and teams who went above and beyond what's expected to help our customers, colleagues and communities (see page 42). We've added two new categories for 2019 to recognise our digital champions.

THE 4Cs AWARDS 2018

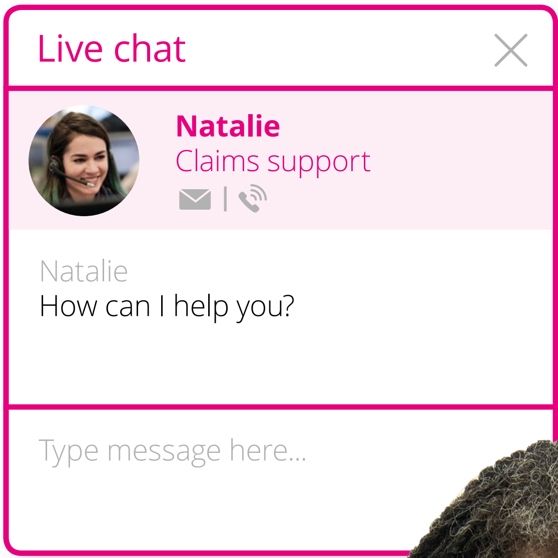
Wellbeing

We have invested in an extensive Wellbeing programme and have over 65 Wellbeing Champions and dedicated communication channels to guide colleagues to advice, support and initiatives that promote healthier, happier lifestyles (see page 45).

82%

of our Colleagues know how to get the information they need to support their wellbeing.[1]

1 YourVoice annual engagement survey 2018.



"Best price. Everything needed. Website easy to use, very straightforward. Registered an account and documents received in 5 minutes."

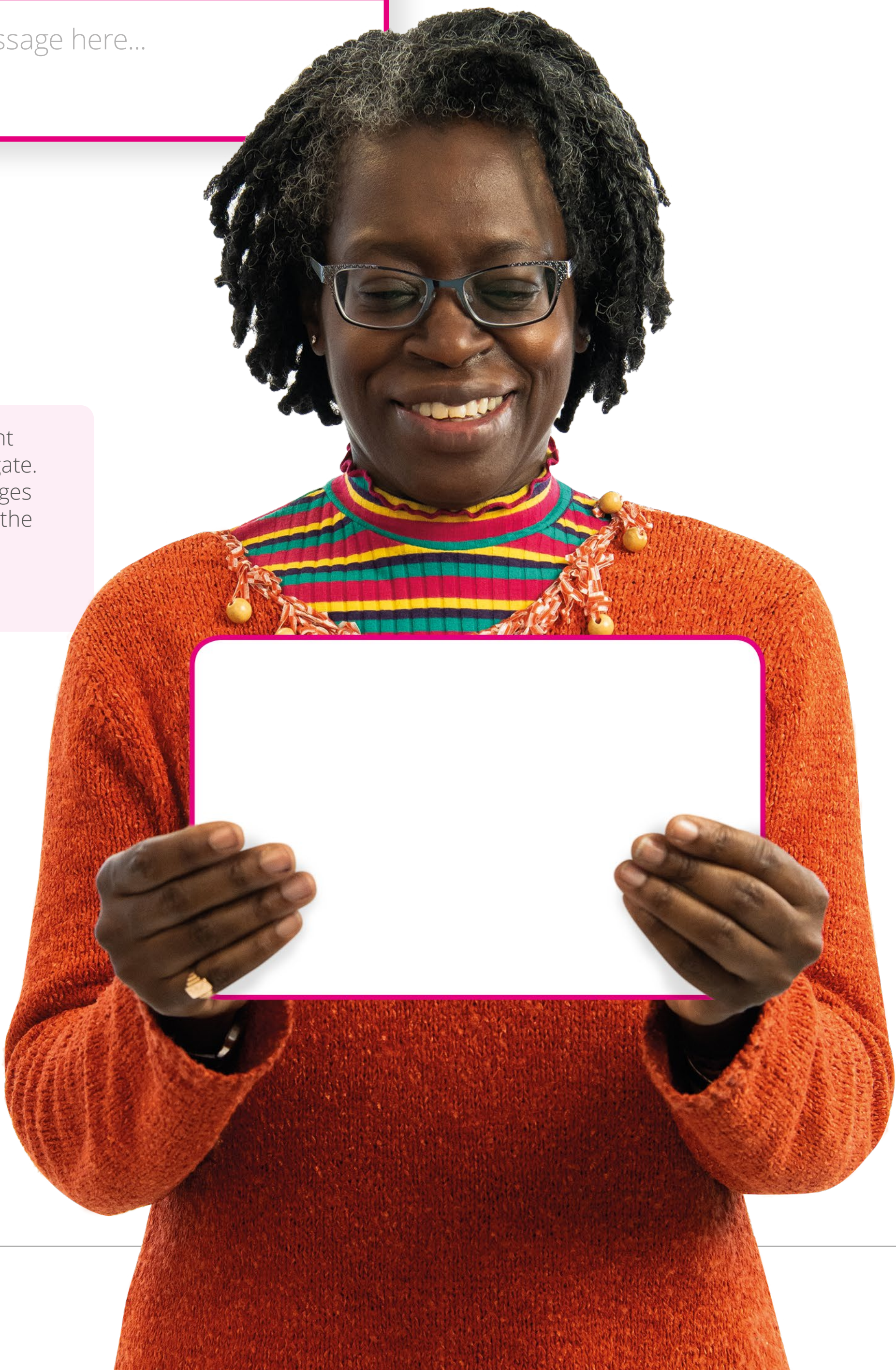
Digital user

"Found the online account easy to set up and navigate. I was able to make changes to policy online without the need for calls."

App user

"From start to finish, Hastings has been understanding, helpful and kind. They've handled this very well and made sure I was ok throughout. The lady on the phone was very nice and helpful."

Claims Customer



Improving our service and digital proposition

Our differentiated business model is built for how customers want to buy and manage their insurance, which supports our ambitious growth plans.

We're committed to being straightforward for customers with the best digital proposition enabling customers to interact with us how they choose, combined with the launch of enhanced capability and leading technology to ensure we can give customers a better price.

Electronic claims notification

We have launched an 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.

Anti-fraud

We continue to invest in our anti-fraud capability to tackle fraud and pass on the savings to our customers, with action taken against 99 ghost broking rings in 2018.

Technology driven

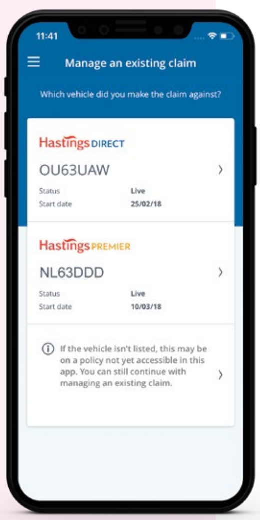
MyAccount

Enhanced functionality has been launched during 2018 enabling all of the most common policy changes to be made online. Digital customer contacts have exceeded telephone contacts since May 2018, with the digital proportion continuing to increase.

Mobile app

We have introduced our new mobile app enabling customers to manage their policy, access breakdown details and notify us of a claim, with additional functionality to be launched in 2019.

150,000+
Number of downloads



Driving our vision and generating value

Our ongoing investment in data and digital capability is at the core of the Company's ability to operate efficiently and effectively, and our ongoing investment initiatives will support future growth to generate value for all stakeholders.

Operational highlights

Guidewire
We successfully completed the roll out of Guidewire with 100% of car and home policies now going through our next generation core platform. This investment in the future will provide operating cost efficiencies and enables the development of more digital and online functionality.

Bond
The Group successfully launched its inaugural investment grade bond, with a seven year £250m issue in May 2018 at a 3.0% fixed rate of interest which provides longer term certainty of funding and interest cost.

Smart mobility Living Lab
Becoming a founding member of the three year shared research programme which will develop, test and validate the impact of new road transport technologies, ensuring we are at the forefront of technological advancement.

Strong capital position
We achieved our 1.0x net debt leverage multiple target during 2018 and the Group's Underwriting business maintained a strong solvency ratio of 161%. Our highly profitable and cash generative business will fund investment in our digital capabilities, support organic growth and allows us to project an increase in our future dividend payout ratio to 65% to 75% of adjusted profit after tax.

Our performance

Increase in gross written premiums	Increase in adjusted operating profit	Continued growth of live customer policies	Loss ratio within target range
£958.3m	**£190.6m**	**2.71 million**	**75.0%**
(2017: £930.8m)	(2017: £184.1m)	(2017: 2.64 million)	(2017: 73.0%)
Continuing growth in net revenue	Increase in profit after tax	Increased share of UK private car insurance	Stable expense ratio
£756.4m	**£130.6m**	**7.5%**	**14.4%**
(2017: £715.6m)	(2017: £126.7m)	(2017: 7.3%)	(2017: 14.0%)

See page 22 for more information on, and page 175 for reconciliations of, our key performance indicators

Helping our communities

We focus our efforts locally or with individual organisations so we can see the difference we make today and for the future. Helping our communities through practical, professional and financial support.

Investing in the local community

In 2018 we raised over £54,000 to support our four local charity partners and gave 7,700 hours of practical or professional advice or support through our community days. We also hit our £1m milestone for monies raised through our InsurePink brand – that donates £10 per policy to help the Pink Ribbon Foundation, a grant making trust, that funds projects and provide financial support to UK breast cancer charities.

insurePink.

Education initiatives

Mentoring local students to 'Be the Change'

Be the Change gives colleagues the opportunity to make a difference to the education and career paths of Year 9 students from two secondary schools, one each in Bexhill and Leicester. Over 940 students have taken part in the programme since it launched in 2015 and over 210 colleagues have been business mentors, with many returning year after year.

BE THE CHANGE

"On last year's programme I was asked if I would be happy to take on an additional student who was struggling at school, wouldn't communicate with her mentor, and only wanted to talk to me. Her story and the trust she placed in me made me realise how vital this programme is to allow students who are struggling with individual issues. It helps them navigate their journey through the education process to develop, gain confidence, improve and be themselves."

Gary Chalmers, User acceptance tester

A long term approach to sustainable value creation

Our business model and key differentiators are at the heart of our ability to deliver on our strategy to be the best and biggest digital insurance provider.

We invest in key areas...

Colleagues
Talent, skills, expertise and experience; training and development; reward and progression

Customers
Anti-fraud, pricing, products, and digital propositions

Company
Digital, technology, brand and distribution

Community
Local initiatives and charities

...and are strategically focused...

In key UK markets:

UK car market

32 million cars

UK home market

21 million homes

On underwriting capacity:

c.90%

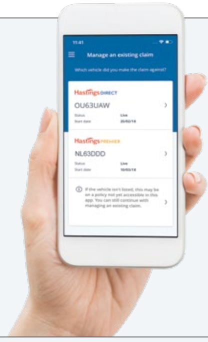
of policies written by the Group's Underwriting business Advantage Insurance Company Limited ('AICL')

c.10%

of policies through a panel of third party underwriters

...leveraging our key differentiators...

Embracing digital



Unique product portfolio

Leading edge technology

Separation of retail and underwriting

Refined and optimised pricing capability

Market leading anti-fraud and disciplined risk selection

Low-cost operating model

We are therefore committed to an ongoing programme of investment, combined with a disciplined and agile approach, in the key areas that we continue to drive sustainable value for our stakeholders.

...to create long term value

We have embraced digital in order to fully optimise our business to take advantage of the growing Price Comparison Website ('PCW') market.

PCW market share growth – proportion of new customers across the market that buy through PCW:

Private car: 2010 – 52%, 2014 – 66%, 2018 – 73%

Home: 2010 – 22%, 2014 – 43%, 2018 – 56%

We have a carefully thought through portfolio of insurance products, each with specific features and benefits and each delivering great value to clearly identified market segments and individual needs.

Hastings DIRECT · Hastings PREMIER · Hastings ESSENTIAL · Hastings DIRECT smartmiles · insurePink. · People's Choice

Our business is underpinned by sophisticated technology that enables us to capture and process data efficiently, and to analyse and process applications and claims in a way that gives us more control.

Our business structure is designed to separate Retail and Underwriting activities and decision making, with Retail focused on driving customer lifetime value, and Underwriting focused on sophisticated risk selection.

Sophisticated data capture and enhanced modelling techniques have allowed us to constantly refine and optimise our pricing capability, led by teams of highly specialised decision scientists across both Retail and Underwriting.

Our disciplined approach to risk selection enhanced by data enrichment tools and processes, coupled with our advanced anti-fraud capabilities, helps to generate greater value for our stakeholders.

We have a variable and low operating cost base with further efficiencies to be delivered through Guidewire and digital processes.

Colleagues

3,300

colleagues in Bexhill, Leicester, Gibraltar, London and homeworking
+6% since 2017

Customers

2.71 million

Live customer policies

Company

7.5%

UK car market share

Community

£54,000

charitable donations in the year

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

Gary Hoffman Chair

Strong governance and strategic leadership

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.

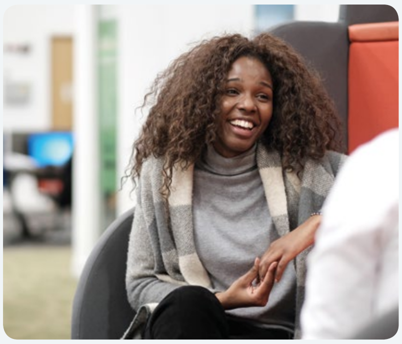
Board Composition and UK Corporate Governance Code ('the Code') Compliance

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.



Our culture

Discover more about our 4Cs on pages **41–56**

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 changes 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.

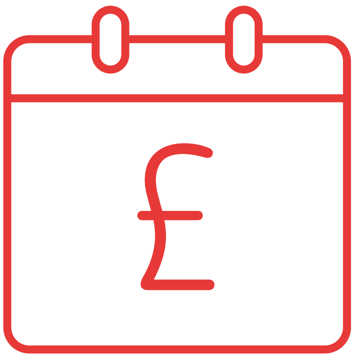
Optimising shareholder value – dividends

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

13.5p

2018 Dividend per share
(2017: 12.6p)



"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."

Toby van der Meer Chief Executive Officer

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.

Our vision

We have ambitious plans to become the best and biggest digital insurance business – which means leadership in digital and new technology, and significant growth in a much larger scale. We will do this through investing in all of our 4Cs and have launched a strategic change programme designed to:

- Enhance data, pricing and anti-fraud systems so we continue to select the best customers and offer them a better price
- Deliver the most complete digital experience to make things straightforward for our customers, and easier for our colleagues
- Use new technology to transform claims handling and offer better services whilst reducing claims costs
- Diversify by growing multicar, home, bike and van and testing new products.

These ongoing initiatives will be supported by investment in training and career development, with an increased focus on diversity. The continued commitment and can do attitude of our colleagues will ensure we continue to be built for growth and take Hastings to the next level.

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

What's shaping our market?

We review the trends and dynamics of our market on an ongoing basis to stay ahead of the curve in terms of competitive positioning. Our industry expertise informs how we develop products, approach industry issues and drive long term growth.

Digitalisation and technology

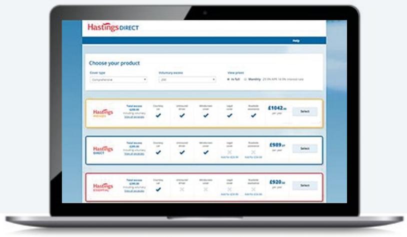
Being at the forefront on digital and technological advancements provides opportunities

60%

of customers now choose to interact with us digitally, through email, web chat or MyAccount

The opportunity

- Digital processes are changing the way our customers want to interact with us
- Technology, such as machine learning and fuzzy logic enables enhanced sophistication in modelling techniques



Our approach

- Big ambitions to deliver the most complete digital experience for our customers
- We have launched MyAccount, mobile app and digital claims notification
- We continue to invest in technology, across pricing, underwriting and claims including the introduction of next generation platforms such as pricing and analytics and anti-fraud

Market motor premium and claims trends

Fluctuations in market average premiums, despite rising claims costs

9%

average annual increase in the cost of accidental damage claims over the last three years (ABI)

The opportunity

- Sophistication in vehicle technology continues to drive up repair costs
- The volume of claims has levelled out during 2018, however the longer term downward trend is likely to continue due to improved vehicle technology
- Average premiums have reduced since Q3 2017 and during 2018

Our approach

- We have increased investment in claims management to control claims costs, including the re-tender of our repair service provision, which is due to complete in 2019
- We continue to invest in capability, including risk selection, pricing and anti-fraud
- We remain focused on achieving a loss ratio within our target range of 75%–79%

Vehicle technology

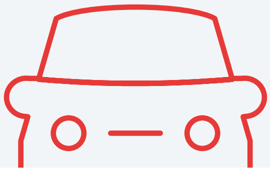
Changes in vehicle technology gives rise to risks, but also opportunities for the insurance industry

25,000

serious accidents expected to be prevented by connected and autonomous vehicles by 2030

The opportunity

- Autonomous and connected vehicles are changing the insurance industry
- Automatic breaking and vehicle sensors are making vehicles safer and resulting in fewer accidents
- Fully autonomous vehicles are many years away, but could change the nature of insurance in the long term



Our approach

- We established an internal working group to research all elements of vehicle technology
- We became a founding member of the UK Smart Mobility Living Lab's three year shared research programme, alongside Aviva, BP and Honda to develop and test the impact of vehicle technology

Regulation

A number of regulatory reviews likely to complete during 2019

£35

per policy – the government expects to be saved through whiplash reforms

The opportunity

- The Civil Liability Bill was enacted in December 2018
  - New Ogden rate likely to be set in Q3 2019 with initial guidance of a rate in the 0–1% range
  - Whiplash reforms aiming to reduce the cost of soft tissue claims planned to be effective from April 2020
- FCA review of pricing practices expected to complete during 2019

Our approach

- We are supportive of any regulation which reduces fraudulent claims and encourages treating customers fairly
- We maintain an open and transparent relationship with all regulators

Fraud

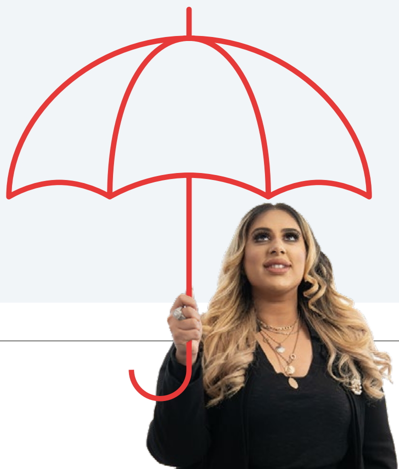
Fraud is becoming more sophisticated and prevalent, to the detriment of honest customers, and is driving up claims costs in the industry

99

Ghost broking rings tackled during 2018

The opportunity

- Application fraud is widespread
- Serious organised fraud, such as ghost broking is becoming more sophisticated



Our approach

- A blended approach using advanced technology combined with specialist field agents
- A dedicated team of almost 200 colleagues tackling fraud
- Next generation platforms including NetReveal from BAE systems

Maintaining momentum

We remain committed to the strategic drivers that have been at the heart of our development to date and give us confidence in our vision to be the best and biggest digital insurance provider.

Our strategic pillars

Growth	Driving profitable growth, striving towards 3 million customer policies during 2019
Discipline	Focus on prudent underwriting
Agile	Ability to respond quickly to market changes
Invest	Invest in digital capability and mobile distribution channels
Expand	Expand our product offering and invest in our competitive position
Focus	Continued focus on cash generation and shareholder return

Performance	Key risks	Our focus for 2019/20
Live customer policies ('000s) **2018** **2,710** 2017 2,644 2016 2,348	1 3 Discover more **37–40**	• Policy growth not at the expense of profitability • Supported by Guidewire and the ongoing delivery of initiatives including those delivered in 2018
Calendar year loss ratio (%) **2018** **75.0** 2017 73.0 2016 77.7	1 Discover more **37–40**	• Deliver loss ratios in the target range of 75%–79% • Continued enhancement in underwriting capability, sophisticated risk selection and anti-fraud
Expense ratio (%) **2018** **14.4** 2017 14.0 2016 13.6	1 3 Discover more **37–40**	• Drive operational efficiencies through digitalisation and the roll out of Guidewire
Capital expenditure (£m) **2018** **21.6** 2017 18.8 2016 19.4	1 2 3 Discover more **37–40**	• Continued investment in digital capabilities • Increased mobile digital capability through MyAccount, mobile app and electronic claims notification
Home live customer policies ('000s) **2018** **164** 2017 173 2016 168	1 2 Discover more **37–40**	• Lloyds Bank General Insurance, Integra and RSA have joined the Group's panel of home underwriters • We continue to build our home underwriting expertise and increase scale
Group free cash generation (£m) **2018** **167.7** 2017 118.1 2016 98.1	1 2 3 Discover more **37–40**	• Continued focus on cash generation • Dividend payout ratio target increased to 65%–75%

A successful performance

Our key performance indicators ('KPIs') outlined below are used to monitor our overall strategic progress and shareholder value.

Financial KPIs

Measure	Data	Performance
Adjusted operating profit Adjusted operating profit is the Group's primary profit measure used to assess operating performance and reflects the results of underlying trading. It is a non-IFRS measure, defined as profit before taxation expense, finance costs, amortisation and depreciation and non-trading costs.	**£m for the year ended 31 December** **2018** **190.6** 2017 184.1 2016 132.1	Adjusted operating profit increased by 4% to £190.6m reflecting the growth in average earned premiums, the 2.5% increase in live customer policies, together with the £14.6m historical VAT refund received during the year, offset by ongoing claims inflation and the adverse weather in the first quarter.
Adjusted operating profit margin Adjusted operating profit margin measures the Group's operational efficiency. It is adjusted operating profit as a percentage of net revenue and is a non-IFRS measure.	**% for the year ended 31 December** **2018** **25.2** 2017 25.7 2016 22.4	The adjusted operating profit margin, at 25.2% for 2018, has been maintained at similar levels to previous years due to our continued focus on underwriting discipline and the slowdown in expense growth.
Profit after tax Profit after tax is an IFRS measure representing the Group's performance including interest expense and the effects of accounting for business combinations.	**£m for the year ended 31 December** **2018** **130.6** 2017 126.7 2016 78.4	Profit after tax increased by 3% to £130.6m due to the increase in average premium and historical VAT refund, offset by adverse weather in the first quarter, ongoing claims inflation and the increase in depreciation and amortisation costs.

Measure	Data	Performance
Calendar year loss ratio Calendar year loss ratio is a measure of underwriting performance, representing net claims incurred as a percentage of net earned premiums.	**% for the year ended 31 December** **2018** **75.0** 2017 73.0 2016 77.7	The Group achieved a calendar year loss ratio at the bottom end of its target range despite adverse weather brought about by 'Storm Emma' and the 'Beast from the East' during the first quarter of the year, demonstrating the ongoing focus on underwriting discipline and claims management.
Expense ratio Expense ratio is a measure of underwriting operational efficiency, represented as the Group's share of incurred acquisition and other operational expenses as a percentage of net earned premiums. During the year, the Group amended its calculation of the expense ratio, see page 175 for further information including reconciliation to expenses.	**% for the year ended 31 December** **2018** **14.4** 2017 14.0 2016 13.6	The Group's expense ratio has remained competitive with a slight increase over the prior year as the Group incurred an increase in underwriting levies.
Combined operating ratio Combined operating ratio is a measure of the Group's overall underwriting performance. It is the sum of the calendar year loss ratio and the expense ratio, as defined above. See page 175 for reconciliation to expenses.	**% for the year ended 31 December** **2018** **89.4** 2017 87.0 2016 91.3	The Group delivered a competitive combined operating ratio reflecting its continued underwriting discipline and operating efficiency.

A successful performance continued

Financial KPIs continued

Measure	Data	Performance
Solvency II coverage ratio The Group's Underwriting business, Advantage Insurance Company Limited ('AICL'), is subject to the Solvency II ('SII') capital adequacy regime. The SII coverage ratio is a calculation representing AICL's own funds, as measured under SII, against its capital threshold, the Solvency Capital Requirement ('SCR') determined by the EIOPA Solvency II Directive and required by its regulator, the Gibraltar Financial Services Commission ('GFSC').	**% as at 31 December** **2018** **161** 2017 167 2016 140	AICL has benefitted from ongoing capital growth driven by continued profitable trading growth. AICL is well capitalised and has consistently maintained a margin above the required SCR threshold throughout the year. The SII coverage ratio before deducting the anticipated dividend for the year ended 31 December 2018 was 194%.
Net debt leverage multiple Net debt leverage multiple measures the Group's net debt relative to its profit generation and reflects the Group's cash generation, level of debt and growth in profitability. It is calculated as the Group's net debt divided by adjusted operating profit. Net debt is calculated as gross debt less Retail free cash and corporate free cash. See page 176 for reconciliation to cash and cash equivalents.	**x times as at 31 December** **2018** **1.2x** 2017 1.4x 2016 1.9x	The Group achieved its target level of around 1.0x during the first half of the year. The net debt leverage multiple reduced from 1.4x at 31 December 2017 to 1.2x as at 31 December 2018, reflecting the strong operational cash inflows and continued growth in adjusted operating profit during the year.

Non-financial KPIs

Measure	Data	Performance
Live customer policies ('LCP') Live customer policies is a key performance indicator for the Group and represents total number of policies currently in force.	**'000s as at 31 December** **2018** **2,710** 2017 2,644 2016 2,348	The Group achieved a 2.5% year on year growth in policies, to 2.71 million customers as at 31 December 2018, whilst increasing premiums in a competitive environment. The Group continued to focus on protecting margins rather than chasing volume.
Share of total stock ('private car') Share of total stock ('private car') is a measure of the Group's share of the total UK private car population as at the end of each year.	**% as at 31 December** **2018** **7.5** 2017 7.3 2016 6.5	The Group's private car market share has continued to increase alongside growth in LCP, reaching 7.5% as at 31 December 2018.

"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."

Richard Hoskins Chief Financial Officer

Solid results and strong cash generation

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.

Details of footnotes are on page 28.

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

Summary consolidated statement of profit or loss

	Year ended					
	31 December 2018			31 December 2017		
	Underlying trading £m	Non-trading items[7] £m	Total £m	Underlying trading £m	Non-trading items[7] £m	Total £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.

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 175 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 176 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.

Gross written premiums

Gross written premiums by product	Year ended 31 December 2018 £m	Year ended 31 December 2017 £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 private car market share increased to 7.5% from 7.3%.

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

Net revenue by type	Year ended 31 December 2018 £m	Year ended 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

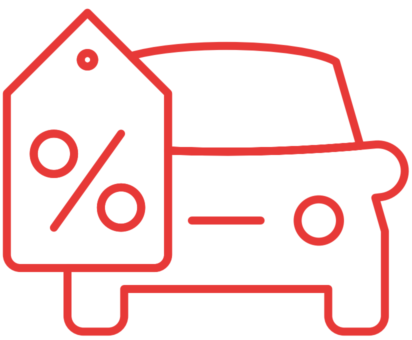
Net revenue grew by 6% to £756.4m for the year (31 December 2017: £715.6m) due to the earn through of higher average written premiums and growth in LCP. Net earned premiums increased by 7% to £440.7m over the prior period (31 December 2017: £410.1m), whilst fees and commissions and ancillary product 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.

£958m

Gross written premiums for the year ended 31 December 2018

7.5



Growing share of the UK private car insurance market

Loss ratio, expense ratio and combined operating ratio

Combined operating ratio	Year ended 31 December 2018	Year ended 31 December 2017
Accident year loss ratio	**76.1%**	73.8%
Prior year development	**(1.1%)**	(0.8%)
Calendar year loss ratio[1]	**75.0%**	73.0%
Expense ratio[1]	**14.4%**	14.0%
Combined operating ratio[1]	**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.

Summary consolidated balance sheet

	As at 31 December 2018 £m	As at 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.

1 Calendar year loss ratio is a measure of underwriting performance, representing net claims incurred as a percentage of net earned premiums. Expense ratio is a measure of underwriting operational efficiency, representing the Group's share of incurred operational and acquisition expenses over net earned premiums. The combined operating ratio is a measure of the Group's overall underwriting performance and is the sum of the calendar year loss ratio and the expense ratio. See page 175 for a reconciliation of the calendar year loss ratio, expense ratio and combined operating ratio.

Reinsurance contracts

Reinsurance contract assets by credit rating	As at 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.

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 £m	31 December 2017 £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[1]	**(15.7)**	(16.1)
Corporate free cash[1]	**(3.4)**	(4.6)
Free cash[1]	**(19.1)**	(20.7)
Net debt	**230.9**	254.3
Adjusted operating profit	**190.6**	184.1
Net debt leverage multiple[2]	**1.2x**	1.4x

The Group achieved its target of around 1.0x net debt leverage multiple 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 £m	31 December 2017 £m
Opening net debt	**254.3**	255.7
Retail free cash generated[1]	**(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

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.

1 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 176 for reconciliation of cash and cash equivalents to free cash and Group free cash generated.
2 Net debt leverage multiple represents the Group's net debt expressed relative to 12 months trailing adjusted operating profit.

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[2]	**293.6**	255.0
Average HISL deployed capital[2]	**40.7**	34.2
Average corporate free cash[1]	**4.0**	4.8
Average capital employed	**338.3**	294.0
Net income[3]	**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.

1 Corporate free cash comprises cash held in Group entities which are not subject to FCA or Solvency regulations. See page 176 for reconciliation of cash and cash equivalents to free cash and Group free cash generated.
2 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.
3 Net income is defined as profit after tax excluding the post tax impact of non-trading items.
4 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.

Dividends

Dividend payout ratio	Year ended 31 December 2018 £m	31 December 2017 £m
Net income[3]	**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[4]	**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%).

How we protect our business

The operational management of our business and execution of our strategy is subject to a number of risks. We have a risk management and control framework in place to ensure that we identify, plan for, and react appropriately to a range of eventualities.

Viability statement

The Directors have assessed the prospects and viability of the Group over a period longer than 12 months, in accordance with provision C2.2 of the 2016 UK Corporate Governance Code. The Directors' assessment has been made with reference to the Group's current financial position and prospects. The period assessed of three years aligns with the Group's medium term strategic planning process (the 'Three Year Plan') which the Directors review and approve on an annual basis. The Three Year Plan is based on the Board's strategy, development programmes, risk appetite, expectations of insurance market pricing cycles and assessment of the principal risks as detailed on page 38, as well as how these are managed. Three years is considered appropriate for assessing the viability of the Group as it strikes a good balance between the need to forecast over a longer period, whilst recognising the pace of change within the industry, uncertainty surrounding insurance market pricing cycles and the risks and opportunities that may emerge.

The Three Year Plan is constructed based on the commercial activities of the Group's Retail and Underwriting businesses. This includes a detailed analysis of income and expenditure and the resulting cash generated, supported by explanations of material year on year movements, over the term of the Three Year Plan. There are regular briefings to the Board and senior management, which include the progress of new strategies being implemented and how these are incorporated into the plan. The Three Year Plan assumes there will be no change to the Group's borrowing facilities, which primarily consist of £250m fixed rate senior bonds repayable in 2025 and a £110m committed Revolving Credit Facility ('RCF') which runs to May 2023; that dividends continue to be paid in accordance with the target payout ratio; that a consistent reserving policy is applied; and that financial services firms in Gibraltar will continue to be able to access the UK market. The UK Government has guaranteed this access on the existing basis until 31 December 2020 and confirmed that it will work closely with the Government of Gibraltar to design a replacement framework to endure beyond this.

The Three Year Plan was then robustly tested by applying 12 challenging scenarios designed to threaten the viability of the Group. The stresses applied reflect the crystallisation of the principal risks identified, including:

- pricing and reserve risks that arise from insurance activities;
- operational risk, including risk of cyber attack;
- commercial performance risk;
- liquidity, solvency and capital risk; and
- a combination of these risks crystallising concurrently.

The stresses applied were sufficiently severe and targeted to include the potential impacts to the Group of likely Brexit scenarios, including no deal, as highlighted in the Managing our risks section on page 37. The stresses were assessed independently at the level of Retail and Underwriting respectively before assessing the aggregate impact at the Group level. The minimum requirements for the Group to be considered viable were to maintain throughout each modelled period:

- appropriate liquidity available with sufficient headroom under the RCF to maintain positive free cash held whilst meeting its liabilities as they fall due;
- continued compliance with the Revolving Credit Facility financial covenants;
- a surplus over the minimum FCA MIPRU resource requirements in HISL; and
- a surplus over the Solvency II solvency capital requirements in AICL.

In certain of the most severe scenarios, achievable, short term mitigating actions within the control of the Company and its subsidiaries were identified. After the application of these, the Group maintained positive free cash as well as headroom over the financial covenants and Solvency II capital requirements throughout each of the modelled scenarios. On this basis, the Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, for the next three years.

Our approach

The Board continues to develop and embed a culture of risk management through the identification, measurement mitigation, monitoring and reporting of risks across the Group. The Board also sets risk appetite, reviews risks, both existing and emerging, and considers risk when reviewing the Group's strategy and operational delivery.

The Board has ultimate responsibility for the Group's risk management framework and delegates the oversight of this to the Risk Committee. This Committee is a formal sub-committee of the Board with its own Terms of Reference.

The principal purpose of the Risk Committee is to advise the Board on risk management matters, recommend the Group risk limits and risk appetite to the Board for approval, and oversee the risk management arrangements of the Company and Group generally. The Committee seeks to ensure that the material risks facing the Group are being identified and that appropriate arrangements are in place to manage, mitigate, monitor and report those risks effectively; it also seeks to ensure that responsibility for doing so in each of the trading entities has been effectively delegated to the respective company boards. Further information on the work of the Risk Committee can be found in its committee report on pages 87 to 89.

Each trading entity has its own risk management structure to ensure all risks are reported to, and reviewed by, the appropriate management oversight forum and, ultimately, the respective board risk committee. The process for development and enhancement of operational risk registers continues to evolve as the business matures and grows. Risk management reporting from the trading entities is consolidated for review by the Risk Committee and Board.

Governance strategy and control

The Group's governance structure, combined with embedded controls, processes and reporting protocols, enables senior management to conduct the affairs of the trading entities in line with expectations of their respective board of each entity and, ultimately, those of the Board. This ensures that the trading entities adhere to approved strategies and regulatory requirements, regularly monitor outcomes, proactively identify risks and opportunities and apply appropriate mitigation as required.

Strategy is implemented by suitably experienced and competent people in the trading entities, incentivised appropriately and guided by the Group's strong corporate culture and values. The ability to identify and respond quickly to evolving or emerging risks and issues is supported by a dynamic environment that encourages independent and objective challenge, focused on escalation and resolution. Timely management information is generated to enable appropriate monitoring, reporting, oversight and decision making based on sound proposals and judgement.

The controls in place to support the operations of the Group in the management and mitigation of risk are routinely evaluated, as appropriate, and enhanced to ensure their suitability and effectiveness.

Risk management framework

The Group continues to develop and enhance its Risk Management Framework to ensure there is a consistent approach to risk management across the Group.

Our evolving Risk Management Framework seeks to provide a disciplined and structured process to reduce the potential for internal or external events that may detrimentally affect the Group.

The Risk Management Framework includes risk and control frameworks for the trading entities, as well as risk registers that document risks, controls, key risk indicators, actions related to risk mitigation and ownership of each risk. The frameworks are continuously developed to include Strategic, Business and Emerging risks.

Broadly, Strategic risk is reviewed and challenged by the Risk Committee and respective committee of each of the Group's trading entities. These committees receive timely, up to date reports from the oversight functions on the material movement of risk, whether influenced by external or internal monitoring and audits or events, or by any material shift in business risk that is linked to the successful delivery of the Three Year Plan.

Business risk is overseen by management committees at an operational level. Departmental risk profiles (risks, controls, key risk indicators and internal or external events) are held centrally and regularly provided to the risk management function for independent review and challenge.

Emerging risks, by their very nature could be strategic or at a business level, and when identified are recorded, assessed and mitigated within the requirements of the Risk Management Framework

Stress testing and scenario analysis are regularly undertaken and reviewed by the Risk Committee, including the testing that has been carried out to support the Viability Statement on page 33. Financial performance, financial position and cash flows have been stress tested using the principal financial and operational risks listed on page 38, including reductions in premium and other income, retention rates and new business volumes, deterioration in loss ratio, possible failure of a reinsurer and adverse impacts of a cyber attack. Focus has also been applied, within the relevant trading entity, to ensure compliance with Solvency II and regulatory requirements.

Internal control framework

The Group has an internal control framework based on the three lines of defence approach, which can be illustrated as:

First line:

Business Operations

- has ownership, responsibility and accountability for day to day risk identification, assessment and management activity;
- directly owns and operates risk mitigating policies and controls and remedial actions;
- seeks to ensure compliance with all regulatory obligations and internal policies; and
- provides management assurance by monitoring and reporting risk, control and compliance matters for governance oversight.

Second line:

Oversight Functions

- establishes boundaries by proposing Group policies and frameworks for Board approval, and standards to align Group wide practices to defined strategy;
- facilitates guidance and direction on effective risk, control and compliance management practices to satisfy Group policies and standards as well as regulatory requirements; and
- applies Group wide best practice providing oversight, challenge, monitoring and assurance reporting directly to Board Committees.

Third line:

Independent Assurance

- offers independent challenge and assurance by auditors, both internal and external, and external actuaries;
- provides independent challenge, objective assurance and consulting activities designed to add value and improve the Group's operations; and
- bring a systematic, disciplined approach to evaluate and improve the effectiveness of risk management control and governance processes.

All three lines of defence have specific tasks within the internal control framework and report via the respective governance committees of the trading entities, to the Audit or Risk Committee and, ultimately, to the Board. The role of these committees is to monitor and provide opinions and recommendations on the effectiveness of the Company's internal controls and management of risk.

Over the course of the year second line oversight and challenge has further enhanced risk management, resulting in a bottom up review and refresh of risk registers to reflect the changing environment and dynamic nature of the Group's business model.

The Group continued to strengthen technical expertise in information security and data protection, conducted security audits and mitigated privacy risk and harm to individuals, through the misuse of their personal information, by introducing greater formalisation of the Data Privacy Impact Assessment process within business operations.

Risk identification and assessment

Monitoring and quality control procedures within front line operations, and clearly prescribed breach reporting and escalation processes support the first line of defence. Second line oversight is provided by independent Assurance, Risk and Compliance functions. Third line oversight is provided by an internal audit function, managed and resourced via a third party relationship with Grant Thornton UK LLP. The effectiveness of the Group's control functions is overseen by the Board and its Committees, and those of each of the trading entities.

Internal audit

The remit of the internal audit function is covered in the Audit Committee report on page 76.

The three lines of defence model seeks to ensure that the standards and appetites, as defined by Group policies, function as planned and support intended outcomes. Under the three lines of defence model, independent assurance testing and evidence gathering on aspects of how the business is managed is undertaken by the internal audit function which reports to the Board via the Audit Committee.

Compliance

The Compliance function within each of the trading entities provides regulatory risk oversight, and monitors compliance with the various regulatory and legal obligations of the Group, specifically those of the UK's Financial Conduct Authority ('FCA') and the Gibraltar Financial Services Commission ('GFSC'). This monitoring, together with regular interaction with the business functions, provides input into such areas as training, marketing and the way the trading entities deal with customers, as part of the continuous improvement approach to meeting regulatory obligations.

The Compliance function provides advisory guidance to the business including training and updates on regulatory developments.

The Assurance function provides oversight through the execution of a risk based compliance monitoring plan and framework, delivering independent assurance by monitoring and reporting as to whether regulatory adherence and customer conduct obligations are being met.

Fraud detection and prevention

The Group's anti-fraud capability continues to protect the Group and its customers and supports demand for participation by its insurer panel and reinsurance providers. The Group's anti-fraud operations team, Insight, provides comprehensive risk selection and loss validation services to the Group's trading activities. Insight comprises of a dedicated team of new business review agents, analysts, intelligence operatives, claims handlers, former IFED ('Insurance Fraud Enforcement Department') police officers (including the former head and deputy head of IFED) and field based investigators. The Anti-Fraud Director is a member of the General Insurance Fraud Committee.

A number of sophisticated identification and validation methodologies and databases are employed to help prevent potentially fraudulent activity at various points in the application, sale and claims process. These are also applied to the detection and prevention of internal fraud within business operations.

Policies and procedures

During the year an updated Group-wide policy framework has been implemented, with key Policy Statements now over-arching all other policies within the Group and trading entities. Policy Statements are approved by the Board and are adopted by the respective trading entity Boards.

These Policy Statements are part of the Group's overall control and governance structure and cover legal and regulatory requirements, culture and values. They also help to communicate and embed key principles and core commitments of the Board to ensure a consistent approach to governance is effectively maintained throughout the Group. An annual review of Policy Statements is undertaken and the Board approves material changes.

Policy Statements are supported by appropriate policies, procedures and training material to ensure compliance with legislation and/or regulation affecting the trading entities.

Senior management is responsible for implementing these supporting policies and procedures, with the oversight functions ensuring operational decisions take into account risk, against appetite, and how this can be managed and controlled.

Risk assessment

The Board undertakes a regular assessment of the principal risks facing the Group, following reports from the Risk Committee, including those that may threaten its business model, future performance, solvency or liquidity.

The Group considers its current key risk categories, any of which could potentially give rise to significant reputational risk, to be as follows:

1. **Commercial performance risk (includes reinsurance risk, market risk, pricing risk and reserving risk):** The risk of loss resulting from failure to meet the Group's strategic objectives and deliver the Three Year Plan.

2. **Financial risk:** The risk of loss resulting from an inability to meet financial commitments as they fall due or from an immediate need to strengthen the capital position.

3. **Operational risk:** The risk of loss resulting from inadequate or failed policies or controls, people, systems and external events.

Risk appetite

Risk appetite statements form part of the planning process and express the level of risk that the Group is prepared to accept to achieve strategic objectives. Risk appetites are defined by a set of quantitative and qualitative measures.

Brexit risk

The UK leaving the EU is not likely to impact the need for UK motorists and households to obtain insurance and is therefore unlikely to significantly affect demand for the Group's products. Volatility in the financial markets could impact the fair value of the Group's investments, but is mitigated by the conservative investment portfolios demonstrated by the portfolio's resilience over recent years. Any negative impact on the UK economy which could impact the Group in respect of interest rate increases or restrictions in financing have been mitigated by the £250m seven year investment grade senior bond issue secured this year which has a fixed rate of interest.

The assessment of risks associated with Brexit remains a key focus for the Group, and a working group is in place to assess the impact of the Brexit agreement or a no deal scenario. Consideration has been given to the impact on areas such as: customers, contractual relationships with suppliers and reinsurers, rights of cross frontier workers, regulation and legislation.

The UK Government confirmed in March 2018 that it will preserve Gibraltar financial services firms' current access to the UK markets until 31 December 2020. It confirmed that, ahead of this date, it will work closely with the Government of Gibraltar to design a replacement framework to endure beyond 2020.

The Memorandum of Understanding on citizens' rights, signed on 29 November 2018, by the Governments of the UK, Spain and Gibraltar, seeks to ensure the correct implementation of provisions in the Withdrawal Agreement protecting the rights of EU citizens. This guarantees EU residents in Gibraltar and EU cross frontier workers the same rights and protections as they currently hold under EU law. If the UK leaves the EU on 29 March 2019 without an agreement, the Group anticipates minimal impact for colleagues.

The Group has made preparations to ensure policyholders are able to produce proof of motor insurance, in the form of a 'green card', when driving in Europe in the event of a no deal.

Underwriting and pricing agility enables the Group to react to claims inflation as a result of Brexit risk impacting repairer networks.

No immediate or short term regulatory change is anticipated in Gibraltar or the UK as a result of the UK leaving the EU with or without an agreement, and the Group therefore believes that the UK leaving the EU is not expected to significantly impact on the Group's operations or results.

Current key risk categories

Risks	Key monitors
Commercial performance risk	
• Missing published performance targets	Trading results are monitored closely to ensure tactical changes are implemented as and when required.
• Inability to manage reserving and pricing risk (Underwriting)	Regular internal and external reserve reviews are reported to the board of Underwriting combined with monthly management reports. Transformation projects established to drive claims and cost management activities.
• Market risk	Constant assessment of market conditions and the implications for assets under management.
• Reinsurance risks (Underwriting)	Regular reviews of reinsurance arrangements and the stability of external partners who provide reinsurance programmes.
• Adverse impact of legal, tax or regulatory change	Ongoing monitoring of changes within the legal and regulatory landscapes together with the maintenance of open and transparent communication with the relevant authorities.
Financial risk	
• Insufficient capital to service debt arrangements (Group)	Monitoring of cash flow from trading entities, the free cash position of the Group and sufficiency of the Group's borrowing facilities.
• Insufficient capital to meet Solvency II requirements (Underwriting)	Management of own funds in accordance with Solvency II regulatory requirements in Underwriting. Monitoring and measurement of risk and capital implications through stress and scenario testing, as captured in Underwriting's Own Risk and Solvency Assessment.
• Insufficient capital to meet regulatory requirements (Retail)	Annual viability and stress testing against the Group's Three Year Plan.
Operational risk	
• Developments and changes in regulation	Effective regulatory horizon scanning capability to review the potential implications to the Group and its trading entities.
• Business interruption events as a result of systems, property or supplier failure (Underwriting and Retail)	Regular review of resilience risks, contingent back up capability, system stability and supplier continuity plans.
• Information security breaches or cyber crime	Constant IT infrastructure monitoring, data assessment and perimeter testing. Increased investment in information security/cyber-crime defences and controls.
• Increased exposure to claims fraud leading to increased claims related expenditure	Dedicated anti-fraud operations team, Insight, operating an integrated, comprehensive risk selection and loss validation division. Use of leading anti-fraud system NetReveal, supplied by BAE Systems, driving benefits through analytics and machine learning.
• Reliance on third party suppliers to provide customer facing services and technology capability	Ongoing supplier relationship and performance management with regular due diligence reviews.
• Brexit: Interruptions to the supply chain by EU based suppliers	A working group is in place to assess the risks associated with Brexit.
• Failure to deliver large change programmes	Programme discipline and process controls are supported by an over-arching control framework to underpin effective governance, controls and quality.

External factors affecting the Group's risk profile

Factor	Impact and mitigation	Outlook
Economic stress Failure to deliver the Group's strategy due to unforeseen economic changes	Adverse economic conditions could increase the risk to the strategic plans and/or reduce the Group's income from investments. Whilst the motor insurance industry has historically been relatively unaffected by economic downturns, as the Group continues to build its home products and explore diversification, more of its products could be subject to the negative effects of a sustained economic downturn. The Group and trading entity Boards regularly review the investment portfolios managed in the respective trading entities against the economic outlook and the Group's risk appetite. The economic horizon is monitored and assessed against the strategic plan.	The Bank of England has analysed the economic effects of the Withdrawal Agreement and the consequences of leaving the EU without an agreement. Confirming that although the impact on the economy cannot be determined in advance, the Monetary Policy Committee will respond to any material change in the outlook to bring inflation sustainably back to the 2% target while supporting jobs and activity. The remit of the Monetary Policy Committee continues to be to support the economic policy of the Government, including its objectives for growth and employment.
Regulatory changes Changes to the regulatory environment which inhibit income generation in the general insurance industry or capital requirements	A shift in the regulatory landscape could introduce constraints therefore increasing the risk to income from general insurance and/or an increase in capital requirements. Equally, however, changes to the regulatory landscape could present opportunities for increased income and reduced capital. The Group strategy is based on the current regulatory horizon. Any negative shift in the rules and regulations that apply to general insurance could increase the risk to the Group's commercial plans. The Group has an effective regulatory horizon scanning capability to review the potential implications for the Group and more importantly its trading entities. In addition the trading entities continue to foster good working relationships with their respective regulators, and other local authorities, and take the opportunity to embrace change early and, where appropriate, adjust the strategic plans to accommodate that change. Retail is often engaged in consultations with the FCA, providing its views on regulatory reform which gives the Group early insight and opportunity to contribute towards the shape of future regulation. Underwriting continues to work closely with the GFSC.	An ongoing FCA review into pricing practices to ensure consumers are being treated fairly; has resulted in a general insurance market study focusing in 2019 on pricing practices for home and motor insurance. The Group is supporting and engaging with this review, and will closely monitor and assess the potential and ultimate outcome. The Bank of England has confirmed that the Government plans to negotiate a relationship for financial services based on equivalence between UK and the EU. The UK Government has confirmed that it will preserve Gibraltar financial services firms' current access to the UK market until 31 December 2020; working with the Government of Gibraltar to design a replacement framework to endure beyond 2020.
Climate change Potential for increased frequency and severity of claims due to climate change that reduces the commercial performance of the Group	The Group's ability to meet its strategic plans, a key risk, could be damaged in the event of increased claims frequency and/or severity. Underwriting adopts a prudent approach to the risks accepted and the pricing strategies used continue to reduce this risk. In addition the industry wide implications of increased claims as a result of climate change is likely to result in premium inflation across the market. The exposure to this risk increases as the Group's Home portfolio grows, as does the resulting impact of extreme hot and cold weather conditions. However, maintaining the conservative underwriting approach continues to ensure that the Group protects its revenue generation whilst minimising the cost implications for claims.	Levels of greenhouse gases in the atmosphere are reaching record highs, according to the United Nations Framework Convention on Climate Change driving long term climate change, sea level rise and more extreme weather. There are increasing expectations on regulated firms to enhance their approach to managing their risks from climate change.
Vehicle technology and innovation Advances in vehicle technology, such as electric and autonomous vehicles, which may fundamentally change the nature of motor insurance	Accelerated advances or developments for which the Group is not prepared could place the Group at a competitive disadvantage. The Group constantly monitors developments to ensure that it remains informed, embraces innovation and change, and is well positioned to adapt its business model as appropriate. The Group has become a founder member of the Smart Mobility Living Lab's three year shared research programme. The programme will develop, test and validate the impact of new road transport technologies, ensuring the Group is at the forefront of technological advancement.	Interest in vehicle technology is increasing, as the UK Government invests in future mobility solutions. Improvements in technology have made it more expensive to repair vehicle damage; this is expected to be balanced by automatic breaking and vehicle sensors making vehicles safer and resulting in fewer accidents.

External factors affecting the Group's risk profile continued

Factor	Impact and mitigation	Outlook
Adverse market conditions Increased competition in the insurance market and changes in consumer behaviour impact profitability	Increased risk that the Group's market share is impaired resulting in commercial underperformance. The Group constantly monitors the markets in which it operates for pricing and other changes that could impact its commercial objectives. The dynamic nature of the Group's ability to rapidly adjust pricing strategies ensures the Group remains competitive by managing both income generation and policy volumes. During the year digital propositions have been enhanced, including the roll out of the mobile app and online portal enhancements for customers, including a new digital claims notification system.	Ongoing challenging market conditions continue with competitive pricing and changing customer behaviour. Customer expectations are increasing for instant results from digital platforms, personalisation and positive experiences via well defined customer journeys.

Internal risks

Factor	Impact and mitigation	Outlook
Commercial failure Commercial performance does not meet Group expectations or the Three Year Plan	The Group either incurs additional expenses or is unable to generate sufficient income. The Group, through its governance and oversight functions, coupled with targeted Internal Audit in the respective trading entities, assesses the effectiveness of critical processes and procedures on a regular basis. These are assessed alongside the risk appetite at both Group and trading entity level through the management reporting that is provided to the Board and its Committees. This provides oversight of the risks that could impact commercial performance and the successful delivery of the Three Year Plan, facilitating opportunities for management and mitigation. Underwriting and pricing agility enables the Group to react to external influences, ensuring that it is able to optimise commercial performance. Embedding and realising efficiencies and benefits from new technology introduced processes for claims handling and policy administration. This will also continue to enhance and simplify the customer experience and drive more positive outcomes.	Market conditions are expected to remain competitive as a result of increased claims inflation because of the weaker pound increasing the cost of imported parts, and vehicles are becoming more expensive to repair as they advance technologically.
Information security/ cyber exposure The Group maintains a digital centric business model that is increasingly exposed to business disruption and data loss	A major information security / cyber event could lead to the Group not being able to access external data critical to the operation of a modern insurance company and/or to generate sales due to a loss of data or a lack of trust in the Group's ability to protect customer data. The Group continues to invest in resources, technology, ongoing training and a culture of compliance, in both the first and second lines, to ensure that it continues to protect itself from the various and changing cyber threats.	This year has seen an increased number of high profile information security / cyber-attacks affecting a range of industries. As criminals become more sophisticated and digital propositions grow this risk is expected to increase in 2019.
Third party failure The Group relies on a large number of external suppliers to support operational deliverables	A supplier, delivering a key service, fails leading to the Group not being able to continue to operate and deliver its strategic objectives. The Group has policies and procedures in place to manage and monitor the procurement process and contract management in the trading entities which is categorised according to the suppliers' risk profile. The Group monitors the key risks in each trading entity and the processes in place to ensure that the risk is within appetite. The Group has a clear view of the risks associated with suppliers, through the interaction that the respective trading entity boards have with senior management.	Ongoing investment in growth may increase the Group's exposure to third party providers as an option to support operational deliverables.

Our 4Cs ways of working

Our belief and approach is based on our 4Cs ways of working: serve and invest in our colleagues, company, customers and communities and be a good neighbour.

We approach all stakeholders openly, transparently and with a strong sense of commitment and use the 4Cs to measure performance and success as individuals and as a Group, so we have a clear, consistent and balanced approach to delivering our objectives.

Colleagues

Our 4Cs ways of working starts with colleagues. We believe that engaged colleagues lead to happy customers so we are committed to investing in, developing and listening to our colleagues so they continue to contribute, thrive and be who they are.

Investing in and developing our Colleagues

The ability to deliver straightforward insurance comes from a high performing, dedicated and customer focused team. We invest in our colleagues and provide them with an environment in which they feel included, valued, empowered and able to reach their full potential. Attracting, recruiting and retaining talent is vitally important for us as we grow. Our agility, clear identity and 4Cs ways of working is why we stand out and what makes us who we are. Colleagues really like working at Hastings and feel they can truly be themselves and bring their personality to work. They feel supported, that there is a strong sense of team and a focus on getting it right for customers. However, feedback from colleagues tells us that there are always things we could do better; for example, as a result of colleague feedback we've introduced new benefits, new Monday to Friday shift patterns for customer facing colleagues and career frameworks.

Reward

Every colleague is expected to contribute to the success of the business. Accordingly, we recognise the hard work and dedication of our team by linking remuneration to personal performance in a way which does not compromise the impact on customer outcomes – we do not remunerate colleagues through sales incentives. Pay rates for all colleagues across the Group are in excess of statutory minimum requirements and roles are benchmarked to similar roles within financial services firms, using data from an external service provider. This way, we ensure that colleagues are fairly remunerated for their contribution to the success of the Group as a whole. The Group is currently assessing compliance with the principles of the Living Wage Foundation. The Group does not operate any zero hour or similar type of contracts for any colleagues. It will also not tolerate slavery and human trafficking within its business and supply chain.

Core health and lifestyle benefits for all colleagues include annual leave, pension, health cash plan, income protection and life cover. Other benefits are available, either at no cost or at a colleague contribution relative to salary, and include access to a digital general practitioner, ability to buy/sell holiday, enhanced health insurance including dental and eye care, health assessments, childcare vouchers, Share Incentive Plan, and discounts and cashback at a large number of high street and online retailers, including Hastings Direct car and home insurance.

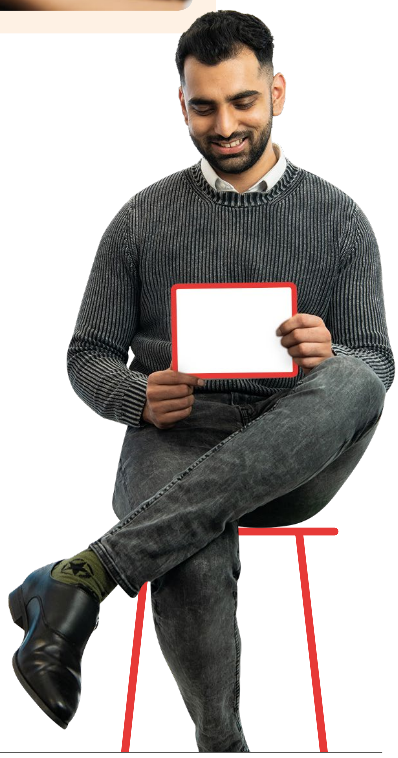
Development

We actively encourage personal development by offering a range of development options to build the capabilities of our teams for the future and encourage the behaviours needed to deliver our business strategy. Through ongoing development, we are committed to developing the skills and careers of all of our colleagues and continually invest in our training and development programmes:

- customer facing colleagues completed over 50,000 hours of upskill training in 2018
- we delivered over 170,000 hours of induction training to new customer facing colleagues in 2018
- colleagues spent 26,000 hours utilising the content of the yourcareer portal in 2018 and nearly 80% of our colleagues in our YourVoice survey agree that they 'Know what skills they need to be successful'
- 77 colleagues enrolled on apprenticeship schemes in 2018 and are studying for professional qualifications in a range of subject areas across Finance, HR, Insurer Services, Customer Relations, Retail Operations and Information Technology
- our leadership development activities focused on onboarding new leaders to the business and developing the skills and knowledge so they understand the business, the role they play in our success and have the skills they need to build and lead high performance teams
- 39 new leaders completed the Leading Business Programme and over 15,000 hours of leadership training and development was delivered to leaders across our business in 2018
- 90% of colleagues in our YourVoice Colleague engagement survey agreed that they 'understand how their role contributes to Hasting's success as a business' and 83% of colleagues agree that their 'line manager enables me to perform as best I can'

"I feel that the training was a good start to the job and what we will actually be doing. I believe the duration of the course was perfect it wasn't too long or too short. I feel that I have learnt a lot about the job and Hastings Direct in general and what we stand for. I feel proud to say I'm a Hastings Direct colleague and I look forward to seeing where this journey with the company takes me."

Sam Mayo
Customer Representative



Listening and acting upon feedback

As we grow, it's important that colleagues share how they feel about life at Hastings. Regular conversations allow us to listen and respond in the best possible way.

We encourage two way feedback through a number of channels, including:

YourVoice

Our annual engagement survey is designed to understand how colleagues feel about life at Hastings and what we do for our 4Cs. We then capture key themes raised by colleagues through company-wide and local action plans that feed through to 4Cs objectives so we can make improvements where necessary and importantly, we can measure progress through the year. This gives us one view, so we regularly ask for colleagues to share their thoughts, ideas and frustrations through all of our communication channels to make sure we that we focus on things that are front of mind. We also run pulse surveys throughout the year to check in with our colleagues about communication, how they're feeling or to get feedback on key initiatives.

Some of the key changes we have made as a result of colleague feedback include wider and more frequent recognition through our 4Cs Awards process, improved benefits, more training opportunities, weekday shift patterns for our customer facing colleagues and improvements to our onsite restaurants.

Hastings Colleague Forum ('HCF')

Our colleague elected representatives from across the business meet monthly to consult with senior management, and Board, representatives, on any key changes and to provide invaluable feedback and insight from their teams. As a result of their input we have made some significant changes, ranging from improved benefits to simplified HR policies and processes. The Chief Executive Officer and Group HR Director make themselves available to attend meetings in an inclusive and non-threatening manner, so colleagues are free to express themselves and their opinions.

The Group does not officially recognise a trade union preferring to engage with colleagues directly, either through their line manager, the HR function or the Hastings Colleague Forum. Colleagues are however free to join a union and be represented by a union member, as appropriate, should they choose to do so.

Examples of items discussed at the HCF:

- employment policy review (agency workers, redundancy, unauthorised leave policy);
- salary and bonus review consultation;
- colleague benefits; and
- consultation on business reorganisation including a redundancy consultation exercise in December 2018.

Small change – small but collectively impactful

Agility is key to our success and we apply focus on the big changes and small fixes in equal measure. To support this thinking, we created a 'small change' team back in January 2017 who work with our Hastings Colleague Forum to get colleague feedback and prioritise the small operational things that make things easier for our colleagues and customers. In 2018 we made a lot of small changes and we share all updates through our Chief Executive Officer's monthly updates which focus on all things 4Cs.

We made 57 small change fixes throughout 2018 and here are some examples:

- automated email response has been updated to help digital teams identify and verify customers without having to ask them for duplicate information;
- changes to the Hastings Direct website making it easier for customers to navigate;
- interactive voice response messaging improved to promote self-serve options to customers on hold;
- customers can now change their document delivery method to either post or online mid-way through their policy;
- added interesting facts to our mobile app loading screen to make the login journey more interesting; and
- tweaked wording and buttons throughout Hastings Direct MyAccount to help customers find what they need.

Contribute and thrive

Our Wellbeing starts with colleagues

Wellbeing
It's about you

Wellbeing at Hastings is a key part of our role as a responsible employer and we believe it has a positive impact on both our individual colleagues and the productivity and efficiency of our business. That's why we created a comprehensive Wellbeing programme that provides colleagues with free support, education, information, courses, events and practical advice to help them feel healthier, happier and stronger, both inside and outside of the workplace. We also have a fantastic group of committed champions who are the mainstay of our Wellbeing programme, responsible for making sure that our colleagues are up to date on all things wellbeing – including mental health, physical health, environmental health and resilience. As well as advocating a healthy culture at Hastings, our champions promote mental health and wellbeing messages, education and events across the Group. They also support Colleagues who may need wellbeing help and advice, making sure they have access to the right services to meet their needs. We're really proud of the positive impact the programme is having on our colleagues and we're not the only ones.

- colleague wellbeing received the highest score increase in our recent colleague YourVoice engagement survey compared to last year
- we are gaining external recognition, presenting this year at the Aviva Wellbeing conference and at the recent Wellbeing@work conference in London

The Hastings Wellbeing programme includes:

- pilates, mindfulness and mindful yoga, sleep awareness, physical, environmental and mental health awareness, migraine awareness, flu jabs, blood pressure and other health checks including diabetes.
- confidential support via external service providers for a wide range of matters such as financial advice (loans and credit cards), initial legal advice, bereavement etc as well as contact details for external charities and other support networks and organisations.
- family friendly workshops – designed to help colleagues and leaders understand the steps they both need to take before, during and after a period of extended leave. These are primarily aimed at colleagues taking maternity leave but also offer useful information for those taking other types of extended leave.
- subsidised in-house restaurants at our locations in Bexhill and Leicester provide breakfast, lunch and dinner with an ethos of offering freshly made food using local ingredients. Colleague feedback has resulted in improvements to the healthier options on offer including a wider range of salads, proteins and more vegetarian options.

"All of the support and help that's only a phone call away is faultless – I've never had company benefits like this before!"

Colleague Assistance Programme usage rose

90%

vs 2017

"It's really good to see Hastings looking out for our colleagues and their wellbeing."

"Wellfest was a brilliant event! It was very engaging and informative. Thank you!"

68%

of all colleagues attended 'Wellfest 2018', and 99% of those who attended said it was a valuable use of their time.

THE 4Cs AWARDS 2018

Recognition

We regularly recognise and reward the hard work and dedication of our colleagues whether it's just by saying thank you, awarding vouchers or by celebrating with them at our 4Cs Awards events or at other social events. We also use the 4Cs to recognise and thank colleagues for going the extra mile on a monthly and annual basis. Our 4Cs Awards programme offers colleagues the chance to nominate their team members for their achievements and in 2018 we had over 3,200 nominations and the winners of seven categories received their coveted awards at the annual 4Cs Awards Final.

Be who they are

Equal opportunities and human rights

We are committed to ensuring that everyone has equal opportunities at all stages of recruitment, selection and throughout their working careers. Short listing, interviewing and selection is carried out with neutral regard to disability, gender, gender reassignment, sexual orientation, marital or civil partnership status, colour, race, nationality, ethnic or national origin, religion or belief or age. Our approach to recruitment is to elicit candidates from as many different backgrounds as possible.

The Group has a responsibility to conduct its business in an ethical and transparent way. Accordingly, we adhere to a set of business principles which include a commitment to human rights principles. The Group has policies in place to support these principles which include non-discrimination, health and safety, anti-bribery, human slavery and trafficking and environmental issues. We maintain a zero tolerance approach to bribery, corruption and slavery.

To support and guide our colleagues in the work place the Group has policies in place ranging from discrimination and anti-bullying, to diversity and inclusion, to stress management and flexible working practices that drive the right behaviours to recognise and develop all colleagues. These policies are an effective way to ensure that all colleagues understand their rights and to reinforce the appropriate behaviours. Regular training and awareness, not only on policies and work practices, but also wellbeing and health are provided throughout the year.

Mandatory training is required for all colleagues to ensure that all of our colleagues are aware of company policies, the company's values and legislative requirements. Our training courses cover data protection, information security, anti-fraud, anti-money laundering, anti-corruption and bribery, customer experience, complaint handling and vulnerable customers, to name but a few. Training outcomes are monitored and remedial training is provided as appropriate.

Gender diversity across the Group as at 31 December 2018

	Male	Female
All Colleagues (full and part time)	48%	52%
Senior leaders	72%	28%
Underwriting Board ('AICL')	100%	0%
Retail Board ('HISL')	50%	50%
Company Board	67%	33%

Diversity and inclusion

We regularly monitor all aspects of colleague diversity across the business. We consider candidates from all backgrounds as part of any recruitment process and we are committed to attracting and retaining the best talent in the industry.

The Group is committed to making sure that its workforce and the respective company boards are representative in terms of diversity and candidates from a wide range of backgrounds, disciplines and experience are considered. The Group abides by this policy by ensuring that the best candidate is selected and it does not intend to adopt a quota system with prescriptive, quantitative targets. However, it is acknowledged there is an imbalance in the number of senior females within the Group and we are taking steps to address this. Over the past 12 months we've successfully recruited a number of females to senior leadership roles but there's more we can do. We've signed up to the Women in Finance Charter supporting the progression of women into senior roles in the financial services sector by focusing on the executive pipeline and the mid-tier level. We are also signatories to the 30% Club committing to having 30% female senior leaders at Hastings by 2020. To date 26% of our senior leaders are female and we will continue to improve on our commitment into 2020. We have introduced initiatives to focus on recruitment, induction, talent and other parts of our colleagues' experience, such as, new and enhanced ways of working, including increased support to colleagues during and after maternity and other extended periods of leave and 'Be Who You Are' case studies that reflect and celebrate the diversity of our talented colleagues at Hastings. Diversity and inclusion are also very relevant to the Company's Board. We have achieved over 33% female director representation on the Board during 2018 as part of its commitment to the Hampton-Alexander Review, which aims to ensure that talented women at the top of business are recognised, promoted and rewarded.

Hastings, where everyone counts

At Hastings we are committed to creating a Company that is at ease with itself and encourages you to be who you are. It's our combined efforts, personalities, culture and commitment to our 4Cs that makes us a success.

3,322

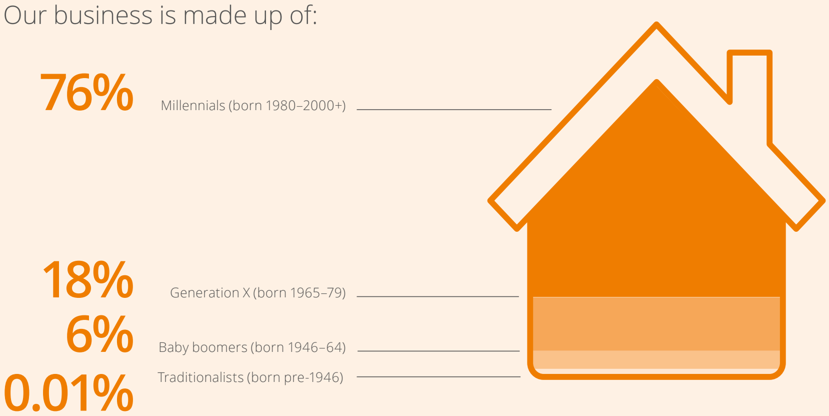
Colleagues across our sites

In 2018, we welcomed

1,069

new starters

Our business is made up of:



92%

Feel treated with dignity and respect by their line manager (YourVoice 2018)

30% Club
GROWTH THROUGH DIVERSITY

Aiming to achieve 30% of female Senior Leaders by 2020

Women make up 33% of our Company Board and 28% of our Senior Leadership Team

33%

Customers

We have a straightforward approach – to provide our UK car, van, bike and home insurance customers with straightforward products at competitive prices. However they choose to interact with us and to provide a straightforward service by:

Listening and responding to customer feedback

We consistently capture customer sentiment across the entire customer journey. Through a dedicated platform we are able to monitor customer responses within the customer lifecycle; from initial purchase, through the service and claims processes, to policy renewal. Contact centre colleagues and team leaders can access data via personalised dashboards in real time, not only allowing them and management to take action and improve our customer experience, but also to celebrate our 'heroes' on the frontline. This cross contact channel, allows us to optimise our customers' digital and web chat experience, as well as improving our contact centre interactions.

Working in an open and accountable way

Treating customers fairly is at the heart of what we do and we strive to deliver improved outcomes for all of our customers whether they are purchasing or renewing their vehicle or home insurance or making a claim. By providing straightforward, simple and understandable information. We ensure that:

- our customers are confident that they are dealing with a firm where the fair treatment of customers is central to the corporate culture;
- our products and services are marketed and sold in the retail market, and are designed to meet the needs of identified consumer groups and are targeted accordingly;
- customers are provided with clear information and are kept appropriately informed before, during and after the point of sale;

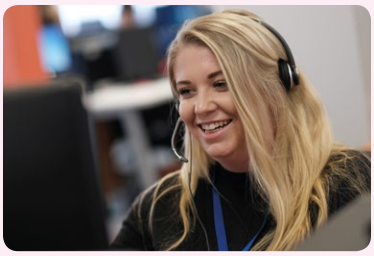
- we take account of the needs of potentially vulnerable customers;
- our customers are provided with products that perform as we have led them to expect, and the associated service is of an acceptable standard and as they have been led to expect; and
- our customers do not face unreasonable post-sale barriers imposed by the terms of our products, if they choose to switch provider, submit a claim or make a complaint.

Making it easy for customers to complain

- we hope that no one needs to complain about our products and/or our services. However, sometimes things do not go to plan or a customer's expectations may not be met in full. We make it easy for customers to complain, should they feel it necessary, whether directly on the phone, by email or even social media;
- our colleagues are empowered to successfully resolve various matters of customer dissatisfaction at the time it is raised. Where a customer does formally or informally express dissatisfaction that cannot be resolved at the time, our dedicated complaint resolution team take over; and
- we aim to ensure that customers are satisfied with the service they receive and should they need to complain we strive to ensure that they are not inconvenienced for any longer than necessary. Complaints data is publicly available on the FCA website www.fca.org.uk/data/complaints-data.

Maintaining high standards of customer experience

- our quality assurance function also ensures we do not rest on our laurels by monitoring recorded customer calls to ensure that our colleagues are maintaining the highest standards of customer experience and complying with regulatory and legislative requirements; and
- advice is provided direct to colleagues on areas of improvement and remedial training can also be provided if appropriate. The function also reviews customer complaints and outcomes to ensure that we are consistently treating customers fairly and honestly.



Company

Hastings stands out because we focus on getting it right for our 4Cs. It is our belief that ethical conduct is an integral component of running a business successfully and it is an expectation we have of both our colleagues and our suppliers. We continually look at ways to make improvements so we can continue to serve our communities and be a good neighbour.

Strong supplier relationships are vital to our continued success. We work closely with our local and national suppliers to communicate our standards, values, principles and sustainability goals to them and ensure they are aligned in helping us offer the best price, product and service solutions to benefit our customers and colleagues.

Each colleague is responsible for delivering our everyday activities in a way that reflects ethical principles.

We play our part by:

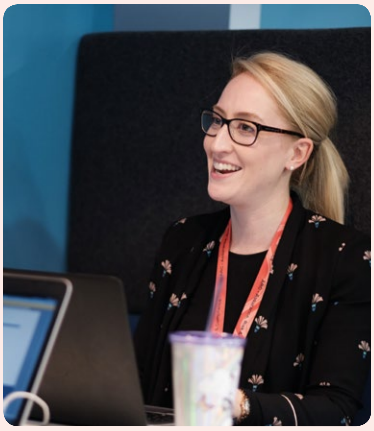
- inviting our customers to receive all their documentation electronically;
- supporting local businesses with a range of unique offers that encourage and incentivise our colleagues to buy from local retailers, suppliers and services;
- promoting a Travel Green initiative that supports our colleagues in making greener journeys to work through car sharing, increased cycle use and discounted rail travel;
- dedicated recycle and confidential waste stations and at our head office site in Bexhill we send zero waste to landfill;
- encouraging the use of travel mugs and water bottles to cut the use of disposable cups. This year we also introduced 40 dedicated coffee cup recycle stations across our head office in Bexhill;
- using reduced energy electric light bulbs and motion sensitive lighting where possible and practical; and
- recycling unwanted furniture by donating it to local charities and organisations.

Governance

Information on the Board as well as the Group's governance arrangements can be found later in this report on pages 62 to 91.

As the ultimate parent entity of the Group, the Company establishes the practices and tone from the top in relation to governance. As a listed company the Company is required to comply and explain its compliance with the UK Corporate Governance Code ('Code') as well as adhere to various other requirements such as the Listing Rules and the Disclosure and Transparency Rules. The main trading entities of the Group, Retail and Underwriting, are private companies and are not required to apply the Code. However, where possible, these entities adhere to the spirit of the Code by applying those principles and provisions that are achievable and are not onerous to their operations and/or independent governance. This enables the Company to better understand and challenge those elements of the business that are vital to good governance within the main trading subsidiaries. Retail adopted the recently published FRC's Wates Principles for Large Private Companies into its governance framework at the beginning of 2019. The Company's compliance with the Code is provided on page 73.

The Company and its subsidiaries have unitary boards in common with best practice within the UK. Retail and Underwriting are separate companies within the Group and each of their respective boards has a majority of independent non-executive directors. To ensure that communication with, and oversight by, the Company of the subsidiary companies is maintained, their respective boards have one independent non-executive director who also serves in that capacity on the Company Board. Retail and Underwriting apply the provisions and principles of the Code, as appropriate, as well other regulatory requirements that apply to financially regulated firms in the UK and Gibraltar, for example the FCA Handbook and Solvency II.



Supplier due diligence

Suppliers of key services to the Group are subject to a robust due diligence process under a Supplier Relationship Management Framework in order to enhance relationship and risk management. Critical suppliers are subject to ongoing reviews throughout the year at which service levels and adherence to processes and procedures are discussed and improvements made as appropriate.

Whistle blowing, fraud and anti-bribery and corruption

A whistle blowing policy is in force across the Group to enable colleagues to bring to the attention of any Director serious matters of misconduct which they believe would damage the performance or reputation of the Group. A confidential, externally serviced hotline is provided for all colleagues to raise matters of misconduct. During the year no matters of significant misconduct were raised through the whistle blowing hotline.

The Group has a leading anti-fraud capability which to date has generated significant cost savings and supports its insurer panel and reinsurance partners. This capability supports comprehensive risk selection and loss validation through a dedicated team of new business review agents, analysts, intelligence operatives, claims handlers, former police officers and field based investigators.

Financial crime is a serious matter for all companies and more so for those that operate within the financial services sector. Colleagues are required to undertake awareness training on all types of financial crime and must follow Group policies, procedures and guidelines in relation to all financial operations. During the year no significant matters relating to financial crime, with the exception of fraudulent claims and ghost broking identified as part of normal business operations, were reported.

Good corporate citizen

Sustainable, long term investing extends beyond the evaluation of quantitative factors and traditional fundamental analysis of financial metrics, extending analysis to an entity's impact on stakeholders, the environment and society. Environmental, Social and Governance ('ESG') factors can affect investment performance, expose potential investment risks, and provide an indication of management excellence and leadership and they integrate these factors into our investment and engagement processes. Responsible ownership also extends through proxy voting and active engagement with the boards and management of the funds invested in.

Underwriting's independent investment advisor undertakes an evaluation of investment managers' approach to ESG and compliance with industry standards, for example the UK Stewardship Code. Integration of ESG criteria looks beyond the existence of policies and procedures and also investigates underlying ownership and holdings. In addition they extend a 'comply or explain' approach to a range of ESG factors, both when initially screening managers, but also on an ongoing basis to provide an ongoing framework to evaluate investment manager behaviour. Our advisers continually develop their research process, investment strategy modelling tools and reporting by incorporating innovative thinking on ESG matters. Our independent investment advisor is in the process of signing up to the United Nations supported Principles for Responsible Investment (www.unpri.org/) and expects to be a signatory within the next year.

Our aim is to adopt a principled and sustainable tax strategy that underpins the Group's desire to balance the various interests of all its stakeholders, including shareholders, customers, governments, regulators, colleagues, and the community interests which it serves. The Group seeks to ensure that it complies with all legal requirements both in the UK and in all other jurisdictions where it operates, by making all appropriate returns and payments in respect of its own tax liabilities and by collecting taxes on behalf of the relevant tax authorities in accordance with prescribed rules and deadlines.

ESG Reports

The Group's Tax Strategy and Statement on Slavery and Human Trafficking are approved by the Company's Board and are available on the Group's website.

The Gender Pay Gap Report for Hastings Insurance Services Limited, the main employer and only entity with more than 250 employees in the Hastings Group, can also be found on the Group's website.

Community

With happy colleagues, satisfied customers and a profitable Group we are able to take the 4Cs full circle by taking an active part in serving our communities. We focus our efforts locally so that we play an active role in the communities where we work and live and do this by being a good neighbour, investing in local education initiatives and looking after our environment.

Being a good neighbour

Our Charity Events Committee is made up entirely of colleagues who volunteer to organise fundraising events throughout the year for local charities nominated by colleagues. The Hastings Community Fund provides a helping hand to local individuals or groups by providing advice, physical support or small grants to help with fundraising. In 2018 we raised over £54,000 for local charities and organisations and gave over 7,700 hours of practical or professional advice or support through our community days.

During 2018 our charity partners were:

Hope Against Cancer: cutting edge research and making clinical trials available to local people

OpenHands: helping the most vulnerable and disadvantaged

You Raise Me Up: support families that have suffered the loss of a teenage child

Seaview: wellbeing centre for the homeless

As part of our insurePink product offering, where £10 for every insurance policy purchased is donated to a breast cancer charity (Pink Ribbon Foundation), we are pleased that our customers have now helped us raise over £1million for the good cause over the last ten years.

Investing in local education initiatives

We have significant interaction with schools, colleges and universities in and around our communities to help develop, attract and nurture home grown talent. In 2018 we started the fourth year of the 'Be the Change' programme in Bexhill and Leicester which aims to raise the aspirations of local 13 – 14 year olds. The programme is designed to help remove barriers that may make students disengage from school and in life and provide them with life skills to help shape their future. Our colleagues volunteer as business mentors to help support the students with anecdotal and professional advice and guidance. Hastings continues to be the only corporate organisation to sponsor a full bespoke Be the Change programme in the UK.

Be the Change gives colleagues the opportunity to make a difference to the education and career paths of Year 9 students from two secondary schools, one each in Bexhill and Leicester. Over 940 students have taken part in the programme since it launched in 2015 and over 210 colleagues have been business mentors, with many returning year after year. This year, the Group's Chair, Gary Hoffman, who participated in the first event, was appointed as the Group's Be The Change ambassador.

"The average cost to help a family who has lost a young adult between the ages of 16 to 25 is £6,200 a year, including funeral and counselling, so your support is invaluable! Thank you."

Lesley Powell-Cullingford, Fundraising coordinator, You Raise Me Up, Eastbourne

Looking after our environment

The Group's direct operations are purely office based and as such have a relatively low impact on the environment compared to other industries, however, we seek to improve the Group's and our colleagues' footprint as much as possible. Conquest House is the Group's head office and the building was built in the 1970s. Improvements to Conquest House for the benefit of our colleagues and the environment are ongoing for example we have plans to replace lighting systems with less power hungry light sources and to improve cooling and heating system performance. We encourage our colleagues to use public transport as much as possible and operate cycle to work and car share schemes. Charging points for electric vehicles are installed at our Bexhill site and are free to use for colleagues. The Group's Gibraltar based underwriting business recently relocated to a new rented office block; our sites in London and Leicester are also rented; all three of these sites have good environmental credentials.

"We've already benefitted from a gift of recycled office goods from you and your donation will help us provide lifesaving support including hot meals and sleeping bags. It'll also help with running costs to keep our wellbeing centre in St. Leonards warm and open."

Annie Whelan, Chief Officer, Seaview, Hastings

Our environmental commitments also extend to our colleagues where we provide a safe, healthy working environment. We strive to ensure that all colleagues are able to work, rest and play in an environment that promotes safety and good health. Our sites provide areas where colleagues can leave their work stations, de-stress and relax, be that a clean restaurant stocked with healthy food, quiet rooms, outside space to read and chill, or games rooms. The Group does not currently operate a green procurement programme but encourages all of its suppliers to be environmentally responsible.

BE THE CHANGE

Greenhouse gas emissions

Tonnes CO_2e	2018	2017	2016
Scope 1	**248**	235	277
Scope 2	**710**	906	1,064
Total CO_2e	**958**	1,141	1,341
Full time colleagues	**1,730**	1,798	2,001
CO_2e per FTE	**0.55**	0.63	0.67

Scope 1 – Direct emissions resulting from natural gas & gas oil consumption and refrigerant gas release
Scope 2 – Energy indirect emissions from purchased grid electricity

Greenhouse Gas Emissions ('GHG')

All emission sources have been reported on as required under the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended. The reporting boundary used for collation of the above data is consistent with that used for consolidation purposes in the Financial Statements. The Group has followed the methodology laid out in DEFRA's Environmental Reporting Guidelines and calculated the carbon emissions using the relevant carbon conversion factors as issued by DEFRA: **www.ukconversionfactorscarbonsmart.co.uk/**. Emissions have been reported in tonnes of carbon dioxide equivalent ('CO_2e') which include CO_2, CH_4 and N_2O. The publication of Gibraltar's CO_2 per kWh of electricity generated ended in 2015. Therefore this year's emissions from this source have been derived using the 2015 factor. Electricity consumption from offices in Gibraltar accounted for only 2% of the Group's total electricity usage in 2018. The emissions have been calculated and the data validated by an independent energy consultancy – Concept Energy Solutions.

GHG emissions arise from the Group's electricity and gas consumption through the operation of its offices. There were no refrigerant gas emissions in 2018 and the diesel-powered backup generator previously deployed at the Group's head office in Bexhill has been removed and therefore was not used in 2018. The Group does not own any vehicles and business travel through private vehicles is limited; transport emissions have therefore been excluded from the reporting scope.

Electricity and gas data has been collated through supplier utility invoices and/or half hourly electricity data. Refrigerant gas ('F-Gas') losses have been based on the F-Gas log of refrigerant re-charged into the AC systems – in 2018 there were no losses reported and consequently no re-charging.

The Group moved out of Franklin House in Newmarket in November 2017 and colleagues were relocated to other Group offices or now work from home. There were no emissions associated with this building in 2018. In November 2018, the Group's operations in Gibraltar moved location; invoice data was available for the previous location for the majority of 2018, but at the time of the reporting there were no invoices for the new office. Consumption for the new office has been estimated based on average historical usage at the old location. Only offices where energy usage is within the control of the Group have been included in the reporting scope and therefore exclude the leased offices in Leicester and London for which energy data is not available and/or accurate. Full time colleagues based in the Leicester and London offices and those that work from home are not counted towards the CO_2e per full time colleague ('FTE') figure quoted.

Emissions associated with grid electricity consumption continued to decrease in 2018, owing to decarbonisation of the grid; the emission factor was 0.28307 kg CO_2e/kWh in 2018, a decrease of 19.5% on 2017. The annual level of greenhouse gas emissions resulting from activities for which the Group is responsible continued to decrease; 2018 emissions were 958 tonnes CO_2e (2017: 1,141 TCO_2e), a reduction of 16% on the previous year. This equates to 0.55 tonnes (2017: 0.63 tonnes) per colleague. The emissions for 2018 were 35% below the emissions from the base year (2013) total of 1,479 tonnes. In 2018 the carbon emissions solely comprised those from electricity and gas (74% and 26% respectively); there were no emissions from refrigerant gases or diesel generation this year.

The reporting period is in line with the Company's financial year, which is the same as the calendar year.

Directors' report

The Directors present their Annual Report and the audited Financial Statements for the year ended 31 December 2018.

Statutory information contained elsewhere in this Annual Report

Information required to be part of the Directors' Report can be found elsewhere in this document, as indicated, and is incorporated into this Report by reference:

- results and dividend in the Chair's Statement, page 12 and the Chief Financial Officer's Statement, page 26;
- corporate governance, the Group's financial risk management, internal control objectives and policies in the Corporate Governance Statement on page 61 and Managing Our Risks on page 33;
- details of the salaries, bonuses, benefits and share interests of Directors in the Annual Report on Remuneration on page 95;
- Directors' Responsibility Statements on page 60;
- how the Board takes into account the views of all stakeholders and promotes the long term success of the Company on page 41;
- Colleagues on page 42;
- Whistleblowing on page 52; and
- Environmental and Greenhouse Gas reporting in Environmental, Social and Governance on page 56.

Management Report

The Strategic Report and this Directors' Report, with its inclusions as indicated above, form the Management Report as required by the Disclosure and Transparency Rules (DTR) 4.1.5R.

Directors and Directors' interests

The names of the Directors of the Company and changes to directorships during the reporting period are shown on pages 64, 65 and 84. Biographical details of the current Directors of the Company are shown on page 66 to 67. Directors' interests in the share capital of the Company are set out in the Directors' Remuneration Report on page 102.

Directors' indemnities and insurance

The Company has made qualifying third party indemnity provisions for the benefit of its Directors which remain in force at the date of this report. In certain circumstances, the Company can indemnify Directors, in accordance with its Articles of Association, against costs incurred in the defence of legal proceedings brought against them by virtue of their office. Directors' and Officers' Liability insurance cover remains in place to protect all Directors and senior managers.

Articles of Association

Any amendment to the Company's Articles of Association may only be made by the passing of a special resolution of the shareholders of the Company.

Substantial shareholdings

As at 27 February 2019 the Company was aware of substantial interests in the Company's shares or had been notified of interests in voting rights under Chapter 5 of the DTR, as follows:

Shareholder	Shareholding	% of issued share capital	Holding
Main Street 1353 Proprietary Limited	196,508,074	29.8	Direct
Goldman Sachs Interests	76,372,246	11.6	Direct
Aberdeen Standard Investments	41,261,831	6.3	Direct
Fidelity Management Research	36,180,862	5.5	Direct
Mr Neil Utley	30,000,000	4.6	Direct

Share capital structure, issue and buying back and shareholder rights

The number of Ordinary Shares of 2 pence each issued and fully paid at 31 December 2018 was 657,701,128. All Ordinary Shares have equal rights to dividends and capital and to vote at general meetings of the Company, as set out in the Company's Articles of Association.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

During the year, shareholders Goldman Sachs & Co. and the Founder Shareholders (collectively Significant Shareholders) had significant direct investment in the Company. Pursuant to a Relationship Agreement ('RA1') entered into by the Company, Goldman Sachs & Co. ('GS Shareholders') and the Founder Shareholders are each able to appoint one Director while they (or persons connected to them) continue to hold a direct or indirect interest in at least 5% but less than 20% of the Company's shares. As at the end of the year, the appointee for the GS Shareholders was Sumit Rajpal; the Founder Shareholders had not appointed a Director.

Rand Merchant Investment Holdings Limited via its subsidiary Main Street 1353 Proprietary Limited ('RMI') maintain a shareholding of 29.9% in the Company. A relationship agreement ('RA2') was entered into between the Company and RMI so that, for so long as RMI holds a direct or indirect interest of between 15% and 29.9% in the issued Ordinary Share capital of the Company, RMI is able to nominate a Director for appointment to the Board of the Company. As at 31 December 2018 Mr Herman Bosman, Chief Executive Officer of RMI was the appointee for RMI. RA2 contains the same independence provisions as RA1, however the Company confirms that, as at 31 December 2018, RMI was not a controlling shareholder as defined by Listing Rule 9.2.2A.

In accordance with Listing Rule 9.8.4(14)(c) the Company confirms that it complied with the independence provisions included in RA1; that as far as the Company is aware independence provisions included in RA1 were complied with during the period under review by the Significant Shareholders; and that the procurement obligations included in RA1 were complied with during the period under review by the Significant Shareholders.

In accordance with Listing Rule 9.8.4(14)(c) the Company confirms that it complied with the independence provisions included in RA2; that as far as the Company is aware independence provisions included in RA2 were complied with during the period under review by RMI; and that the procurement obligations included in RA2 were complied with during the period under review by RMI.

The appointment and replacement of Directors is governed by the Articles of Association, the UK Corporate Governance Code (the 'Code'), the Companies Act 2006 and related legislation. In accordance with principle B.7.1 of the Code, all Directors will be subject to annual election by shareholders.

Resolutions to provide authorities to Directors to allot shares, to disapply certain pre-emption rights and to make market purchases of the Company's own shares, all subject to appropriate limits, will be put to the Annual General Meeting (AGM). Shareholder resolutions put to the AGM held in May 2018 providing authority for the purchase by the Company of its own shares remained valid as at 31 December 2018. The Company confirms that during the financial year ended 31 December 2018, no shares in the Company were purchased by the Company or acquired by it by forfeiture or surrender in lieu of forfeiture; or were acquired by a Company nominee, or by another with the Company's financial assistance, the Company having a beneficial interest in accordance with section 671 of part 18 of the Companies Act 2016; or were made subject to a lien or other charge taken by the Company. The Company has not held any Ordinary Shares in treasury in the period under review.

Under the Company's Share Incentive Plan ('SIP') Trustees of a trust ('SIP Trust') was established for the purpose to hold shares on behalf of SIP participants for a three year service period. The SIP Trustees will vote on, and receive dividends, in accordance with a participant's wishes. A separate trust The Hastings Group Employee Benefit Trust ('EBT') holds shares for the benefit of colleagues under the Long Term Incentive Plan ('LTIP'). The EBT Trustees have expressed their intention to abstain from voting but receive dividends in line with shareholder rights attaching to its shares. The Group satisfies matching share awards in the SIP and the LTIP as described in Note 29 to the Financial Statements through the acquisition by the SIP Trust and the EBT respectively of the Company's Ordinary Shares in the market. During the three year service period for the SIP matching shares are held by the SIP Trust. The assets of the SIP Trust and the EBT are both consolidated within the Company's Consolidated Financial Statements.

Change of control – significant contracts

There are several commercial agreements that take effect, alter or terminate upon a change of control of the Company; none is considered to be significant in terms of its potential impact on the business of the Group as a whole. The Company does not have agreements with any Director or colleague that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's share schemes and plans may cause options and awards granted to colleagues under such schemes and plans to vest on a takeover.

Branches

The Company and its subsidiaries do not have any branches in any other country.

Political contributions

There were no political contributions during the year (2017: £nil).

Directors' statements

As required under the Companies Act 2006, the Code and the Disclosure and Transparency Rules, various statements have been made by the Board as set out on page 60 and are incorporated into this Report by reference.

Auditor

KPMG LLP were initially appointed as the Company's External Auditor in December 2015 for the financial year ended 31 December 2015 and their re-appointment was approved by shareholders at the AGM in 2018 for the current financial year. KPMG have confirmed that they are willing to be reappointed as auditor for the financial year ending 31 December 2019. In accordance with section 489 of the Companies Act 2006, a resolution proposing the appointment of a statutory Auditor will be proposed at the AGM.

The Audit Committee report on page 76 provides details on the length of tenure and re-appointment of the Auditor and when a tender for the service was last conducted.

Directors' statement of responsibility for disclosure of information to auditor

As required by section 418 of the Companies Act 2006, each Director serving at the date of approval of the Financial Statements confirms that:

- to the best of his or her knowledge and belief, there is no information relevant to the preparation of these reports of which the Company's auditor is unaware; and
- he/she has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's Auditor is aware of that information.

Words and phrases used in this confirmation should be interpreted in accordance with section 418 of the Companies Act 2006.

Contractual arrangements

The Group considers its co-insurance and reinsurance contracts as well as contracts with PCWs, critical software platform providers, data centre service providers, and claims repair service providers to be essential to the running of the Group's business. No other contractual arrangements are considered to be essential.

Financial instruments

The objectives and policies for managing risks in relation to financial instruments held by the Group are set out in Note 25 to the Consolidated Financial Statements.

Going concern

The Directors consider that the Group has adequate financial resources to continue operating for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing the Financial Statements. In considering the appropriateness of this assumption, the Board has reviewed the Group's projections for the next 12 months and beyond, including cash flow forecasts and regulatory capital surpluses.

The Strategic Report and the Directors' Report were approved by the Board on **27 February 2019** and are signed on its behalf by:

Anthony S Leppard
Company Secretary
27 February 2019

Statement of Directors' responsibilities

Statement of Directors' responsibilities in respect of the Annual Report.

The Directors are responsible for preparing the Annual Report, which includes the Group and parent Company Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements on the same basis.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

Responsibility statement of the directors in respect of the Annual Report

We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report and Directors' Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report, including the Group and parent Company Financial Statements, taken as a whole, to be fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Anthony S Leppard
Company Secretary
27 February 2019

Corporate governance

Chair Q&A	62
Board of Directors	64
Corporate governance statement	68
Audit Committee	76
Nomination Committee	83
Risk Committee	87
Remuneration Committee	90
Annual statement from the Remuneration Committee Chair	92
Annual Report on Remuneration	95
Independent Auditor's Report	112

Chair Q&A

"We have made great strides in ensuring that the Board is representative of its colleagues and customer base in terms of gender diversity."

Gary Hoffman Chair

Q

You became the Chair of the Board in May 2018 after stepping down as Chief Executive Officer in March. How have you managed the transition in roles?

A

I arrived at Hastings as Chief Executive Officer in 2012 and led the Group through to its IPO in 2015 and the subsequent two years. I felt that I had achieved what I had set out to do as Chief Executive Officer but still believed that I had something else to offer Hastings. Toby and I obviously know each other very well from our previous roles. Toby has extensive experience in direct financial services and having successfully led the Group UK's Retail trading activities since joining the business in 2012, his promotion to Chief Executive Officer was well deserved. My transition to the role of Chair was smooth, knowing I had left leadership of a strong and stable executive management team in Toby's very safe hands. I have extensive experience of chairing various boards across a number of industries, and whilst there was a short period of adjustment as I stepped back from day to day involvement in the business, chairing a company that I have known and led for over six years means a lot to me personally.

Q

The first externally facilitated Board evaluation took place in 2018. How did the process differ from the previous, internal, evaluations?

A

This year was the third year for the Company as a listed entity. In accordance with the Code the evaluation of the Board and its Committees was undertaken by an external facilitator, in this instance, Grant Thornton. The evaluation was undertaken using questionnaires for the Board and each of its Committees. The role of Company Secretariat was also subject to review. The questionnaires were then followed up with individual interviews with each director, with the exception of Libby who joined the Board in September. Interviews were also undertaken with the lead partners from the external and internal auditor and the Company Secretary to provide a balanced view on Board interaction and engagement. The results were presented to the Board by Grant Thornton at the Board meeting in January 2019 and whilst results were largely positive, action plans for various enhancements have been agreed by the Board and each of its Committees.

Q

The diversity of the Board has continued to improve since initial listing in 2015. What is the Board's policy on diversity and inclusion for the Board and the Group as a whole?

A

Hastings, along with a number of other companies, was criticised at the time of its IPO in 2015 for the predominance of male directors on its Board. Since then we have made great strides in ensuring that the Board is representative of its colleague and customer base in terms of gender diversity with four female directors and have met the UK government's target with at least 33% female Board members. Our work does not end there and we are also working hard to ensure that not only is our Board representative of our customer base but also our colleagues, especially females in management and senior management roles. We will look to develop a high quality, diverse succession pool especially for future Board members.

The Group's policy on diversity and inclusion remains that we will seek to appoint the best candidate for the role based on their skills, knowledge and experience. As I mentioned in my Chair's Statement, we continue to strive to ensure that all candidates are offered every chance of success irrespective of their background or beliefs. We continue to raise awareness of diversity and inclusivity amongst our colleagues to ensure everyone has the opportunity to succeed and prosper at Hastings.

Q

The new UK Corporate Governance Code became effective in January this year. Do you foresee any areas where Hastings may need to explain as opposed to comply?

A

The Board was fully briefed on the provisions of the new Code as soon as it was published and an action plan was agreed to ensure compliance with the new principles and provisions early this year. Other than in relation to me not being independent upon appointment as Chair, which has been fully explained, the Board did not foresee any issues with compliance. I am pleased to report that the action plan has been completed and the Company complies with all provisions and principles of the new Code, except in relation to this one area.

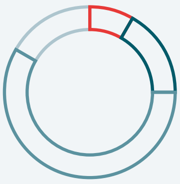
Gary Hoffman
Chair
27 February 2019

Maintaining effective governance

The Board is committed to maintaining high standards of corporate governance. Our Board structure and governance approach are designed to ensure that we retain our strong focus on value generation and that we operate throughout as a highly ethical and responsible business.

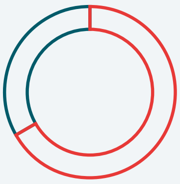
Board structure

Board composition



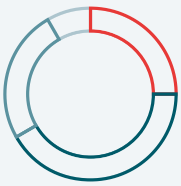
Chair	1
Exec	2
INED	7
NED	2

Board gender



Male	8
Female	4

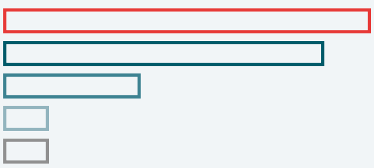
Age



40–49	3
50–59	5
60–69	3
70+	1

Experience

Finance/Banking	8
Insurance	7
Technology/Telecoms	3
Legal	1
Consultancy	1



1

Gary Hoffman
Chair

2

Tobias van der Meer
Chief Executive Officer

3

Richard Hoskins
Chief Financial Officer

4

Herman Bosman
Non-Executive Director

9

Pierre Lefèvre
Independent Non-Executive Director

5

Alison Burns
Independent Non-Executive Director

10

Sumit Rajpal
Non-Executive Director

6

Elizabeth Chambers
Independent Non-Executive Director

11

Teresa Robson-Capps
Independent Non-Executive Director

7

Thomas Colraine
Senior Independent Director

12

Selina Sagayam
Independent Non-Executive Director

8

Ian Cormack
Independent Non-Executive Director

Board of Directors continued

The Directors who were in office and their Committee memberships as at 31 December 2018 were as follows:

1 Gary Hoffman
Chair

Appointed: 15 June 2015

Gary was appointed Chair in May 2018 having previously served as Chief Executive Officer of the Group since November 2012. He has extensive experience in the banking and insurance industries. Prior to joining the Group, Gary was Chief Executive Officer of NBNK Investments, an investment vehicle formed in August 2010 to establish personal and business retail banking in the UK. Prior to that, he led the UK government's turnaround of Northern Rock as its Chief Executive Officer. His previous roles also include Vice-Chair of Barclays PLC, having previously been Chair of UK Banking and Barclaycard at Barclays PLC following five years as Chief Executive Officer of Barclaycard, and Non-Executive Chair of VISA Europe and Non-Executive Director of VISA Inc. He is Non-Executive Chair of the Coventry Building Society and Monzo Bank, and Chair of the UK sports charity, the Football Foundation.

2 Tobias van der Meer
Chief Executive Officer

Appointed: 1 March 2018

Toby has been Chief Executive Officer since 1 March 2018. He joined Hastings in 2011 as Managing Director Retail, where he held responsibility for the profit and loss of the UK retail business, which covered around two thirds of the Group profits. Toby has considerable digital and customer service experience and held responsibility for product, retail pricing, brand, digital and marketing, and customer operations at the Group's UK sites. Before joining Hastings, Toby was a Managing Director at moneysupermarket.com plc, one of the UK's leading price comparison websites, where he was responsible for the money and broker led business and operations. Before that he spent nearly a decade in senior financial services roles including leading Citigroup UK's retail bank and as a member of the executive team of online bank Egg.

3 Richard Hoskins
Chief Financial Officer

Appointed: 3 September 2015

Richard has been the Chief Financial Officer of the Group since April 2015 and joined the Board in September 2015. He is a Chartered Accountant with extensive experience in the insurance industry. Prior to joining the Group, Richard was the Chief Financial Officer of Global Commercial Insurance at AIG. Prior to that he served at Aviva as Chief Executive Officer of the group's North American operations and as Chief Financial Officer of Old Mutual's North American operations. He is also a Non-Executive Director of Aztec Group Limited based in Jersey.

4 Herman Bosman
Non-Executive Director

Appointed: 14 March 2017

Herman is the Chief Executive Officer of RMI and its sister company RMB Holdings, having joined the companies in April 2014. Prior to his current role he was Head of Corporate Finance at RMB from 2000 until 2006 and Chief Executive Officer of Deutsche Bank South Africa from 2006 to 2013. Herman is a Non-Executive Director of Discovery Limited, FirstRand Limited and OUTsurance Holdings Limited. He also serves on the Board of Governors of the University of Johannesburg, is Chair of Endeavor South Africa and Business and Arts South Africa and served eight years as a Trustee of the Deutsche Bank South Africa Foundation. He holds a BCom (Law) LLM and is a Chartered Financial Analyst.

5 Alison Burns
Independent Non-Executive Director N Re R

Appointed: 12 July 2016

Alison has held executive and non-executive roles within Aviva plc, including the position of Chief Executive Officer of Aviva Ireland. Alison has extensive financial services experience, gained in senior roles with Santander, Bupa, Lloyds Bank and AXA. She brings strong leadership and executive management experience with extensive experience developing strong customer relationships in regulated businesses. She also serves, since March 2018, as a Non-Executive Director of Equiniti Group plc.

6 Elizabeth Chambers
Independent Non-Executive Director

Appointed: 26 September 2018

Libby serves on the boards of Provident Financial Group and Smith & Williamson, and advises fintech and software companies on their growth plans. Her executive career includes C-level strategy, marketing and product roles at Western Union, Barclays, Barclaycard, and Bank of America. She also led Barclaycard's co-branded cards and insurance business in the UK. Libby is known for leading digital transformations and rejuvenating brands, and has a long track record of building strong customer relationships in regulated businesses. Previous directorships have included Dollar Financial Group, hibu plc, Home and Savings Bank, and the boards of Barclays' joint ventures with Argos, Thomas Cook, and Littlewoods. Earlier in her career, she was a partner in the Financial Services practice at McKinsey, and started her career as a financial analyst with Morgan Stanley.

Key

- Chair
- (A) Audit Committee
- (N) Nomination Committee
- (Re) Remuneration Committee
- (R) Risk Committee

7 Thomas Colraine

Senior Independent Director

A N Re

Appointed: 3 September 2015

Tom brings a wealth of experience from the insurance and financial services sector. He was previously Group Chief Financial Officer and Co-Chief Operating Officer at Willis Group Holdings, and Chief Financial Officer at AIG Europe Limited. He is a Chartered Accountant, on the Board of Marsh Limited, and is also Chair of Cambridge Topco Limited, the holding company for the Compre Group.

8 Ian Cormack

Independent Non-Executive Director

A N Re

Appointed: 3 September 2015

Ian spent 30 years at Citibank where he was appointed head of UK and Co-head of the Global Financial Institutions business before becoming Chief Executive Officer of AIG's European business in 2000 until 2002. He currently serves as a non-executive on the boards of JUST Group plc, Royal Bank of Scotland plc, Ulster Bank Limited, Natwest Holdings Limited, National Westminster Bank plc and Maven Income & Growth VCT4 plc.

9 Pierre Lefèvre

Independent Non-Executive Director

A R

Appointed: 3 September 2015

Pierre serves as a Non-Executive Director on the Board of the Group's subsidiary Advantage Insurance Company Limited, where he is also Chair of the Risk and Reserving Committees and a member of the Audit Committee. He has extensive international experience in the insurance industry and has previously held Chairman and Chief Executive roles at Groupama and Axa and is currently a member of the Supervisory Board of Vivat NV (Netherlands) and a Director of ABBH (Belgium).

10 Sumit Rajpal

Non-Executive Director

Appointed: 3 September 2015

Sumit was appointed as Non-Executive Director of the Group by reason of the investment made by Goldman Sachs in the Group in 2014. Sumit Co-Heads the Corporate Private Equity business globally and runs the Americas Corporate Private Equity business in the Merchant Banking Division of Goldman Sachs. He also serves on the boards of K&N Engineering, Ipreo, ProSight Specialty Insurance and Safeguard Products.

11 Teresa Robson-Capps

Independent Non-Executive Director

A R

Appointed: 12 July 2016

Teresa brings significant experience with international blue chip companies including HSBC, Accenture, BT Mobile, various high street and internet retailers and across the insurance industry. Her functional experience spans customer, information technology, and financial management. She is currently a Non-Executive Director of CYBG plc/ Virgin money plc and FIL Holdings (UK) Limited.

12 Selina Sagayam

Independent Non-Executive Director

Re R

Appointed: 14 August 2017

Selina is the Head of UK Transactional Practice Development of international law firm Gibson, Dunn & Crutcher. She is an English qualified corporate finance lawyer who joined the firm's London office as a partner in 2007 and chairs its Talent and Community Affairs Committees. Her appointment to the Company's Board is in a personal capacity and unconnected to her position with Gibson Dunn. Selina serves as a Non-Executive Director on the Board of the Company's FCA regulated subsidiary entity, Hastings Insurance Services Limited. Selina also sits on the Advisory Board of Diversity UK, chairs the cross industry group NetworkForKnowledge, serves as a board member of the Corporate Finance Faculty of the ICAEW and is a member of the board of trustees of Refuge.

Corporate governance

The role of the Board

The Board is the main decision-making body of the Company. It provides leadership within a framework of prudent and effective controls enabling risk to be assessed and managed. It also carries ultimate responsibility for the effective direction and control of the Group and is accountable to shareholders for financial and operational performance. There is a clear Schedule of Matters Reserved for the Board, together with delegated authorities to Board Committees and management.

Executive and Non-Executive Directors have the same statutory duties but are subject to a clear division of responsibilities. It is the responsibility of the Chair to lead and manage the Board and for Non-Executive Directors to monitor, review and challenge Executive Directors and senior management by acting in the interest of the Company's stakeholders. The overall responsibility for the day to day management of the Group is delegated to the Chief Executive Officer. The Chief Executive Officer is supported in this role by senior executive management responsible for management oversight of the Group and its subsidiaries. The roles and responsibilities of the Chair, Chief Executive Officer and Senior Independent Director are clearly defined and allocated. These responsibilities are set out in writing and are available on the Group's website.

All Directors receive an induction on joining the Board which is tailored to the individual needs of each Director; where a Director is joining a Board Committee the induction includes an overview of the operation of that committee. As part of the induction process, Non-Executive Directors may be invited to attend Committee meetings, for which they are not members, for an initial period of time. This allows Non-Executive Directors to achieve a greater understanding of specific matters considered by those Committees prior to being recommended for Board approval or consideration. On completion of the induction programme the Director should have sufficient knowledge and understanding of the nature of the business, and the opportunities and challenges for the Group, to enable them to effectively contribute to strategic discussions and oversight. Directors regularly update and refresh their skills and knowledge.

The Company Secretary acts as Secretary to the Board and takes the minutes of all meetings. Working in collaboration with the Chair, the Company Secretary is responsible for ensuring good governance and consults Directors to ensure that good information flows exist and that the Board receives the information it requires in order to be effective. Throughout the year the Board and Committees receive regular updates from the Executive Directors and senior executives of key developments in the business as part of their formal meetings. Directors are able to seek independent and professional advice at Company expense to enable Directors to fulfil their obligations as a member of the Board.

The respective Boards of Directors of the Group's regulated entities are responsible to the UK's Financial Conduct Authority ('FCA') and the Gibraltar Financial Services Commission ('GFSC') for ensuring compliance with each entity's regulatory obligations and that dealings with the FCA and GFSC are handled in a constructive, co-operative and transparent manner.

Board and Committee evaluation

In line with the UK Corporate Governance Code ('Code') this year's annual Board and Committee evaluation was facilitated externally.

Facilitator: Grant Thornton UK LLP[1]
Evaluation period: January to November 2018
Evaluation undertaken: October and November 2018
Results presented to the Board and Committees: January 2019
Board evaluation: All Directors (with the exception of Libby Chambers who only joined the Board in September this year)
Committees: Committee members only
Group Secretariat evaluation: All Directors (with the exception of Libby Chambers who only joined the Board in September this year)

Evaluation process:

1. by means of separate questionnaires for the Board and each of its Committee based on:
   a. the Code and overall governance structure;
   b. Board and Committee dynamics;
   c. direction, leadership, management and assurance;
   d. the effectiveness of processes and procedures established by the Board and its Committees to fulfil their duties;
   e. the composition of the Board and Committees; and
   f. the skills, experience and the performance of the Board and Committees Chairs.

2. separate questionnaire to review the effectiveness of the Group Company Secretary and the Group Secretariat function

3. one to one interviews with all Directors focussing on:
   a. individual responses to the questionnaires; and
   b. Gary Hoffman's transition from the role of Chief Executive Officer to Board Chair and whether any governance issues or concerns had arisen

4. one to one interviews with the external Audit Partner, internal Audit Partner and the Company Secretary on matters relating to Board and Committee effectiveness relevant to their Board and Committee interactions.

1 Grant Thornton UK LLP also provide services to the Group as Internal Auditor.

Board and Committee structure

Board and Committee structure

The Board delegates certain matters to various Committees, each with their own Board approved Terms of Reference which are reviewed annually. The Board has five Committees, Audit, Disclosure, Nomination, Remuneration and Risk; all of their Terms of Reference were reviewed by the relevant Committee and approved by the Board. Reports from these Committees (with the exception of the Disclosure Committee) describing their principal activities during the year are set out in their respective reports on pages 76 to 91. Board and Committee meetings are structured to allow sufficient time for consideration of all items and each Chair encourages constructive debate and challenge. Committees are authorised to obtain outside legal or other independent professional advice if required. The Chair of each Committee reports to the Board on matters considered by each Committee at the subsequent Board meeting as appropriate. All Directors have access to the minutes of each Committee.

The membership of Committees is a matter for the full Board upon recommendation of the Nomination Committee. Each of the Board Committees comprises solely Non-Executive Directors. Each Committee is chaired by an Independent Non-Executive Director. The current membership of each Board Committee can be found on pages 66 to 67. Executive Directors, members of management and professional advisers also attend meetings of the Committees when required to do so by the chair of the relevant Committee.

Further information on Board and Committee changes and the review of four Non-Executive Directors who had reached the end of their first three year term can be found in the Nomination Committee Report on page 83.

The Terms of Reference for the Committees can be found on the Group's website.

The **Board** has overall responsibility for the management of the business and affairs of the Group and the Company, establishes Group strategy and is ultimately accountable for financial and operational performance.

The **Risk Committee** provides oversight and advice to the Board on current and potential future risk exposures and risk strategy of the Group. It reviews the Group's performance on risk appetite and oversees the effectiveness of the Group Risk Management Framework. It also ensures that responsibility for managing and monitoring risk in each of the regulated subsidiaries has been effectively delegated to the respective boards of directors.

The **Audit Committee** assists the Board in discharging its responsibilities for the integrity and disclosure of the financial affairs of the Group. It ensures that the Company complies with accounting policies and financial reporting obligations as well as monitoring the system of internal controls and the Group's processes for internal and external audit.

The **Nomination Committee** assists the Board in the selection and appointment of Directors in line with Group requirements. It reviews the structure, size and composition of the Group's boards and membership and Chairship of Committees. It also reviews succession planning at Board and Senior Executive management levels.

The **Remuneration Committee** assists the Board in, and has oversight of, the Group's policy on remuneration and makes recommendations to the Board on the remuneration of Executive Directors and senior executive management in the Company, HISL and AICL.

The **Disclosure Committee** is responsible for monitoring, evaluating and enhancing disclosure controls and procedures in respect of the Group announcements that are required to be made in compliance with the Market Abuse Regulation, including approving public announcements at short notice where it is not possible to convene a formal Board meeting. The Committee comprises the Chief Executive Officer and Chair only, with the Chief Financial Officer and Senior Independent Director acting as their respective deputies.

Corporate governance continued

Board and Committee attendance

Details of the number of meetings of the Company's Board and Committees held during the year and the attendance of each Director (in office between 1 January 2018 and 31 December 2018) at those meetings are set out to the right. Information on the role, responsibility and activity of each Committee are provided in their respective reports on pages 76 to 91.

Cross Committee memberships as at 31 December 2018

	Audit	Nomination	Remuneration
Risk	2	1	1
Remuneration	2	1	
Nomination	2		

Board and Committee attendance

		Committee			
	Board	Audit	Nom	Rem	Risk
Total meetings held	**12**	**6**	**5**	**5**	**4**
Gary Hoffman	12	–	–	–	–
Tobias van der Meer[1]	9	–	–	–	–
Richard Hoskins	12	–	–	–	–
Herman Bosman	8	–	–	–	–
Alison Burns[2]	12	–	2	5	4
Elizabeth Chambers[3]	2	–	–	–	–
Thomas Colraine	12	6	5	5	–
Ian Cormack[4]	11	4	5	2	–
Pierre Lefèvre	11	6	–	–	4
Sumit Rajpal	11	–	–	–	–
Teresa Robson-Capps	12	6	–	–	4
Selina Sagayam[5]	12	–	–	3	2
Malcolm Le May[6]	2	–	–	1	1
Mike Fairey[7]	4	–	2	1	–

1 Tobias van der Meer was appointed as a Director on 1 March 2018.
2 Alison Burns joined the Nomination Committee on 25 April 2018.
3 Elizabeth Chambers was appointed as a Director on 26 September 2018.
4 Ian Cormack joined the Remuneration Committee on 25 April 2018.
5 Selina Sagayam joined the Remuneration and Risk Committees on 29 June 2018.
6 Malcolm Le May resigned as a Director and his Committee memberships on 25 April 2018.
7 Mike Fairey resigned as a Director and his Committee memberships on 24 May 2018.

Board activity in 2018

At each meeting the Board received updates from the Chief Executive Officer, the Chief Financial Officer and from the respective Chairs following meetings of Board Committees. A schedule of Board activity for the year is provided below.

Board activity in 2018

Matter reserved	Responsibility
Strategy	• Approved the Three Year Plan for 2019–2021 • Received updates on performance and operational matters from subsidiary Boards • Reviewed monthly operational and financial performance of the Group • Received briefing from external advisers on potential M&A and other market opportunities • Reviewed the Group's operational and financial performance for the financial year ended 2017 • Approved objectives for the Company and Chief Executive Officer for 2019 • Received regular updates on the performance and implementation of the Guidewire system • Received a presentation on various strategic initiatives within the Group • Received an update on vehicle technology development and potential opportunities
Structure and Capital	• Reviewed and approved recommendations from the Nomination and Remuneration Committee in relation to appointments of, and changes to, subsidiary Senior Executive management • Reviewed proposals for a Bond issue by a subsidiary entity
Financial Reporting and Controls	• Approved the Annual Report, Preliminary Statement and Analysts Presentation for the financial year ended 31 December 2017 upon the recommendation of the Audit Committee • Approved the Financial Statements, Preliminary Statement and Analysts Presentation for the financial half year ended 30 June 2018 upon the recommendation of the Audit Committee • Reviewed and approved Trading Statements for Q1 and Q3 2018 • Received quarterly reports on claims reserving outcomes from the Company's Underwriting subsidiary • Approved the Group's forecasting and budgeting approach • Reviewed and approved final and interim dividends • Approved material unbudgeted or operating capital expenditures
Internal Control and Risk Management	• Received updates from the Audit and Risk Committees in relation to the effectiveness and robustness of the Group's internal controls and risk management framework • Received updates from the Audit Committees in relation to reviews undertaken by the Internal Auditor
Contracts	• Approved capital expenditures in excess of £1m
Communication	• Approved resolutions and documentation for, and met with shareholders at, the AGM • Approved press and non-routine market announcements • Received updates on meetings with investors by Chair and Senior Independent Director • Received an update on investor relations • Approved the Gender Pay Gap Report for the Group's UK trading subsidiary • Reviewed the colleague engagement framework

Board activity in 2018 continued

Board activity in 2018

Matter reserved	Responsibility
Board membership and other appointments	• Approved the appointment of Gary Hoffman as Chair of the Board upon the recommendation of the Nomination Committee • Approved the appointment of Toby van der Meer as a Director of the Board and Chief Executive Officer upon the recommendation of the Nomination Committee • Approved the appointment of Selina Sagayam as a Director of the Company upon the recommendation of the Nomination Committee • Approved the appointment of Libby Chambers as a Director of the Company upon the recommendation of the Nomination Committee • Considered the contribution, time commitment, effectiveness and independence of three Non-Executive Directors (Tom Colraine, Ian Cormack and Pierre Lefèvre) and approved their re-appointment to the Board for a second three year term • Approved recommendations from the Nomination Committee in relation to Non-Executive Director appointments to external private and public listed company boards • Received updates from the Nomination Committee on Executive Director and Senior Executive management succession and talent development plans • Considered recommendations from the Remuneration Committee and approved the Company's policy on Board and colleague diversity
Remuneration	• Reviewed and approved the Annual Report on Remuneration contained in the 2017 Annual Report upon the recommendation of the Remuneration Committee
Delegation of Authority	• Received updates on Board Committee activities
Governance	• Reviewed and approved the Board Schedule of Matters Reserved and confirmed the Schedule had been adhered to during 2018 • Reviewed and approved the Terms of Reference of the Board Committees • Undertook a formal, externally facilitated evaluation of the Board and its Committees and agreed improvement plans • Reviewed progress on actions arising from the Board and Committee evaluation undertaken in 2017 • Reviewed and approved an action plan for compliance with the UK Corporate Governance Code 2018 • Determined the independence of the Non-Executive Directors upon the recommendation of the Nomination Committee • Reviewed the Company's arrangements for, and received updates on, current corporate governance developments • Approved the Board and Committee meeting calendar for 2019
Policies	• Approved Group Policy Statements • Approved the Group's Statement on Modern Slavery • Approved the Group's Tax Strategy and Policy • Approved the Group's Policy on the Provision of Audit and Non-Audit Services
Other	• Reviewed the overall level of Directors' and Officers' Liability insurance and indemnification of Directors • Ensured the Company and the Group complied with the terms of any relationship agreements with shareholders • Received a report on corporate responsibility activities within the Group

Compliance with the UK Corporate Governance Code

The Company is subject to the UK Corporate Governance Code 2016 (the 'Code') and the assessment of its compliance with the Code is set out below. The Board confirms that it fully complied with the Code as at 31 December 2018 with the exception of the independence of the Board Chair upon appointment.

Code Principles

		Reference(s)
A. Leadership	• Every company should be headed by an effective board which is collectively responsible for the long term success of the company. • There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision. • The chair is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role. • As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.	Discover more **Pages 62–72 75–94**
B. Effectiveness	• The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively. • There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board. • All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively. • All directors should receive an induction on joining the board and should regularly update and refresh their skills and knowledge. • The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. • The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. • All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.	Discover more **Pages 62–72 74 83–86**
C. Accountability	• The board should present a fair, balanced and understandable assessment of the company's position and prospects. • The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems. • The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting, risk management and internal control principles, and for maintaining an appropriate relationship with the company's auditors.	Discover more **Pages 1–56 76–82**
D. Remuneration	• Executive directors' remuneration should be designed to promote the long term success of the company. Performance related elements should be transparent, stretching and rigorously applied. • There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.	Discover more **Pages 90–111**
E. Relations with shareholders	• There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place. • The board should use general meetings to communicate with investors and to encourage their participation.	Discover more **Pages 74 and 75**

Compliance with the Code continued

Directors' conflicts of interest

During the year no Director had any related party transactions or any beneficial interest in any contract significant to the Company's business, other than a contract of employment or letter of appointment. The Company has procedures in place for managing conflicts of interest. At the start of each Board meeting each Director reviews and confirms his/her other directorships and advisory roles or trusteeships held. Should a Director become aware that they, or their connected parties, have an interest in an existing or proposed transaction with the Company, they are required to notify the Board in writing or at a Board meeting. The Company's Articles of Association permit the Board to authorise potential conflicts of interest and impose any limits on a Director's participation in Board decision making relating to that conflict. This process operated successfully for the year under review.

Annual General Meeting ('AGM')

The Company welcomes the interaction with shareholders at its AGM and the Chair of the Board and each of its Committees will be available at the AGM. Shareholders are entitled to vote on all resolutions put to the AGM and votes cast will be counted, whether in person or by proxy, by means of a poll on every resolution in the Notice of AGM.

The results of the votes on the resolutions, including the number of votes for and against each resolution and the number of shares for which the vote was directed to be withheld, will be provided at the meeting, published on the Company's website and publicly available by means of formal announcement. Individual Directors offer themselves for election or re-election at each AGM.

The 2019 AGM for will be held at 11am on 23 May 2019 at Merchant Taylors' Hall, 30 Threadneedle Street, London EC2R 8JB. The Company confirms that it will send the Notice of AGM and related documentation to shareholders at least 20 working days before the meeting, either by post, to those shareholders who prefer a paper copy, or by email to those shareholders who have agreed that the Company can communicate with them electronically. The Notice of AGM and the Proxy form are available from the Investors section on the Company's website.

Company website

Shareholders and other interested parties can access further information about the Company at www.hastingsplc.com.

Relations with shareholders

Stakeholder engagement

Investor engagement

The Board is committed to promoting effective channels of communication with our shareholders and upholding good corporate governance as a means of building stronger and more engaged relationships with them. Our comprehensive Investor Relations engagement with the market helps us to understand investor views about Hastings, which are communicated regularly to the Board.

Institutional engagement

In 2018, our Investor Relations engagement with institutional investors took place throughout the year. This allowed the opportunity for existing and potential new investors to engage with Hastings regularly, promoting dialogue on longer term strategic developments as well as on the recent financial performance of the Group.

The Directors, in conjunction with the Senior Executive team and Investor Relations, participated in various forms of engagement, including investor meetings and conferences across many geographic locations, reflecting the increasingly diverse nature of our institutional ownership.

The Management team also presented extensively to investors, primarily through hosting site visits at our head office in Bexhill, which promotes greater awareness and understanding of our business, our operations and our systems, which provides institutional investors with invaluable insight into what makes Hastings different.

During 2018, discussions with investors were focused on the continued execution of our strategy and growth trajectory, and updated market guidance on performance through to 2019, which was provided with our 2016 full year results.

Investor meetings with the Chair and Senior Independent Director focused on corporate governance also took place during the year, and we held an in person presentation of our 2017 full year results in March 2018, and our 2018 half year results in August 2018. A webcast of each was made available to replay on our website shortly thereafter.

The Investor Relations section of our website is an important communication channel that enables the effective distribution of information to the market in a clear and consistent manner.

Our AGM

The Board and the Management team continue to consider our AGM as a key date in the diary. The AGM provides us with our main opportunity to engage with shareholders, particularly our private shareholders, on the key issues facing the Group and any questions they may have. The Directors, including the Board Chair, were available for informal discussion either before or after the meeting.

Audit Committee

Dear Shareholders

On behalf of the Board, I am pleased to present our Audit Committee report for year ended 31 December 2018. This is my first report as Chair of the Group's Audit Committee and I would like to thank Tom my predecessor as Chair for his contribution and ongoing support as a continuing member of the Committee.

Teresa Robson-Capps Chair of the Audit Committee

The report on the work of the Audit Committee for the year ended 31 December 2018 is detailed in this report confirming how the Committee has discharged its responsibilities under its Terms of Reference and the requirements of best practice corporate governance. In consultation with the Company Secretary and Chief Financial Officer, I ensure that all matters delegated to the Committee are considered and are reported to the Board as appropriate.

Role

The Audit Committee supports the Board by monitoring and reviewing the integrity of the financial statements, robustness of internal controls and fraud prevention measures and, in conjunction with the Risk Committee, ensuring that robust risk management systems are in place. The Committee also reviews the consistency of, and any changes to, accounting policies and standards, challenges the Viability Statement and going concern conclusion, the effectiveness of external and internal audit and ensures the Company provides clear, complete, fair, balanced and understandable financial reports to shareholders. The Committee is required to report its findings to the Board, making any necessary recommendations for action or improvements.

Membership

The Audit Committee during the year comprised the following Independent Non-Executive Directors and met the requirements of the UK Corporate Governance Code 2016 ('the Code') in that all Committee members are Independent Non-Executive Directors with relevant sector and financial experience and the Committee as a whole has competence relevant to the sector in which the Company operates. The Committee meets at least four times a year as a minimum and at other times as required.

Member	Member since
Teresa Robson-Capps (Chair)	July 2016 (Chair since April 2018)
Thomas Colraine	September 2015 (Chair until April 2018)
Ian Cormack	September 2015
Pierre Lefèvre	September 2015

Each member of the Committee has significant experience working with listed entities on matters relating to financial probity and internal control. In accordance with the FRC's Code, the Board has determined that the Committe Chair, Teresa Robson-Capps has recent and relevant financial experience and the Committee as a whole has competence relevant to the sector in which the Company operates. Biographies of the Committee members are set out on page 66. The Company Secretary acts as Secretary to the Committee and takes the minutes of all meetings. Although not Committee members, the External Auditor, KPMG LLP ('KPMG'), the Internal Auditors, Grant Thornton UK LLP ('Grant Thornton'), the Chief Executive Officer and the Chief Financial Officer are notified of all meetings and may attend by invitation. At each meeting, the Committee has the opportunity to talk to the external and Internal Auditors without management present. Additionally, the Group Reserving Actuary and the independent external actuary, Towers Watson Limited ('TW') are invited to attend and present the results of their biannual claims reserves reviews at the February and July Audit Committee meetings. The Terms of Reference for the Committee have been agreed by the Board and are available online at the Group's website.

Key financial statement risks

The key financial statement risks relating to this year's financial results which were reviewed by the Committee related to insurance contract liabilities and receivables due from reinsurers relating to their share of insurance contract liabilities. The level of reserves, and reasonableness of assumptions made in setting the reserves, approved by Underwriting's Board were reviewed by the Committee. The Committee also considered the review undertaken by Underwriting's independent external actuary, TW, of the level of reserves, as well as actual settled claims experience. Insurance contract liabilities are covered by Note 21 to the financial statements and further information on these risks are provided later in my report. The report to the Committee from the Company's external Auditors, KPMG, highlighted similar potential audit risks relating to outstanding claims provisions and recoverability of reinsurance assets as well as management override of controls and recoverability of the cost of investment in subsidiaries. Following challenge and review by the Committee, KPMG reported that the valuation of insurance contract liabilities and receivables due from reinsurers were appropriate.

Other potential financial statement risks in relation to the valuation of goodwill, the valuation of intangible assets, the recoverability of customer receivables and taxation liabilities were considered by the Committee but were not deemed to be significant. The Committee considered that no indicators of impairment, recognition or recoverability issues were identified as at 31 December 2018 and disclosure in the Financial Statements was considered to be appropriate.

"The Committee confirmed it was satisfied with the Group's approach to, and the completeness and reasonableness of, financial reporting and significant financial judgements."

Changes to IFRS

The Committee reviewed the impact of the application of IFRS 15: Revenue Recognition and IFRS 16: Leases, both of which were adopted with effect from 1 January 2018. The application of IFRS 15 and IFRS 16 did not have a significant net impact upon the opening or closing consolidated balance sheet and did not have a material impact upon this year's result. The full impact of both standards is disclosed in Note 35 to the Consolidated Financial Statements. Following discussions with management and review of the proposed disclosures the Committee approved the accounting policies adopted and associated disclosures in the Consolidated Financial Statements.

The Committee also received regular updates on the Group's preparations for IFRS 9: Financial Instruments and IFRS 17: Insurance Contracts which are currently expected to apply from January 2022. The Committee noted that management is making good progress in preparation for these new standards and reviewed the disclosure of the qualitative and quantitative impact these future standards may have in Note 1 to the Consolidated Financial Statements.

Viability Statement

The Committee scrutinised the Viability Statement, disclosed on page 33, along with the supporting forecasts and stress test models prepared by management. The Committee concluded:

- that the three year period covered by the Viability Statement aligns with the Group's internal long term forecasts and is an appropriate period over which to review the Group's viability.
- that the scenarios modelled reflected the crystallisation of the Group's principal risks, and that these were designed to be suitably severe so as to provide a robust test of viability.
- that management's assessment of viability was appropriate after consideration of forecast future cash flows, expected debt service requirements and undrawn finance facilities in each scenario.
- that the disclosures made as to why the assessment period was selected, what qualifications and assumptions were made and how the underlying analysis was performed, was appropriate, clear and consistent with Financial Reporting Council recommendations.

Audit Committee continued

Internal and external audit services

During the year the Committee reviewed the independence and performance of the internal and external auditors.

The internal audit function is managed and resourced via a third party relationship with Grant Thornton and brings an independent systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management control and governance processes. The independence of the internal audit function helps to ensure that accurate reports are provided to the Board, Audit and Risk Committees without undue management influence on the audit and its processes.

As part of the Committee's review of the performance and independence of Grant Thornton as Internal Auditor, Committee members and senior management were requested to complete a questionnaire covering the quality of planning, delivery and execution of audit, the quality and knowledge of the audit team, the effectiveness of communication between management and the auditor and the robustness of audits. Suggested improvements and enhancements to the services provided were discussed by the Committee. No significant issues or concerns were identified as part of this review and it is expected that Grant Thornton will further enhance its services throughout the coming year. The internal audit function service provider was chosen through a tender process undertaken in 2014 that involved reputable audit firms. The Committee concluded that Grant Thornton would continue to provide an effective internal audit service to the Group, but would continue to keep the service, and approach to internal audit, under review to ensure it remained fit for purpose.

The Company's annual Internal Audit Plan is overseen by the Committee and approved by the Board each year. During the year the Committee received internal audit reports covering GDPR Readiness, Review of the Viability Statement, Corporate Criminal Offences and Risk Management within the Group. The Committee also reviewed reports provided to each of the subsidiary boards in relation to their own respective internal audit plans. No significant issues or concerns were brought to the Committee's attention but action plans to address findings from these reports were also considered.

A similar review process of the performance and independence of the External Auditor, KPMG, was undertaken. No significant issues or concerns were identified as part of this review and the continued independence of KPMG as External Auditor was confirmed. The Committee noted that KPMG had been the Auditor of the Company since its formation in 2015 and the lead audit partner, Salim Tharani, was appointed for the year ended 31 December 2016. The Committee concluded that KPMG continue to provide an effective external audit of the Group and the Committee recommended to the Board that the reappointment of KPMG be proposed at the forthcoming AGM in May 2019. The Committee does not recommend that the provision of external Audit service to the Company be put to tender in the coming year.

As part of the Board effectiveness evaluation conducted at the end of 2018, the Audit Committee was itself subject to an appraisal by its members. The evaluation considered the effectiveness of processes and procedures established by the Committee to fulfil its duties, and the effectiveness of the systems of internal control, financial and regulatory risk management systems and those for monitoring the effectiveness and objectivity of the Internal and External Auditors. The performance of Committee members and the Committee Chair were also reviewed. The Committee has agreed a number of actions for the coming year in relation to the aforementioned areas.

Meetings

The Committee met six times during the year. The following matters were considered and challenged as appropriate by Committee members at these meetings:

Meetings

Area of focus	Matter considered
Financial and narrative reporting	• Reviewed the integrity of Financial Statements for the financial year ended 31 December 2017 and the appropriateness of accounting policies and going concern assumptions • Reviewed material matters in relation to the 2017 Annual Report and preliminary announcement • Reviewed and recommended for Board approval the 2017 Annual Report, Preliminary Statement and Annual Results Presentation • Reviewed and approved the Viability Statement for the 2017 Annual Report in conjunction with the Risk Committee • Confirmed and recommended to the Board that the 2017 Annual Report was fair, balanced and understandable • Reviewed the approach to claims reserving and reinsurance assets for the Group's Underwriting business • Reviewed the integrity of condensed Consolidated Financial Statements for the half year ended 30 June 2018 and the appropriateness of accounting policies and going concern assumptions • Reviewed and recommended for Board approval the financial statements, Preliminary Statement and Analyst Presentation in relation to the half year ended 30 June 2018 • Reviewed the impact of adopting IFRS 15 and IFRS 16 with effect from 1 January 2018 • Reviewed developments in IFRS and their impacts and key accounting issues particularly in relation to IFRS 9 and IFRS 17 and internal preparations for those developments due in 2022 • Reviewed plans for the production of the Annual Report and Accounts, and Results Presentation for the year ended 31 December 2018
Internal control and compliance	• Received and reviewed reports from the Internal Auditor in relation to the Company's internal audit plan and those of its subsidiaries • Reviewed the internal control framework • Reviewed the processes and procedures for claims reserving by the Group's Underwriting business • Reviewed the Internal Auditor's performance during 2018 and approved the Internal Audit Plan for 2019
External audit	• Reviewed and considered the Audit Highlights Memorandum and Auditor's report for the 2017 Annual Report • Reviewed the performance of the External Auditor for the financial year ended 2017 • Reviewed and approved audit/non-audit expenditure incurred by the Company during 2017 • Considered qualifications, expertise and independence of the External Auditor and recommended their re-appointment to shareholders and for the Committee to agree auditors' remuneration • Reviewed and agreed the Company's policy for the tendering of external audit services • Reviewed and approved the audit fee, plan and approach for the financial year ended 2018 • Reviewed and agreed the provision of certain non-audit services for by the External Auditor • Reviewed, and approved amendments to, the Group's Policy on provision of Audit and Non-Audit Services • Met with the External Auditor without management present
Governance/ other matters	• Reviewed the Committee's Terms of Reference and confirmed the Committee's Terms of Reference had been adhered to during 2018 • Conducted an annual review of Committee effectiveness and agreed an action plan to further improve Committee operations • Confirmed compliance with UK Corporate Governance Code 2016 and explanations for any non-compliance in relation to the financial year ended 2017 • Reviewed the Group's Tax Strategy and Policy and recommended for Board approval • Received updates on financial reporting governance developments and best practice

Audit Committee continued

How the Committee addresses significant factors relating to the Financial Statements and matters communicated to the Committee by the Auditor

Financial reporting and significant financial judgements

Provision for outstanding claims

The provision for outstanding claims is an area of significant judgement as it estimates the cost required to settle all unpaid claims, both reported and incurred but not reported, at the balance sheet date.

The Group's Underwriting business has accumulated significant experience of projecting future claims development and has a detailed understanding of how ultimate liabilities develop over time based on initial notifications, environmental conditions and changes to legislation or reporting processes. This experience is built into the Reserving Policy and the actuarial models used to calculate the year end claims reserves, which are overseen by Underwriting's Reserving Committee. The Reserving Committee is a sub-committee of the Underwriting Board responsible for oversight of the process and recommending the appropriate level of claims reserves. There are robust controls in place surrounding the data used by the internal actuaries and all estimates and assumptions are internally peer reviewed. This approach applies rigour and independence to the calculation of a best estimate. An appropriate margin is applied over the actuarial best estimate to allow for uncertainty and volatility. Underwriting's external actuary prepares an independent projection of claims reserves.

Having been recommended by Underwriting's Reserving Committee and approved by the Underwriting Board, detailed papers were provided to the Audit Committee explaining the methodology used, how the Reserving Policy has been applied and the judgements applied in the actuarial calculations that support the provisions made. These papers included reports and calculations provided by the external actuary, as well as detail on the assumptions made by peril. The Committee met with management and considered explanations from both the internal and the external actuaries to deliberate over the methodology applied, the best estimate calculations and the external actuary's independent report. Extensive information on reserving levels was provided to support these discussions and to enable the Committee to assess the adequacy of the reserves, level of prudence and appropriateness of the margin held. Any variances between the internal and external best estimates were debated and understood.

The Audit Committee also asked the external Auditor to provide an update on the procedures used to test the reserving process and best estimate calculations in accordance with the applicable accounting and auditing standards. The external Auditor further confirmed the challenges made, representations received and conclusions based on this.

Having considered all the information presented and having satisfied itself with the enquiries made, the Committee confirmed it was satisfied with the Group's approach and the completeness and reasonableness of the provision for claims outstanding held.

Reinsurance assets

The Group uses both non-proportional 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 claim and the quota share arrangement provides 50% cover on all motor claims (after excess of loss recoveries). The Group would remain liable for all amounts due to policyholders should any reinsurer fail to pay.

An accurate calculation of reinsurance assets is vital to ensure an appropriate gross and net position is recognised within the Financial Statements. The calculation of reinsurance recovery assets is intrinsically linked to the calculation of outstanding claims liabilities, and requires the same estimations and judgements as considered by Underwriting's Reserving Committee, and is subject to the same level of control and review.

There is further judgement required in establishing the recoverability of the reinsurers' share of insurance contract liabilities, particularly the longer term assets arising from larger claims. The Group manages its exposure to credit risk with respect to its reinsurers through diversification, purchasing both excess of loss and quota share reinsurance through two panels of reinsurers to provide cover under each arrangement; by reviewing the financial strength of reinsurers prior to finalisation of any contract; by using reinsurers with strong credit ratings; and by reviewing the creditworthiness of reinsurers on an ongoing basis. The creditworthiness of reinsurers is considered by reviewing credit grades provided by rating agencies and other publicly available financial information on a quarterly basis as well as monitoring the recent payment history of reinsurers to ensure they are in accordance with expected settlement terms.

Having considered all the information presented and having satisfied itself with the enquiries made, the Committee confirmed it was satisfied with the Group's approach and the accuracy and recoverability of the reinsurance assets held and reasonableness of the claims reserves held.

Significant issues related to the Financial Statements

No other significant issues were identified relating to the Financial Statements or raised by the External Auditor during the year and in relation to the 31 December 2018 year end.

Priorities for 2019

In the coming year the Committee will focus on:

- continued monitoring of the Group's reserving process;
- understanding the impacts of the UK Government's review of the audit regulator, the Financial Reporting Council ('FRC'), and the statutory audit market investigation conducted by the Competition and Markets Authority;
- assessing the impact of IFRS 17 Insurance Contracts and IFRS 9 Financial Instruments to the Group and reviewing management's implementation plans to ensure the Group is ready to comply with the new standard as it becomes effective;
- ensuring the Group's internal audit function continues its systematic and disciplined approach on key focus areas; and
- assessing the impact on internal processes and reporting from changes resulting from corporate governance reforms.

Adoption of Policy on the Provision of Audit and Non-Audit Services

Under the provisions of the UK Corporate Governance Code ('the Code'), the Committee is required to oversee the relationship with the External Auditor and keep the nature and extent of non-audit services under review. The Committee must satisfy itself that the independence and objectivity of the External Auditor are not compromised.

The Committee reviewed and recommended to the Board a fully Code compliant Group Policy on the Provision of Audit and Non-Audit Services which was updated to reflect the requirements of the FRC's Ethical Standards for Auditors. The policy requires the Committee's approval for certain services such as where the service is not directly related to the annual audit or involves a closer working arrangement between a Group company and the External Auditor that may significantly reduce the Auditor's independence. The policy also prohibits the External Auditor from performing certain services to the Company regardless of Committee approval. A non-exhaustive list of such services includes the design and implementation of internal control, financial, accounting and risk management systems, actuarial or legal services, secondments to management positions, talent searches for executives, directors and/or senior financial managers, tax or payroll services and due diligence for acquisitions or joint ventures.

Fees payable to the External Auditor for non-audit services in a calendar year should not exceed 70% of the average of the audit fees paid by the Group in the previous three consecutive years. Services required by law or regulation (for example review or audit of regulatory returns) are excluded from the definition of non-audit services to be included in the calculation of the 70% cap. Once the amount of fees payable for non-audit services in any calendar year exceeds 50% of the average of the audit fees paid by the Group in the previous three consecutive years, this shall be reported to the Committee as soon as practicable and regular updates provided thereafter to ensure any potential breach of the 70% cap can be avoided. Prior approval by the full Audit Committee is not required for clearly trivial non-audit services which are defined as any non-audit related service where fees are expected to be below £25k in aggregate per annum for the Group (although the Chair of the Committee must be consulted before such services are engaged); the service is directly related to the annual audit (where permitted by the Policy) and the service does not involve a closer working arrangement between a Group company and the External Auditor that may significantly reduce the auditor's independence.

In the Committee's assessment of the effectiveness of the External audit process KPMG was asked to articulate the steps that it had taken to ensure objectivity and independence. The Committee monitors the Auditor's performance, behaviour and effectiveness during the exercise of their duties, which informs the Audit Committee's decision whether to recommend reappointment on an annual basis. The total amount paid for non-audit work during the year was £0.2m (33% of average audit fees for 2018) and was for assurance services connected to KPMG's role as statutory Auditor. This included the review of the Interim Results, an ISAE 3000 assurance review over Underwriting's Solvency and Financial Condition Report and the provision of a comfort letter in relation to the May 2018 Bond Offering Circular in accordance with the Standards for Investment Reporting as issued by the Auditing Practices Board. Further details of fees paid to KPMG for audit and non-audit work carried out during the year are set out in Note 12 of the Financial Statements.

Audit Committee continued

Fair, balanced and understandable

The Board sought advice from the Committee as to whether the information presented in this Annual Report, when taken as a whole, is fair, balanced and understandable and contains the information necessary for shareholders to assess the Group's position and performance, business model and strategy. The steps taken by the Committee, or on its behalf, to provide this advice to the Board included delegating to a group of senior individuals within the Group to draft the Annual Report, with each of these individuals having responsibility for the production of certain sections of the document and/or reviewing its entire content. Following a detailed review of the Annual Report, the Committee concluded that it is fair, balanced and understandable and contains the information necessary for shareholders to assess the Group's position and performance, business model and strategy and advised the Board accordingly.

The Committee also considered the use of alternative performance measures ('APMs') as part of the Company's financial reporting. The Committee agreed that the use of APMs by the Company was appropriate as they provide beneficial and useful insight into the Group's performance for shareholders and other stakeholders.

Discharge of responsibilities

During the year under review, the Committee has continued its detailed scrutiny of the appropriateness of the Group's system of internal controls, and the robustness and integrity of the Group's financial reporting, along with both the internal and external audit processes. The Committee has devoted significant time to reviewing these areas, which are integral to the Group's core management and financial processes, as well as engaging regularly with management. The Committee has, where necessary, taken the initiative in requesting information in order to provide the constructive challenge appropriate for its role.

Teresa Robson-Capps
Chair of the Audit Committee
27 February 2019

Nomination Committee

Dear Shareholders

I am pleased to present the report on the work of the Nomination Committee for the year ended 31 December 2018.

Thomas Colraine Chair of the Nomination Committee

Role

The Committee is a formal sub-committee of the Board with its own Terms of Reference. The principal purpose of the Nomination Committee is to review the composition and evaluate the balance of skills, knowledge and experience of the Board. It also leads the process for the appointment of new Executive and Independent Non-Executive Directors to the Board and makes appropriate recommendations to the Board on such matters as skill mix and diversity. It oversees the succession planning process for Executive Directors and senior executives. The Committee meets at least three times a year as a minimum and at other times as required.

Membership

Member	Member since
Thomas Colraine (Chair)	September 2015 (Chair since May 2018)
Alison Burns	April 2018
Ian Cormack	September 2015
Mike Fairey	September 2015 until May 2018 (Chair until May 2018)

Biographies of the Committee members are set out on page 66. Mike Fairey resigned as a Committee member and Committee Chair upon his resignation as a Director. The Terms of Reference for the Committee have been agreed by the Board and are available online on the Group's website.

The Chief Executive Officer may be invited, from time to time, to attend meetings of the Committee. The Committee obtained information and advice during the period under review from the Group HR Director, the Company Secretary and, where appropriate, the Executive Directors. It also sought advice from any other employees as required. As permitted by its Terms of Reference, the Committee engaged the advice and support of Russell Reynolds as independent executive search consultants at the expense of the Company to consider executive and non-executive succession options.

"The Board must remain mindful of its diversity in the context of the Group's colleagues and the market it serves."

Nomination Committee continued

Board changes

As explained in last year's Annual Report, Gary Hoffman assumed the role of Board Chair upon Mike Fairey's retirement at the AGM in May this year and Toby van der Meer assumed the role of Chief Executive Officer in March. The explanation for Gary's appointment as Chair was provided in last year's Committee Report and I do not intend to repeat it here. I can confirm that the Committee has reviewed the appointment as well as the transition process for these two roles. This transition was also subject to review during a series of interviews with all Directors as part of the externally facilitated Board evaluation exercise that took place at the end of this year. Having reviewed the outcomes of this exercise, the Committee is content that the transition process has been smooth and that there have been no governance issues arising from Gary's or Toby's appointment.

The Committee is conscious of the current size of the Board but believes that this does not hinder the effective running of Board meetings or proceedings. The number of Independent Directors should exceed those who are not independent in line with the Code and the Company complies with this provision.

As well as its composition, the diversity of the Board was also reviewed and the Board was pleased to appoint Libby Chambers as an Independent Non-Executive Director in September this year. When proposing appointments of Non-Executive Directors, the Committee considers the independence, skills, knowledge and experience that a candidate possesses compared to those of the current Board members. Selection of candidates also takes into consideration the breadth of knowledge that the Board has and that it is required to provide a well-balanced environment which encourages scrutiny and appropriate challenge. The Committee is also committed to ensure that the Board is representative in terms of diversity and candidates from a wide range of disciplines and experience were considered. The Committee abides by the Company's policy to ensure that the best candidate is selected to join the Board and the Board does not intend to adopt a quota system with prescriptive, quantitative targets.

As part of the appointment of another Independent Non-Executive Director during 2018, a long list of candidates was created in conjunction with an external executive search consultancy, Russell Reynolds Associates Limited ('Russell Reynolds'), who were able to validate and verify independence and capability. The Committee selected a shortlist of candidates for interview and made two recommendations for appointment to the Board. Taking into consideration the views of the Committee and independent referencing, the Board appointed Libby Chambers, an experienced senior financial services executive, strategist and marketing leader within the UK and worldwide, as an Independent Non-Executive Director. The Committee confirms that Russell Reynolds remains completely independent of the Company.

Following this appointment, the Board continues to have an appropriate number of Independent Non-Executive Directors such that no individual or small group of individuals can dominate the Board's decision taking.

Board and Committee changes during 2018

Director	Board or Committee	Appointment	Resignation
Toby van der Meer	Board	1 March 2018	
Malcolm Le May	Board Remuneration Committee Risk Committee		25 April 2018
Mike Fairey	Board Nomination Committee Remuneration Committee		24 May 2018
Alison Burns	Nomination Committee	25 April 2018	
Ian Cormack	Remuneration Committee	25 April 2018	
Selina Sagayam	Board[1] Remuneration Committee Risk Committee	29 June 2018	28 June 2018
Libby Chambers	Board	26 September 2018	

1 Resigned as Founder Shareholders representative and reappointed as an Independent Non-Executive Director.

Selina Sagayam was appointed by the Founder Shareholders as their representative on the Board, under the terms of the relationship agreement with the Company, in August 2017. In June 2018, the Founder Shareholders notified the Company of their intention not to retain a nominee on the Board under the terms of the relationship agreement; as a consequence, Selina Sagayam was required to step down as a non-Independent Non-Executive Director. Her contribution to the Board was such that, upon the recommendation of the Committee, Selina was immediately reappointed as an Independent Non-Executive Director. The Company was informed by the Founder Shareholders that they did not intend to nominate a replacement director at this time but reserved the right to do so whilst the relationship agreement remains in force.

Board and Committee composition and review

As required by the Code a listed company's board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively. The Board and its committees should also meet relevant independence criteria in terms of the number of Independent Non-Executive Directors.

Independent Non-Executive Directors, Ian Cormack, Pierre Lefèvre and myself, reached the end of the first three year term as Board members in September 2018. The Nomination Committee reviewed the contribution, time commitment, effectiveness and independence of Pierre and made recommendations to the Board in relation to myself and Ian being Committee members. Taking into account the balance of skills, experience, independence and knowledge of the Company of these Directors, the Committee recommended to the Board that they be re-appointed for a further three year term. None of these Directors was involved in discussions or approval of their re-appointment at the relevant meetings of the Committee or the Board. Non-Independent Non-Executive Director, Sumit Rajpal has served on the Board since September 2015 and is appointed as a representative of the Goldman Sachs shareholders under a relationship agreement as noted above. He is therefore not subject to Committee or Board review in relation to his term of appointment. All Directors are subject to election or re-election at every AGM.

Succession plans and talent development for the Executive Directors and senior executive management were reviewed by the Committee throughout the year and advice was sought from independent, external search agencies in relation to establishing a pipeline of potential successors, either externally or internally. The Committee also reviewed whether there is a sufficient and continuous supply of suitable, highly qualified internal candidates who will be able to be considered for Board membership or senior executive management. In particular, a search and selection process was conducted to identify a successor to Richard Hoskins, the Company's Chief Financial Officer, who had indicated a desire to retire from the role in 2019; Russell Reynolds were also engaged to manage this process. After a thorough and robust consideration of all potential candidates, John Worth emerged from a list of high calibre candidates as a suitable successor; his appointment was finally recommended to, and approved by, the Board in January 2019.

During the year a number of changes were considered by this Committee in relation to the membership of all Board committees as well as the Chairs of those Committees. Malcolm Le May chaired the Remuneration Committee and was a member of the Risk Committee and Mike Fairey chaired the Nomination Committee and was a member of the Remuneration Committee. Following the resignation of Malcolm as a Non-Executive Director in April 2018 and Mike Fairey as Board Chair in May 2018, the Committee recommended the following changes for Board approval:

- I step down as Chair of the Audit Committee but remain a Committee member;
- Teresa Robson-Capps be appointed as Chair of the Audit Committee (already a member);
- I be appointed as Chair of the Remuneration Committee and the Nomination Committee;
- Alison Burns be appointed as a member of the Nomination Committee; and
- Ian Cormack be appointed as a member of the Remuneration Committee.

The Committee also considered requests from various Non-Executive Directors seeking their consent for appointments with private and public listed entities outside of the Group. The Committee reviewed the time commitment required from each relevant Director in fulfilment of their duties and responsibilities for the Company and other existing external appointments. Having taken these into consideration the Committee recommended the following external appointments to the Board for its approval during 2018:

- Gary Hoffman as Non-Executive Director and Chair of Coventry Building Society and Monzo Bank Limited;
- Ian Cormack as Non-Executive Director of Ulster Bank Limited and National Westminster Bank plc;
- Selina Sagayam as member of the board of trustees of Refuge; and
- Alison Burns as Non-Executive Director of Equiniti Group plc.

No Committee member was party to discussions or the recommendation for approval in relation to their own Committee or external Board appointments. As required under Listing Rule 9.6.14, in relation to director appointments to publicly listed boards, the Company announced Alison's appointment to Equiniti in March 2018.

The Committee recognises all of the Non-Executive Directors as independent with the exception of Sumit Rajpal and Herman Bosman, as they represent major shareholders in the Company, and Gary Hoffman, who was previously Chief Executive Officer.

Nomination Committee continued

Meetings
The Committee met five times during the year. The following matters were considered and challenged as appropriate by Committee members at these meetings:

Meetings

Area of focus	Matter considered
Composition of the Board, Committee and senior executive and succession planning	• Recommended the approval of Gary Hoffman as Chair of the Board • Recommended the approval of Toby van der Meer as a Director and Chief Executive Officer • Recommended the approval of Selina Sagayam as an Independent Non-Executive Director • Led the search and selection process resulting in the recommendation that Libby Chambers be appointed as a Director • Considered the contribution, time commitment, effectiveness and independence of three Non-Executive Directors (Tom Colraine, Ian Cormack and Pierre Lefèvre) and recommended for Board approval their re-appointment to the Board for a second three-year term • Reviewed the composition and Chairs of the Board Committees and made recommendations to the Board for its approval • Considered requests from Non-Executive Directors for appointments to external private and public listed company Boards and made recommendations to the Board for approval • Reviewed progress on succession planning and talent development for Executive Directors and senior executives • Led the search and selection process for a replacement Chief Financial Officer and other senior executive appointments • Endorsed proposals for appointments to the board of each of the Company's trading subsidiaries, upon recommendation of those respective boards • Reviewed the composition of the Board evaluating balance of skills, knowledge and experience • Considered how and if the Board reflected the diversity of the Group and the market within which it operates
Governance/ other matters	• Reviewed its Terms of Reference and confirmed the Committee's Terms of Reference had been adhered to during 2018

Priorities for 2019

In the coming year the Nomination Committee will focus on:

- assessing the skills and experience of current Board members and senior management against desired outcomes; and
- further developing senior management succession plans

Board diversity
The composition of the Board at the time of its IPO received some criticism in terms of its lack of gender diversity. The Board is responsible for setting the Group's values and standards and ensuring that obligations to its shareholders and others are understood and met. The Committee has reviewed the composition of the Board in light of its diversity as a whole. It recognises that it remains the policy of the Company that the Board reflects the diversity of its colleagues and, the market within which it operates. Candidates from a wide range of backgrounds, disciplines and experience are considered.

Following the recent changes to the Board, the Company has achieved the UK government's target of having a minimum of 33% female representation on FTSE 350 boards by 2020. The Board has not, nor does it intend to, adopt a quota system.

As part of the Board effectiveness evaluation conducted at the end of this year, the Committee was also subject to an appraisal by its members. The evaluation considered how it discharged its responsibilities as well as the performance of the Committee members. No significant issues were identified and the Committee has agreed a number of actions and priorities for the coming year.

Thomas Colraine
Chair of the Nomination Committee
27 February 2019

Risk Committee

Dear Shareholders

I am pleased to present the report of the Risk Committee for the financial year ended 31 December 2018.

Pierre Lefèvre Chair of the Risk Committee

Role

The Board has ultimate responsibility for the Group's risk management framework and delegates the oversight of this to the Risk Committee. The Committee is a formal sub-committee of the Board with its own Terms of Reference. The principal purpose of the Risk Committee is to advise the Board on risk management matters, recommend the Group framework of risk limits and risk appetite to the Board for approval, and oversee the risk management arrangements of the Company and its regulated trading entities. The Committee meets at least four times a year as a minimum and at other times as required.

Membership

Member	Member since
Pierre Lefèvre (Chair)	September 2015
Alison Burns	July 2016
Teresa Robson-Capps	July 2016
Malcolm Le May	September 2015 until April 2018
Selina Sagayam	June 2018

Biographies of the Committee members are set out on page 66. Malcolm Le May resigned as a Committee member upon his resignation as a Director. The Company Secretary acts as Secretary to the Committee and takes the minutes of meetings. The Terms of Reference for the Committee have been agreed by the Board and are available on the Group's website.

The Committee obtained information and advice during the period under review from the Group Chief Risk Officer, the Company Secretary and, where appropriate, the Executive Directors. It may also seek advice from any other colleagues as required.

"The Group continues to focus on balancing the needs of an effective risk control framework with operational agility."

Risk Committee continued

Risk appetite is reflective of the nature and extent of risk that the Group is willing to take and manage in pursuit of its objectives. The Group recognises that it is not possible, or necessarily desirable, to eliminate all risks inherent in its activities. Acceptance of some risk is necessary to promote agility, innovation and efficiencies. Overall the Group has a conservative approach to risk taking.

The Committee received a detailed update on the accountabilities and responsibilities of first and second line functions within the Group, with focus on second line effectiveness. This review of effectiveness was supported by a series of internal audits by Grant Thornton to assess the risk management systems in the context of both current and potential future risks. The objective of the audits was to make an independent assessment of the risk management and internal control framework; its design and operational effectiveness, and to consider whether it had been designed to meet relevant guidance on risk management from regulators and under the UK Corporate Governance Code.

The Committee reviewed plans to further enhance operational resilience, control discipline, and ensure regulatory compliance whilst retaining agility of thought and action.

Consideration was given to the pricing activities of the trading entities, in light of the FCA's market review of pricing practices in general insurance, to ensure that these remained suitable and appropriate. Plans and actions to further enhance the approach were duly noted.

Our commitment is to adopt standards of market conduct in line with regulatory obligations and good practice. Retail, authorised and regulated by the FCA, and Underwriting, authorised and regulated by the GFSC, each foster and maintain open and transparent relationships and communication with their respective regulator.

Meetings

The Committee met four times during the year. The following matters were considered and challenged as appropriate by Committee members at these meetings:

Meetings

Area of focus	Matter considered
Risk management	• Reviewed the status and effectiveness of the Group's Assurance, Risk and Compliance management framework and strategy • Reviewed resourcing levels in the Assurance, Risk and Compliance function • Received updates on the Group's three lines of defence model; evaluating trading entities first and second line control frameworks • Defined, assessed and ranked Group risks and examined a number of critical risks in detail • Reviewed and challenged the Group and trading entities risk reports and risk profile • Examined in detail critical risks and risk events • Reviewed and approved the mapping of Group risks to Principal Risks as reported in the Financial Statements • Considered emerging risks across the Group, including Brexit • Initiated a programme of deep dive topics and reviewed outcome reports • Reviewed, assessed and challenged the Group's plans for enhanced operational discipline and control whilst maintaining agility • Received updates and challenged the Group's approach to Information Security and Cyber risk, and undertook related training • Received updates on the Group's fraud risk • Reviewed and approved the stress test of non-financial resources for the Retail entity • Received summary updates on the UK regulatory environment
Governance/ other matters	• Reviewed and approved the statements in the 2018 Annual Report related to Risk Management • Reviewed and approved the Viability Statement for the 2018 Annual Report in conjunction with the Audit Committee • Reviewed its Terms of Reference and confirmed these had been adhered to • Conducted an annual review of Committee effectiveness and agreed an action plan to further enhance Committee operations

The potential impact of Brexit on the Group's business, whether or not the proposed Withdrawal Agreement is agreed and signed, was considered. The UK Government's commitment to preserve access to the UK market for Gibraltar financial services firms on existing terms until 31 December 2020, with an intent to develop an agreed replacement framework to endure beyond that date, gave the Committee comfort that the risk that Underwriting may not be able to access the UK market post Brexit has not increased.

Our Viability Statement addresses the adequacy of financial resources to mitigate principal financial risks by assessing capital, profit and solvency. Underwriting solvency levels are forecast to exceed the predicted Solvency II ('SII') Solvency Capital Requirement throughout the business planning period; whilst Retail maintains sufficient capital resources to meet the regulatory threshold conditions.

As well as my role as a Director of the Company and Chair of its Risk Committee, I am also an Independent Non-Executive Director of Underwriting, and Committee Chair of that company's risk committee. Along with my oversight of risk within Underwriting, I am updated on matters and concerns raised by the Retail risk and compliance committee enabling me to fully discharge my role as Risk Committee Chair. Minutes of the meetings of the respective risk committee in each of Underwriting and Retail are included in papers for meetings of the Risk Committee.

As part of the Board effectiveness evaluation conducted at the end of this year, the Risk Committee was also subject to an appraisal by its members. The evaluation considered how it discharged its responsibilities as well as the performance of the Committee members. No significant issues were identified and the Committee has agreed a number of actions and priorities for the coming year.

Priorities for 2019

In the coming year the Risk Committee will focus on:

- continued enhancement and embedding of the risk management framework as the business grows and matures;
- continuing to monitor actions being taken by Retail and Underwriting in connection with the FCA review of pricing practices in general insurance, new legislation and regulatory requirements;
- continued strategies to enhance the Group's protection and controls for technology, information and cyber security;
- continued challenge and oversight of the Group's risk and control framework; and
- monitoring the Group's risk management effectiveness via a series of deep dives into specific areas of risk.

Internal control and risk management

The Risk Committee seeks to ensure that the Group's material risks have been identified and that appropriate arrangements are in place to assess, mitigate, monitor and report on those risks effectively. The Committee also monitors the consistent application of these practices in each of the trading entities, which are overseen by the respective company boards. The board risk committees of each trading entity is composed of Independent Non-Executive Directors and Executive Directors who oversee and report on the effectiveness of the risk and control framework for its respective entity.

Retail's conduct risk and customer outcome matters are considered by the conduct committee, a formal sub-committee of the board. Underwriting's reserving committee seeks to ensure that adequate and reasonable reserves are in place for insurance risk exposures, and activities are consistent with applicable policies and regulatory standards. In addition their investment committee oversees investment strategies and ensures investment portfolios operate within established risk appetites and investment tolerances set by the board.

The description of the Group's internal control and risk management is covered in the Managing Our Risks report on page 33. The Viability Statement is provided on page 33 in relation to the expectations that the Group will continue to operate and meet its liabilities as they fall due for the next three years following the Committee's review of the Group's risk appetite and principal risks.

On behalf of the Risk Committee

Pierre Lefèvre
Chair of the Risk Committee
27 February 2019

Remuneration Committee

Dear Shareholders

I am pleased to present the report of the Remuneration Committee for the financial year ended 31 December 2018.

Thomas Colraine Chair of the Remuneration Committee

Role

The Committee is a formal sub-Committee of the Board with its own Terms of Reference. Its primary role is to review and set the remuneration policy for the Executive Directors, within the context of salaries and benefits paid across the Group as a whole. It also makes discretionary performance related awards to Executive Directors and senior management. No Director or manager is involved in any decisions as to their own remuneration. The remuneration of the Chair is a matter for the full Board, whilst the Chair shall determine the remuneration of the Independent Non-Executive Directors within the limits set out in the Articles of Association. The Committee meets at least four times a year as a minimum and at other times as required.

Membership

Member	Member since
Thomas Colraine (Chair)	September 2015 (Chair since May 2018)
Alison Burns	July 2016
Ian Cormack	April 2018
Selina Sagayam	June 2018
Malcolm Le May	September 2015 until April 2018
Mike Fairey	September 2015 until May 2018

Biographies of the Committee members are set out on page 66. Mike Fairey and Malcolm Le May resigned as Committee members upon their resigning as Directors. The Company Secretary acts as Secretary to the Committee. The Terms of Reference for the Committee have been agreed by the Board and can be viewed online at the Group's website.

The Chief Executive Officer may be invited, from time to time, to attend meetings of the Committee. The Committee obtained information and advice during the period under review from the Group HR Director, the Company Secretary and, where appropriate, the Executive Directors. It may also seek advice from any other employees as required. As permitted by its Terms of Reference, the Committee has engaged the advice and support of Deloitte LLP as independent remuneration consultants, at the expense of the Company.

The Committee met five times during the year to assess performance and consider developments in the market along with reviewing external benchmark data.

As part of the Board effectiveness evaluation conducted at the end of the year, the Remuneration Committee was subject to an appraisal by its members. The evaluation considered how the Committee discharged its responsibilities as well as the performance of its members; no significant issues were identified but a number of enhancements to Committee activities were agreed.

The activity of the Committee is detailed overleaf and further explanation of these activities is provided in my annual Committee Chair statement on page 92.

Meetings

The following matters were considered by the Committee:

Meetings

Area of focus	Matter considered
Remuneration policy and practice	• Performance review of the CEO, CFO and senior executives in context of bonus plan performance targets and overall colleague bonus pool • Approved changes to remuneration of certain senior executives in context of appointments and role changes endorsed by the Nomination Committee • Reviewed the vesting outcome for the 2016 LTIP • Reviewed performance measure projections for the 2017 LTIP • Reviewed proposed performance measures for the 2018 LTIP and approved the award • Considered market and other benchmark data for Executive Director remuneration and that of other senior executives as well as the Board Chair • Considered the appropriateness of the Remuneration Policy and made adjustments in line with the long term strategy of the Company • Consulted with major shareholders on the new Remuneration Policy and considered their feedback in finalising the Policy • Designed a new policy for post-employment shareholding requirements • Reviewed remuneration arrangements in-place across the wider workforce, including salary bands, benefits and bonus design • Reviewed draft mandatory annual gender pay report for the Group
Narrative reporting	• Reviewed and approved the Directors' Remuneration Report for the financial year ended 31 December 2018 • Reviewed investor engagement proposals for remuneration reporting for 2018
Remuneration governance and practice developments	• Reviewed voting guidelines of institutional shareholder proxy agencies • Received updates from Deloitte LLP on current developments for executive remuneration • Reviewed the new UK Corporate Governance Code relating to executive remuneration and the Government's new remuneration reporting regulations • Reviewed shareholder and proxy agency guidance on the new UK Corporate Governance Code
Governance/ other matters	• Conducted an annual review of Committee effectiveness and agreed an action plan to further enhance Committee activities

Priorities for 2019

In the coming year, the Remuneration Committee will focus on:

- in relation to the Chief Executive Officer, Chief Financial Officer and senior executive management within the Group's trading entities:
  - assessment of Group performance against 2019 targets and approval of bonus awards for 2019;
  - approval of bonus performance measures and targets for 2020;
- review of feedback from shareholders in 2019 in relation to remuneration and the Policy;
- development of market practice in relation to the remuneration elements of the new UK Corporate Governance Code;
- assessment of the ongoing appropriateness of remuneration arrangements and remuneration trends and market practice;
- recommendation for approval by the Board of awards and performance conditions under the Company's Long Term Incentive Plan for 2019; and
- analysis of performance conditions under the Company's Long Term Incentive Plan at the year end.

Remuneration Report and Policy

The Directors' Remuneration Report ('Report') and new Remuneration Policy ('Policy') follow this Committee report. The Policy is being placed before shareholders for approval at the AGM in May 2019 and the Report is being placed before shareholders for an advisory vote.

The Committee is conscious of the importance of remuneration strategy and practice and the considerable attention it is attracting from institutional shareholders, governments and other stakeholders. This was particularly relevant in 2018 with the publication of the new UK Corporate Governance Code and the Government's new remuneration reporting regulations. The Committee will continue to follow developments and, where appropriate, recommendations from evolving market practice and, as permitted under its Terms of Reference, to ensure remuneration policy remains in the best interests of the Company.

For and on behalf of the Remuneration Committee

Thomas Colraine
Chair of the Remuneration Committee
27 February 2019

Annual statement from the Remuneration Committee Chair

Dear Shareholders

On behalf of the Board, I am pleased to present our Directors' Remuneration Report ('Report') for the year ended 31 December 2018.

This is my first report as Chair of the Remuneration Committee and I would like to thank my predecessor, Malcolm Le May, for his contribution and support.

Our first directors' remuneration policy was approved by shareholders at our Annual General Meeting ('AGM') in 2016, the first AGM following our IPO. In accordance with the remuneration reporting regulations, a new Remuneration Policy ('Policy') is included after the Report and this will be subject to a binding shareholder vote at our AGM in May 2019.

Last year we were pleased to receive a shareholder vote of 97.25% in favour of our 2017 Report at our AGM; and we would like to thank our shareholders for their support. Our Report for the 2018 financial year is included after this statement and this will be subject to an advisory vote at this year's AGM.

Remuneration in context

During 2018, the Company delivered progressive results in a difficult market of reducing insurance premiums and increasing claims inflation. Despite these challenging conditions, operating profit grew by 4% to £190.6m. The Company has also strengthened its capital position, deleveraging to 1.2x as at December 2018, whilst also delivering incremental dividends. A disciplined approach has led to solid growth in live customer policies of 2.5%. Furthermore, our Guidewire technology was implemented and the benefits are already apparent. This is all in the context of a change in Chief Executive Officer during the year, with Toby van der Meer taking over the role in March. These achievements, together with our strategic investment with a continued focus on further increasing our customer base, aim to ensure that the Group is built for continued future growth.

Directors' Remuneration Policy

In this context, the Committee carried out an extensive review of the existing remuneration policy, reflecting on changes in the business and the Company's maturity as a listed entity since the policy was introduced, as well as market practice. We observed that, relative to the market, the balance of the incentives was heavily in favour of long term performance, with bonus opportunity lower and LTIP opportunities comparatively higher. This balance was determined at the time of IPO to reflect the strong focus on long term growth for the Company as a newly listed company. For 2019, the Committee concluded that a more balanced approach would better reflect the Company's position as a more mature FTSE 250 company, which also is more closely aligned to the market. We also consulted with our largest shareholders and the proxy voting agencies in late 2018 and took account of their views and comments; we were pleased with the general level of support shown for our new proposals.

The proposals are:

Annual bonus – opportunity increased from 100% to 150% of salary, with deferral levels increased from 25% to 33% of the award.

Long term incentive – reduction in normal maximum opportunity from 225% to 200% of salary, and introduction of a two year holding period following vesting for all awards granted from 2019.

This rebalancing of incentives results in an increase in the total variable opportunity of 25% of salary. We are comfortable that this is reasonable and appropriate in the context of the increasing size and complexity of the business; however, we determined that it would be appropriate to introduce this in conjunction with longer time horizons on incentives. Therefore, the portion of the annual bonus subject to deferral has increased and a two year holding period has been introduced for the LTIP. Under these new arrangements, the Executive Directors' remuneration packages as a whole are still modestly positioned relative to other FTSE 250 financial services companies.

For 2019, the performance measures for the bonus and LTIP will remain unchanged. The Committee has reviewed the weightings for the annual bonus and for 2019 the bonus will be based 70% on financial performance and 30% on non-financial performance. The 2019 LTIP will be based 50% on relative total shareholder return and 50% on cumulative EPS. Full details of the application of the Policy in 2019 are provided on page 105.

Developments in UK corporate governance

The new UK Corporate Governance Code ('Code') was published in 2018 and the Committee reviewed this carefully as part of the wider remuneration policy review to identify areas for development in our executive remuneration practices. Key decisions already implemented are:

- Introduction of a two year holding period on the LTIP, effective for 2019 grants onwards.
- Development of our policy for Executive Directors to hold shares in the Company following cessation of employment. The shareholding requirement for current Executive Directors is 200% of salary. From the 2019 AGM, Executive Directors leaving the Company will be expected to hold half of this shareholding requirement (i.e. 100% of salary) or, if their current shareholding is below this, their current shareholding, for two years following departure.
- Enhanced discretion and clawback provisions in the incentive plan rules and new Policy, in line with the Code guidance.
- For future Executive Director appointments, pension provision will be no more than the percentage company contribution level for the majority of the workforce.

Further information on our response to the Code is provided on page 96. The Committee will continue to develop its approach in 2019 and will report on any further enhancements in the 2019 Directors' Remuneration Report.

The Committee also noted the legislative changes that came into effect from 1 January 2019 requiring disclosure of the ratio of the Chief Executive Officer's pay to the average of the workforce. The Committee reviewed the ratio for 2018 when considering its approach to executive remuneration for 2019, and has opted to disclose the ratio in this year's Report for maximum transparency. This is shown on page 104.

"The policy and approach to executive remuneration continues to reflect corporate governance requirements and best practice, shareholder interests, and the context of the wider workforce."

Remuneration decisions in the year

Executive Director salary levels

Toby van der Meer was appointed as Chief Executive Officer on 1 March 2018 and his salary of £500,000 was set on appointment. The Committee reviewed his salary in the year and concluded that an increase of 2% to £510,000 was appropriate. This is in line with the average percentage increase for the rest of the workforce.

In January 2019, it was announced that Richard Hoskins will retire this year from the role of Chief Financial Officer and will be succeeded by John Worth. John brings a wealth of experience to the Group and the Committee took into consideration his skills, experience, and criticality in driving future Group performance when determining a suitable remuneration package. John's salary has been set at £475,000 and he will be entitled to a bonus opportunity of 150% of salary and an LTIP opportunity of 200% of salary for 2019, in line with our new Policy. His benefits and pension will also be in line with the existing policy.

The Company carried out an extensive search for a new Chief Financial Officer in late 2018 and concluded that a candidate of John Worth's experience was crucial to supporting the Group in the next stage of its development. John's salary is comparable to his previous role and is aligned with Chief Financial Officer salaries at UK insurance peers with whom the Group competes for talent, and reflects his extensive industry experience. The Committee does not expect to increase John's salary for a period of two years.

Annual statement continued

2018 annual bonus payments

As in prior years, the annual bonus awards are determined by reference to predetermined targets, including adjusted operating profit, as well as overall corporate and individual performance within our 4Cs framework including objectives aligned to colleagues, customers, company and community. This ensures a balanced overall assessment of performance, in line with best practice. Further information on the 4Cs is provided in the Corporate Responsibility report on page 41.

This bonus framework applies to all colleagues on a consistent basis. When considering remuneration outcomes, the Committee carefully considers the distribution of bonuses across the entire business to ensure it is fair and equitable.

Whilst reported financial performance was above the threshold set at the start of the year, the Committee noted that the £190.6m adjusted operating profit included £14.6m of VAT refunded in the year. As a result, the Committee felt that it was not appropriate to assess the financial outcome based on the reported adjusted operating profit as it did not give a true reflection of the underlying financial performance. The Committee therefore used its discretion not to use the published adjusted operating profit figure in the bonus calculation, and excluded the value of the VAT refund. As a result, no bonus was earned in respect of the financial element of the performance target.

In recognition of strong performance on non-financial achievements within the context of the 4Cs framework in the year, the Committee determined that a bonus of £83,333 be paid to the Chief Executive Officer, representing 20% of pro-rata salary, and £70,000 be paid to the Chief Financial Officer, also representing 20% of salary. 25% of these bonuses will be deferred into shares for three years, in line with our existing remuneration policy.

Details of how the bonus outcomes were calculated are set out on page 98.

Long term incentive awards vesting in the year

No awards under the Company's LTIP were due to vest to the Executive Directors' in respect of 2018.

Chief Financial Officer departure arrangements

Richard Hoskins's date of departure has not yet been confirmed and details of the treatment of his remuneration on departure will be disclosed in next year's Report.

Conclusion

We hope you find that this Report clearly explains our remuneration approach and that it enables you to appreciate how it links to our strategy.

We value the views of our shareholders and we actively welcome any feedback on our Policy and its implementation. We hope to receive your support for the Policy and Report at our AGM in May 2019.

Thomas Colraine
Chair of the Remuneration Committee
27 February 2019

Annual report on remuneration

This section sets out how the Policy of the Company has been applied during the year and details how the Committee intends to apply the Policy going forward.

An advisory shareholder resolution to approve this report will be proposed at the AGM in May 2019.

Compliance statement

This is the Company's Directors' Remuneration Report ('Report') which has been produced pursuant to, and in accordance with, the Listing Rules, section 420 of the Companies Act 2006, and Schedule 8 to the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended 2013). The Company also complies with the requirements of the UK Corporate Governance Code (the 'Code'). This Report contains both auditable and non-auditable information.

Overview of Executive Directors policy and approach for 2019

An overview of the key remuneration elements in place for Executive Directors and details of the implementation of the new Policy for 2019 are set out below.

The implementation of the Policy is dependent on receiving shareholder approval for the new Policy, which will be put to vote at the AGM on 23 May 2019.

The Directors remuneration in 2018 was awarded in line with the previous remuneration policy which was approved by shareholders at the AGM in 2016. The remuneration policy operated as intended in 2018.

Key remuneration elements for Executive Directors

Key element	Summary of Policy	Details of approach for 2019
Base salary	Salaries are normally reviewed annually, with any increase usually taking effect from March.	Chief Executive Officer salary of £510,000 (2% increase from 2018, in line with the rest of the workforce). Chief Financial Officer newly appointed on a salary of £475,000, see page 93.
Pension	The Company operates a defined contribution scheme. The maximum annual contribution for existing Executive Directors is 10% of salary.	Executive Directors continue to receive a contribution of 10% of salary and both will receive cash in lieu of pension.
Benefits	Benefits include a car allowance of £8,000p.a., private medical cover for the Executive Director and family, life assurance, long term disability insurance.	
All employee plans	Executive Directors are eligible to participate in the Company's Share Incentive Plan on the same terms as other employees.	
Annual bonus	Awards are based on financial, operational and individual goals during the year. At least 50% of the award will be assessed against the Company's financial performance. The remainder of the award will be based on personal performance against individual objectives. 50% of maximum for on target performance with an absolute maximum opportunity of 150% of salary. A proportion earned is deferred into Company shares, which vest after at least three years.	From 2019, 70% of the award will be based on adjusted operating profit. The remainder of the award will be based on individual performance, measured against pre-determined 4Cs objectives, aligned to our strategy. This includes financial and non-financial metrics relating to colleagues, customers, company and community, in line with our bonus approach across the organisation. The details of the performance targets for 2019 are commercially sensitive and will therefore be disclosed in next year's report. One third of any award made will be deferred into shares and will vest after three years.
Long Term Incentive Plan ('LTIP')	Awards granted under the LTIP vest subject to the achievement of performance conditions measured over a three year period. The normal maximum level of awards that may be made in respect of any financial year is 200% of salary. In exceptional circumstances the Committee may grant awards of up to 300% of salary. Typically a holding period of two years will apply post-vesting.	Awards of 200% of salary to both the CEO and CFO • 50% on Total Shareholder Return ('TSR') relative to FTSE 250, with 25% of this element vesting for achievement of median performance, rising to 100% for upper quartile performance; • 50% on Earnings Per Share ('EPS'), with 25% of this element vesting for achievement of cumulative adjusted EPS of 63.6p per share, rising to 100% for 73.2p per share. • A two year holding period will apply post-vesting
Shareholding guidelines	The Executive Directors are expected to build up and maintain a holding equivalent to twice their base salary. The time period for meeting this requirement will be five years from appointment. Any Executive Director leaving the Company will be expected to hold the lesser of their existing shareholding or half of the shareholding requirement (i.e. 100% of salary) for two years.	

Annual report on remuneration continued

Changes in UK corporate governance

The new UK Corporate Governance Code ('Code') was published in July 2018 and applies to the Company from 1 January 2019. Following the Code's publication, the Committee reviewed the current executive remuneration policies and arrangements against the new requirements and has already made a number of amendments. The Committee will consider further enhancements in the course of 2019, and will monitor evolving market practice as companies publish details of how they are complying with the Code. Details of further enhancements will be disclosed in the 2019 Directors' Remuneration Report.

The Company currently applies the Code as follows:

- the Committee determines the remuneration arrangements for senior executive management as well as the Executive Directors, and also reviews remuneration for the wider workforce. Examples of the Committee's activities in the past year are shown on page 91.
- the Committee's consideration of remuneration for the wider workforce includes a review of the ratio of CEO to all employee pay and benefits. This is reported on page 104.
- under the Policy, a two year holding period will apply for all long term incentive awards granted to Executive Directors from 2019 onwards.
- executive Directors are required to hold shares equivalent to 200% of salary, and should build up this holding within five years of appointment.
- a new policy on post-employment shareholding has been introduced, effective from the 2019 AGM, whereby shareholding equivalent to 100% of salary must be held by Executive Directors for two years following departure.
- the existing provisions on the use of discretion and malus and clawback have been expanded in the incentive plan rules and the Policy in line with the new Code. Malus and clawback provisions have been expanded to include corporate failure.
- pension provision for the existing Executive Directors is set at 10% of salary, which is low relative to the market. In recognition of emerging guidance on pension levels, the pension policy has been revised so that Executive Directors recruited after the adoption of the new Policy will receive company contribution levels equivalent to the lesser of 10% of salary or the company contribution level for the majority of the workforce.

Single total figure of remuneration – Executive Directors *(audited information)*

The following table sets out the audited total remuneration for the Executive Directors.

	Toby van der Meer[1]		Richard Hoskins		Gary Hoffman (former Executive Director)[2]	
	2018 (1 March 2018 – 31 December 2018)	2017 (1 January 2017 – 31 December 2017)	**2018 (1 January 2018 – 31 December 2018)**	2017 (1 January 2017 – 31 December 2017)	**2018 (1 January 2018 – 24 May 2018)**	2017 (1 January 2017 – 31 December 2017)
Salary	**£407,292**	–	**£342,854**	£315,000	**£208,243**	£475,000
Benefits	**£9,685**	–	**£11,584**	£12,708	**£33,711**	£40,837
Retirement benefits	**£41,667**	–	**£34,417**	£31,500	**£20,824**	£47,500
Annual bonus	**£83,333**	–	**£70,000**	£187,050	**–**	£292,250
LTIP	**–**	–	**–**	–	**–**	–
Legacy Incentives	**–**		**–**	£3,064,155	**–**	£10,973,879
Total – including Legacy Incentives	**£541,976**	–	**£458,855**	£3,610,413	**£262,778**	£11,829,466
	–		**–**	£(3,064,155)	**–**	£(10,973,879)
Total – excluding Legacy Incentives	**£541,976**	–	**£458,855**	£546,258	**£262,778**	£855,587

1 Toby van der Meer was appointed to the role of Chief Executive Officer on 1 March 2018. The figures above relate to the period from this date to 31 December 2018.

2 Gary Hoffman was the Chief Executive Officer until 1 March 2018 and remained an Executive Director until his transition to Non-Executive Director on 24 May 2018. The figures above relate to the period from 1 January to 24 May 2018. Please refer to the single figure table for Non-Executive Directors on page 101 of this report for details of fees received for the role of Chair of the Board.

Additional notes to the table *(audited information)*

Benefits

The benefits consist of private medical insurance (for the Executive Directors and their families), long term sickness cover, health screening, life assurance and a car allowance. The cost of these benefits is included based on the latest completed returns to HMRC for the year ended 5 April 2018. The costs incurred since that return are not believed to be substantially different to those reported.

Retirement benefits

The amount set out in the table represents the Company contribution to Directors' pension at a rate of 10% of base salary. Toby van der Meer and Richard Hoskins receive cash in lieu of pension. Gary Hoffman received cash in lieu of pension until his appointment to the role of Non-Executive Chair on 24 May 2018.

Legacy incentives

As disclosed in previous reports, a management incentive plan ('MIP') was established at the time of the Goldman Sachs investment in the business in January 2014, prior to our listing as a public company. In 2017, all conditions were met in full, leading to full vesting of the MIP interests.

Further details can be found on page 89 of the Hastings Group Holdings plc 2017 Annual Report.

Annual bonus

Annual bonus awards are determined based on the Company's performance against pre-determined adjusted operating profit targets and an assessment of overall corporate and individual performance within the Group's 4Cs framework. This approach ensures that annual bonus awards for all colleagues are assessed on a consistent basis and include a balanced assessment of financial and non-financial performance, in line with regulatory best practice.

2018 Annual bonus outturn *(audited information)*

The table below provides full disclosure of the operating profit targets set at the start of the year and how the performance achievement in 2018 compares to these targets.

	Performance range					Outcome (% of maximum)
	Entry	Target	Stretch	Maximum	Actual	
Bonus outcome (% of maximum)	20%	50%	75%	100%		
Adjusted operating profit target	£186.0m	£203.0m	£212.0m	£217.0m	£190.6m	See note
Growth on 2017 achievement on a like for like basis	+1.0%	+10.3%	+15.2%	+17.9%	+3.5%	

As stated elsewhere, the adjusted operating profit of £190.6m includes £14.6m of VAT refunded during the year, in respect of historical periods. Recognising that the impact of this refund brought the adjusted operating profit above bonus threshold level, the Committee felt that this was not the appropriate outcome as it did not give a true reflection of underlying financial performance. The Committee therefore used its discretion not to include the VAT refund in the assessment of financial performance resulting in the financial threshold for bonus entitlement not being met.

Annual report on remuneration continued

Assessment of corporate performance against 4Cs objectives

Our 4Cs	Corporate performance achievement:
Colleagues Ensuring colleagues are engaged and that Hastings actively promotes a culture where colleagues can contribute and thrive.	Significant progress has been made for colleagues, with results above expectations. Key achievements included: • Very strong YourVoice engagement survey results, significantly exceeding prior year • Significantly improved attrition and absence rates, exceeding targets • Leicester now fully established as a high performing operational site
Customers Differentiating us from our competitors through great value pricing and products and the way our customers buy insurance.	Good progress was made for customers, with key achievements including: • Market leading online functionality on Guidewire, including new capabilities and high levels of customer registration, in line with plan • Grade of service stabilised and improved in many areas • Achievement of Net Promoter Score targets • Delivery of mobile app
Company Enabling us to grow profitably and sustainably.	The market cycle has been more severe than expected, alongside heavy competition, premium deflation and market wide repair inflation. Key achievements included: • Calendar year loss ratio at the bottom of the target range • A reduction in net debt leverage • Pricing and data enrichment projects delivered in line with plan
Community Taking an active part in serving the community, by being a good neighbour, nurturing home grown talent and being an ethical member of the financial services community.	Continued to have a positive impact in the community. Key achievements included: • Maintained a productive relationship with both the FCA and GFSC • Delivered on GDPR, IDD and on track to implement SMCR • 1,100 community days delivered and 223 students supported under Hastings Be the Change programme

Bonus outcomes for Executive Directors

Overall Company performance in 2018 has been solid and the Group has continued to make progress towards the delivery of its long term strategic objectives.

The Company delivered a solid set of financial results despite challenging market conditions. As outlined above, the Committee used its discretion not to use the published adjusted operating profit figure in the bonus calculation, and excluded the value of the VAT refund. As a result, no bonus was earned in respect of the financial element.

Non-financial performance was assessed against the 4Cs objectives, as described above.

- During the Chief Executive Officer's initial year in post the market cycle has been more severe than expected, combined with heavy competition and wider repair inflation. In this context, he has delivered a solid set of results and is setting the business up for continued profitable growth in future years, with progress on digital and data. In particular, the Committee noted the contribution made to reducing the colleague attrition rate
- The Chief Financial Officer has continued to effectively manage the Company's finance function and further enhanced the Group's financial standing, including successfully reducing the debt to adjusted operating profit ratio. He also directed the successful issue of the Company's inaugural investment grade bond, with a seven year £250m issue in May 2018 at a 3.0% fixed rate of interest to provide longer term certainty of funding and interest cost.

The Committee determined that, given these achievements, a payment of 20% of maximum potential entitlement in respect of non-financial performance was appropriate for both the Chief Executive Officer and Chief Financial Officer.

The resulting bonus outcomes were £83,333 (20% of pro rata salary) for the Chief Executive Officer and £70,000 (20% of salary) for the Chief Financial Officer. 25% of these bonus awards will be deferred into shares for three years.

Long term incentive plan *(audited information)*

No LTIP awards were due to vest to Executive Directors in respect of 2018.

Board changes

As announced in January 2019, Richard Hoskins will retire as Chief Financial Officer in 2019 and will be succeeded by John Worth. Details of the treatment of Richard's remuneration on departure will be included in next year's Report.

John Worth's salary will be £475,000. This was set in the context of his extensive industry expertise, his skills and experience and the importance to the business of securing a candidate of his calibre. John's salary is aligned with Chief Financial Officer salaries at UK insurance peers with whom the Company competes for talent, reflects his extensive industry experience and is similar in value to the package he received at his former employer. He will be eligible to an annual bonus and a Long Term Incentive Plan award of 150% and 200% of salary respectively, in line with the new Policy. The bonus award for 2019 will be pro-rated to reflect the portion of the year spent in employment. He will receive a pension opportunity of 10% of salary and benefits in line with the existing Policy.

In order to facilitate his recruitment, John will receive an award to compensate for the value lost from annual incentive awards forfeited at his former employer. This will be made partly in cash and partly in deferred shares, to match the structure of the forfeited award. Details will be disclosed in the 2019 Directors' Remuneration Report once the award has been made.

Historical arrangements

Admission Awards

As disclosed in previous reports, Executive Directors were granted conditional share awards at the time of the Company's admission to the London Stock Exchange (Admission Awards). These awards were not subject to performance conditions. In line with the original terms of these awards, the remaining half of these awards vested at the end of 2018, representing a value of £750,000 for Gary Hoffman, £500,000 for Richard Hoskins, and £500,000 for Toby van der Meer.

Capital Appreciation Plan

The Capital Appreciation Plan ('CAP') was approved by the Remuneration Committee in 2017. Under this plan, certain members of the management team, excluding Executive Directors, were granted awards which would vest subject to the achievement of specified performance conditions. Toby van der Meer received a grant under the CAP as part of the incentive arrangements relating to his role as Managing Director, Retail. In line with his contractual agreement, this award has remained in place following his appointment to the role of Chief Executive Officer on 1 March 2018. No further awards will be made to him under the CAP plan.

Under this award, Toby van der Meer was required to pledge shares ('Investment Shares') and became eligible to receive up to five shares ('Matching Shares') for every Investment Share held. Matching Shares will be awarded based on a performance condition linked to total shareholder return ('TSR') measured over a performance period of five years from the date of grant, subject to a minimum award of one Matching Share if TSR exceeds the minimum threshold of 32%. The number of Matching Shares will increase as each specified TSR threshold is reached, subject to a maximum of five Matching Shares if TSR over the five year period exceeds 131%. Total entitlement to Matching Shares at the end of the performance period shall be released in three tranches; one third at the end of the performance period, a further third 12 months later, and the final third 12 months after that. The Investment Shares must remain pledged throughout the performance period to maintain eligibility to receive any Matching Shares due, and standard good leaver and bad leaver, and malus and clawback, provisions apply to unvested awards.

Scheme interests awarded to Executive Directors in the year *(audited information)*

The LTIP awards shown in the table below were granted to Executive Directors in 2018. These awards may vest in 2021 conditional on performance over a three year period to 31 December 2020. The deferred bonus awards represent the portion of the 2017 bonus that was deferred into shares.

	Scheme	Basis of award (maximum)	Face value	Percentage vesting at threshold performance	Performance period end date
Toby van der Meer	LTIP (conditional share award)	225% of salary	£1,250,000	25%	31 December 2020
	Deferred bonus (conditional share award)	25% of 2017 bonus	£39,375	n/a	n/a
Richard Hoskins	LTIP (conditional share award)	200% of salary	£700,000	25%	31 December 2020
	Deferred bonus (conditional share award)	25% of 2017 bonus	£46,763	n/a	n/a
Gary Hoffman (former CEO)	Deferred bonus (conditional share award)	25% of 2017 bonus	£73,062	n/a	n/a

Annual report on remuneration continued

The LTIP and Deferred Bonus awards were granted on 6 April 2018. The face values have been calculated using the average share price over the five dealing days 1 March to 7 March 2018 of £2.7332.

The Committee considered the key long term objectives over the performance period and determined that the awards should be linked to the value created for shareholders over the period. As a consequence the awards are equally weighted against relative total shareholder return ('TSR') and adjusted earnings per share ('EPS') performance targets. The EPS target is a cumulative pence per share target over each of the three years. The targets for the LTIP granted in 2018 are summarised below:

EPS	Relative TSR
Vesting is based on the cumulative pence per share target over the three year performance cycle	Vesting is based on TSR performance measured against the constituents of the FTSE 250 (excluding investment trusts)

EPS performance	Proportion vesting	TSR performance	Proportion vesting
Below threshold	0%	Below median	0%
Threshold (68.2p per share)	25%	Median	25%
Stretch (79.1p per share)	100%	Upper quartile	100%
Straight line vesting between threshold and stretch		Straight line vesting between median and upper quartile	

Awards made in 2019 will vest on the basis of:

- 50% on relative TSR, with targets and vesting schedule unchanged from those that applied to the 2018 awards as set out in the table above;
- 50% on cumulative adjusted EPS, with threshold target set at 63.6p per share and stretch at 73.2p per share.

External appointments

Executive Directors may hold external directorships if the Board determines that such appointments do not cause any conflict of interest or adversely impact the Director's ability to effectively fulfil his duties for the Company. Where such appointments are approved and held, it is a matter for the Board to agree whether fees paid in respect of the appointment are retained by the individual or paid to the Company.

Richard Hoskins currently holds one external appointment, as Non-Executive Director of Aztec Group Limited, for which he received £65,000.

Service agreements

Director	Date of appointment	Notice period	Unexpired term
Richard Hoskins	03/09/2015	6 months	6 months
Toby van der Meer (CEO from 1 March 2018)	01/03/2018	6 months	6 months

In line with our Policy, Executive Directors have rolling contracts which may be terminated by either the Company or the Director giving six months' notice.

Single total figure of remuneration – Non-Executive Directors *(audited information)*

The following table sets out the audited total remuneration for the Non-Executive Directors.

	2018 (1 January 2018 – 31 December 2018) Fees and expenses	2017 (1 January 2017 – 31 December 2017) Fees and expenses
Gary Hoffman[1] (appointed 24 May 2018)	**£140,399**	–
Thomas Colraine	**£85,399**	£82,419
Malcolm Le May (appointment terminated 25 April 2018)	**£23,636**	£66,704
Ian Cormack	**£50,000**	£50,000
Pierre Lefèvre[2]	**£107,040**	£94,074
Sumit Rajpal	**–**	–
Alison Burns	**£50,895**	£50,659
Teresa Robson-Capps	**£62,671**	£51,836
Selina Sagayam (appointed 14 August 2017. Appointment terminated 28 June 2018. Re-appointed 29 June 2018)	**£91,400**	£12,304
Herman Bosman	**–**	–
Elizabeth Chambers (appointed 26 September 2018)	**£11,707**	–
Michael Fairey (appointment terminated 24 May 2018)	**£70,145**	£160,000

1 The fees paid to Gary Hoffman represent the fees payable following his appointment as Chair of the Board on 24 May 2018. Please refer to the single figure table for Executive Directors on page 96 of this report for details of remuneration paid with respect to his role as an Executive Director.
2 Pierre Lefèvre is entitled to receive a total annual fee of £110,000, comprising £65,000 for his role as Independent Non-Executive Director, and Chair of the Risk Committee, of the Company and £45,000 for his duties as a Non-Executive Director and chair of the risk committee of Advantage Insurance Company Limited.
3 Selina Sagayam is entitled to receive a total annual fee of £95,000, comprising £50,000 for her duties as Non-Executive Director, of the Company, and £45,000 for her role as Non-Executive Director of Hastings Insurance Services Limited.

Notes to the table

Fees *(audited information)*

Non-Executive Directors receive fees and reimbursable expenses only; none participate in any form of incentive schemes. Gary Hoffman has retained outstanding deferred bonus and LTIP awards granted to him during his time as an Executive Director, as described in the 2017 Directors' Remuneration Report.

The fees shown include additional fees for chairing Board committees where appropriate. In 2017 and 2018, Sumit Rajpal and Herman Bosman waived their fees for their roles as Non-Executive Directors.

Non-Executive Director fees for 2019

Non-Executive Director fees are set out below. These are unchanged from 2018.

Role	**Fee per annum**
Chair basic fee	**£250,000**
Non-Executive Director basic fee	**£50,000**
Additional fees	
Chair of the Nomination Committee	**£10,000**
Senior Independent Director	**£15,000**
Chair of the Audit Committee	**£15,000**
Chair of the Risk Committee	**£10,000**
Chair of the Remuneration Committee	**£15,000**

Annual report on remuneration continued

Letters of Appointment

Non-Executive Directors have an agreement for service for an initial three year term which can be terminated by either party giving three months' notice. The table below sets out these terms for all current Non-Executive Directors of the Board.

Director	Date of Letter of Appointment	Notice period	Unexpired term
Gary Hoffman	24/05/2018	3 months	26 months
Herman Bosman	14/03/2017	3 months	Open
Alison Burns	12/07/2016	3 months	6 months
Elizabeth Chambers	26/09/2018	3 months	32 months
Thomas Colraine	01/08/2018	3 months	31 months
Ian Cormack	01/08/2018	3 months	31 months
Pierre Lefèvre	03/09/2015	3 months	32 months
Sumit Rajpal	28/09/2015	3 months	Open
Teresa Robson-Capps	12/07/2016	3 months	6 months
Selina Sagayam	29/06/2018	3 months	30 months

Statement of Directors' shareholding and scheme interests *(audited information)*

The table below sets out the Directors' shareholdings in the Company as at 31 December 2018.

The Executive Directors are expected to build up and maintain a holding equivalent to twice their base salary. New Executive Directors will be expected to meet the requirement within five years of appointment. If the requirement is not met within the timeframe, the Committee would generally expect Executive Directors to purchase additional shares. Both Toby van der Meer and Richard Hoskins have met this target.

From the 2019 AGM, any Executive Director leaving the Company will be expected to maintain a shareholding as set out in the Remuneration Policy (of the equivalent to their base salary) for a period of two years.

		Scheme interests[1]:		
		Unvested conditional share awards		Unvested nil-cost options
	Number of shares owned	Deferred shares (not subject to further performance conditions)	LTIP awards[1] (subject to performance conditions)	CAP awards[2] (subject to performance conditions)
Toby van der Meer	**3,534,189**	27,627	649,589	567,165
Richard Hoskins	**871,766**	33,767	555,970	–
Gary Hoffman	**7,948,721**	51,851	452,170	–
Thomas Colraine	**76,470**	–	–	–
Ian Cormack	**35,294**	–	–	–
Pierre Lefèvre	**87,837**	–	–	–
Sumit Rajpal	**–**	–	–	–
Teresa Robson-Capps	**–**	–	–	–
Alison Burns	**–**	–	–	–
Selina Sagayam	**–**	–	–	–
Herman Bosman	**–**	–	–	–
Elizabeth Chambers	**–**	–	–	–

1 See page 98.
2 The CEO received an award under the CAP prior to his appointment to the Board. See page 99 for more information.

The following changes occurred to the Directors' direct beneficial interests in shares between 31 December 2018 and 20 March 2019. Gary Hoffman acquired 217,284 Company shares and Richard Hoskins acquired 144,855 Company shares on 4 January 2019 following vesting of the final tranche of Admission Awards. No Director has a non-beneficial interest in the shares of the Company.

Other information

Payments to former Directors (audited information)

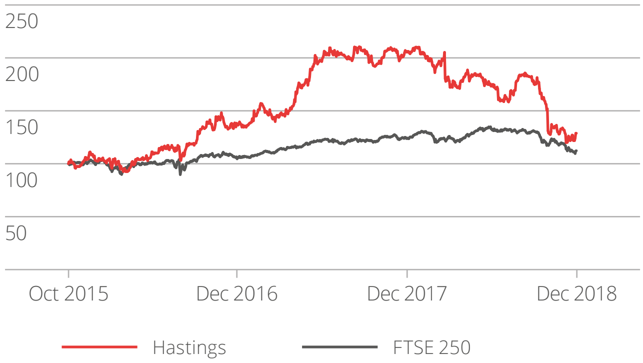
There were no payments to former Directors made in the year.

Payments for loss of office (audited information)

There were no payments for loss of office made in the year.

TSR chart

The graph below shows the TSR of the Company and the UK FTSE 250 Index from the Company's Admission in October 2015 to 31 December 2018. The FTSE 250 Index was selected on the basis that the Company is a member of the FTSE 250.



Historical Chief Executive Officer remuneration

Given that the Company has only been a listed entity since 15 October 2015, the following table sets out information regarding the Chief Executive Officer's historical pay since listing:

		2018 Toby van der Meer (1 March 2018 – 31 December 2018)	**2018 Gary Hoffman (1 January 2018 – 28 February 2018[1])**	2017 Gary Hoffman (1 January 2017 – 31 December 2017)	2016 Gary Hoffman (1 January 2016 – 31 December 2016)	2015 Gary Hoffman (3 September 2015 – 31 December 2015)
Single figure of remuneration	Including legacy arrangements	**£541,976**	**£262,778**	£11,829,466	£798,368	£1,830,477
	Excluding legacy arrangements	**£541,976**	**£262,778**	£855,587	£798,368	£330,477
Annual bonus payout (as a % of maximum opportunity)		**20%**	**n/a**	62%	50%	44%
Long term incentive payout (as a % of maximum opportunity)		**n/a**	**n/a**	n/a	n/a	n/a

1 Represents remuneration paid to Gary Hoffman with respect to his role as Chief Executive Officer until 28 February 2018. The remainder of the remuneration disclosed in the single figure table on page 101 of this report relate to Gary's role as an Executive Director from 1 March 2018 to 23 May 2018.

Annual report on remuneration continued

Percentage change in Chief Executive Officer remuneration

The table below sets out details of the percentage change in salary, benefits and annual bonus for Chief Executive Officer and for all Company colleagues.

	Change in remuneration from 31 December 2017 to 31 December 2018		
	Change in base salary	Change in benefits	Change in bonus
Chief Executive Officer	5.3%	(17.5%)	(65.8%)
Employee comparator group	6.1%	19.1%	(27.4%)

Chief Executive Officer pay ratio

The Government recently introduced legislation requiring all quoted companies with more than 250 UK employees to publish the ratio of the Chief Executive Officer's single figure to the total remuneration of full-time equivalent employees. Whilst the Company is not required to comply with the legislation for another year, the Remuneration Committee has elected to disclose the ratio for 2018 in this report, in line with best practice guidance.

The table below sets out the ratio of the Chief Executive Officer's pay to the 25th percentile, median and 75th percentile total remuneration of full-time equivalent employees.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2018	Option A	36:1	32:1	23:1

The Committee has opted to use Option A for calculating the pay ratio, in line with best practice guidance. The Chief Executive Officer pay figure is based on the aggregate of the pro-rated data for each of the two incumbents during 2018. Data for all employees is effective as at 31 December 2018.

The total pay and benefits for the individuals used in the calculations above are as follows:

	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
Total pay and benefits	£18,251	£20,481	£27,775
Of which salary	£17,170	£19,024	£25,500

We ensure that colleagues are fairly remunerated for their contribution to the success of the Group, more information is provided on page 42.

Relative importance of spend on pay

The following table illustrates total remuneration for all Company colleagues compared to distributions to shareholders for the financial years ended 31 December 2018 and 31 December 2017.

	Year ended 31 December 2018	Year ended 31 December 2017
Shareholder distributions (dividends and share buy backs)	**£85.5m**	£70.3m
Total Company colleague remuneration	**£95.6m**	£92.3m

Advice and support provided to the Remuneration Committee

During the year Deloitte LLP ('Deloitte') provided advice as independent remuneration consultants, with the cost of the advice being borne by the Company. Total fees in 2018 for advice and support provided to the Remuneration Committee were £92,350. Deloitte has voluntarily signed up to the Remuneration Consultants' Code of Conduct in relation to executive remuneration consultancy during the year. The Committee is comfortable that the Deloitte engagement partner and team that provides remuneration advice to the Committee do not have connections with the Company that may impair their independence. During the year, Deloitte also provided tax and other unrelated consultancy services to the Group. The Chair of the Board, Chief Executive Officer, HR Director and Head of Reward attended Committee meetings by invitation in order to support the discussion of the agenda items as appropriate. No individual participated in discussions regarding their own remuneration.

Shareholder context

The table below shows the results of the binding vote on the last Policy approved at the 2016 AGM and the advisory vote on the 2017 Directors' Remuneration Report at the 2018 AGM. It is the Committee's policy to consult with major shareholders prior to any major changes to the Policy, and to maintain an ongoing dialogue on executive remuneration matters. The Committee carried out a consultation exercise with major shareholders, and proxy voting agencies, on the new Policy in late 2018 and feedback from that consultation was taken into account when finalising the new remuneration arrangements.

	For	Against	Abstentions
2017 Annual Report on Remuneration	451,915,454 97%	12,771,637 3%	917,325 0%
2015 Remuneration Policy	529,122,180 99.98%	90,504 0.02%	1,775 0%

for and on behalf of the Remuneration Committee

Thomas Colraine
Chair of the Remuneration Committee
27 February 2019

Directors' Remuneration Policy

This section sets out the Remuneration Policy for the Directors of the Company, split between Executive Directors and Non-Executive Directors (the 'Policy'). This updated Policy will be put to a binding shareholder vote at the AGM in May 2019.

If approved by shareholders, it will become effective from that date and will be subject to review and approval by shareholders at least every three years, or sooner should the Company choose to amend the Policy. The Committee may make minor amendments to the Policy set out in this report for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation, without obtaining shareholder approval for such amendments.

Summary of changes to policy

Many of the features of the previous Policy will continue to apply for 2019 onwards. However, the Committee approved the following material changes for 2019, which are described in more detail in the Directors' Remuneration Report.

Annual bonus and long term incentive plan opportunities and time horizons

Summary of changes

- maximum annual bonus opportunity increased from 100% of salary to 150% of salary.
- portion typically deferred increased from 25% of bonus to 33% of bonus.
- normal maximum LTIP opportunity reduced from 225% of salary to 200% of salary.
- a holding period of two years will typically apply post-vesting.

Reasons for changes

Opportunities rebalanced to be more evenly weighted between short term and long term performance, better reflecting the Company's position as a more mature FTSE 250 company and aligning more closely with the market.

Overall increase in variable opportunity of 25%, to reflect the increased size of the business.

Increase in proportion of bonus deferred and introduction of holding period to ensure this increase is made in the context of greater alignment to shareholders' long term interests, and in recognition of evolving market practice.

Discretion and recovery

Summary of changes

- strengthening provisions on the Committee's discretion to dis-apply the formulaic outcome of the performance conditions applicable to variable pay have been included.
- malus and clawback provisions extended to include 'material corporate failure'.

Reasons for changes

Following the publication of the new UK Corporate Governance Code ('the Code') and the accompanying Guidance, the Committee reviewed the existing plan documentation and determined that the existing provisions should be strengthened. The Policy has been updated to ensure consistency with these changes.

Share ownership

Summary of changes

- guideline of 200% of salary, to be built up within five years and maintained.
- on cessation of employment, Executive Directors are expected to maintain an interest in shares equivalent to the lesser of 100% of salary or their shareholding at the time of their departure, typically for a period of two years thereafter.

Reasons for changes

200% of salary guideline was previously applied and was disclosed in the Directors' Remuneration Report. This has now been added enshrined in the Policy, together with the post-employment shareholding guideline, in recognition of evolving best practice following the publication of the Code.

Pensions

Summary of changes

- for Executive Directors recruited after the adoption of this Policy, pension contributions will be no more than the percentage company contribution level for the majority of the workforce.
- the maximum for existing Executive Directors is unchanged.

Reasons for changes

This change to the pension policy has been adopted to align with the expectations set out by proxy voting advisory bodies following the publication of the Code.

Directors' Remuneration Policy continued

Remuneration Policy Table – Executive Directors

Element and link to strategy	Operation	Maximum opportunity	Performance measures
Base salary Fixed remuneration that is appropriate for the role and to secure and retain the talent required by the Company.	The Committee takes into account a number of factors when setting and reviewing salaries, including: • scope and responsibility of the role; • any changes to the scope or size of the role; • the skills and experience of the individual; • salary levels for similar roles within appropriate comparators; and • value of the remuneration package as a whole.	There is no set maximum for salary levels, or salary increases. Account will be taken of increases applied to colleagues as a whole when determining salary increases for the Executive Directors, but the Committee retains the discretion to award higher increases where it considers it appropriate. Salaries are normally reviewed annually, with any increase usually taking effect from March.	None
Pension Fixed remuneration that assists in providing income in retirement.	The Company operates defined contribution group personal pension schemes. Executive Directors may elect to opt out of the pension scheme and receive the equivalent Company contribution as a cash allowance.	The maximum annual company contribution for existing Executive Directors is currently 10% of salary. For Executive Directors recruited after the adoption of this Policy, pension arrangements will be no more than the percentage company contribution level for the majority of the workforce.	None
Benefits Fixed remuneration that provides protection for the individual which is market competitive.	Benefits include, but are not limited to, a car allowance, private medical cover for the Executive Director and family, life assurance, and long term disability insurance. Where an Executive Director is required to relocate, benefits may be provided to support the relocation, including relocation assistance, housing or a housing allowance and reimbursement of travel costs where appropriate and any tax arising as a consequence.	The current car allowance is a fixed amount of £8,000 per annum. The Committee retains the discretion to review this in line with levels in the wider market. The cost of other benefits is dependent on the terms of the relevant provider and the individual's personal circumstances and therefore no monetary maximum has been set.	None
All employee share plans Aligns colleagues and shareholder interests.	Executive Directors may participate in any all employee share plans (such as the Company's Share Incentive Plan) on the same terms as all other employees.	Participation in any HMRC-approved all-employee share plan is subject to the maximum permitted by the relevant tax legislation.	None
Annual bonus Variable remuneration that rewards the achievement of annual financial, operational and individual objectives reflective of Company strategy over a one year period.	Objectives are set annually based on the achievement of strategic goals. At the end of the bonus year, the Committee meets to review individual and corporate performance against objectives and determines payout levels. The annual bonus scheme allows the Committee to exercise discretion to adjust the level of bonus to reflect Company and individual performance and any other factors it considers relevant. A portion of bonus will normally be deferred into an award of shares under the Deferred Bonus Plan ('DBP'). Normally, not less than one third of any bonus will be deferred for a period of at least three years.	75% of salary for on-target performance with an absolute maximum opportunity of 150% salary. No bonus linked to financial performance will be paid for failing to achieve target threshold performance.	Awards are based on financial, operational and individual goals during the year. At least 70% of the award will be assessed against the Company's financial performance. The remainder of the award will be based on personal performance against individual and/or strategic objectives. The split between these performance measures will be determined annually by the Committee.

Remuneration Policy Table – Executive Directors

Element and link to strategy	Operation	Maximum opportunity	Performance measures
Long Term Incentive Plan ('LTIP') Variable remuneration designed to incentivise and reward the achievement of long term targets aligned with shareholder interests. The LTIP also assists in the retention of Executive Directors.	Awards granted under the LTIP vest subject to achievement of performance conditions measured over a period of at least three years. Typically a holding period of two years will apply post-vesting. The LTIP rules allow the Committee to retain discretion, in line with the UK Corporate Governance Code, to adjust the level of vesting based on the formulaic outcome of the performance conditions to reflect Company and individual performance and any other factors it considers relevant.	The normal maximum level of awards that may be made in respect of a financial year is 200% of salary (225% for awards granted prior to 2019). In exceptional circumstances the Committee may grant awards of up to 300% of salary.	LTIP performance conditions will be reviewed annually. Conditions and targets will be selected to align with the Company's long term strategy. Currently awards are linked to a measure based on shareholder returns and a measure based on earnings performance. For 2019, 50% of awards are linked to Total Shareholder Return performance and 50% to Earnings Per Share performance. The Committee retains the discretion to vary the weightings and measures in future years. At threshold performance, no more than 25% of the award will vest, rising to 100% for maximum performance.
Share Ownership Enhances Executive Directors' alignment with shareholders' long term interests.	The Executive Directors are expected to build up, over five years, and maintain, ownership of the Company's shares equal to 200% of salary. On cessation of employment, for a period of two years, Executive Directors are expected to maintain share ownership equivalent to the lesser of 100% of salary or their shareholding at the time of their departure typically for a period of two years.	None	None

Notes to the policy table

Any remuneration payments and payments for loss of office not in line with the Policy detailed above may nevertheless be made where (i) the terms of the payment or award were agreed before (a) the 2016 AGM (when the Company's first directors' remuneration policy came into effect) or (b) this Policy came into effect, provided it was in line with the directors' remuneration policy in force at the time they were agreed, where relevant, and (ii) the individual was not a Director of the Company at the time and in the Committee's opinion was not in consideration for becoming a Director of the Company (including awards under the Capital Appreciation Plan ('CAP'). The CAP was awarded to certain senior executives who were not Board members (including the Chief Executive prior to his appointment to that role) and further details of the Chief Executive's CAP awards are disclosed in line with the relevant reporting requirements in the Directors' Remuneration Report. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

Directors' Remuneration Policy continued

Performance measures and approach to target setting

Annual bonus

The performance measures for the annual bonus are designed to provide an appropriate balance between incentivising Executive Directors to meet financial targets for the year and to achieve specific strategic, operational and personal goals without placing undue incentive emphasis on short term success at the expense of long term growth. Personal and corporate objectives are recommend by the Committee to the Board for approval each year to ensure that Executive Directors are focused on the key financial and strategic objectives for the financial year. In doing so, the Committee usually takes into account a number of internal and external reference points, including the Group's business plan and Group operating profit targets.

LTIP

The Committee believes it is important that the performance conditions applying to LTIP awards support the long term ambitions of the Group and the creation of shareholder value. The Committee currently considers that relative TSR and EPS are the most appropriate measures to assess the underlying performance of the business, while creating alignment with shareholders and rewarding long term value creation. The Committee will keep the measures and weightings under review to ensure that the most appropriate measures to promote the long term success of the Group are used. Performance targets are set taking into account a number of reference points, including the Group's long term business plan, market conditions and consensus forecasts.

Common award terms

Awards under any of the Company's share plans referred to in this Policy may:

a. be granted as conditional share awards or nil-cost options or in such other form that the Committee determines has the same economic effect;

b. have any performance conditions applicable to them amended or substituted by the Committee if the Committee determines an amended or substituted performance condition would be more appropriate and not materially less difficult to satisfy;

c. incorporate the right to receive an amount (in cash or additional shares) equal to the value of dividends which would have been paid on the shares under an award that vest up to the time of vesting (or where an LTIP award is subject to a holding period, the end of that holding period). This amount may not be calculated assuming that the dividends have been reinvested in the Company's shares on a cumulative basis;

d. be settled in cash at the Committee's discretion; and/or

e. be adjusted in the event of any variation of the Company's share capital or any demerger, delisting, special dividend or other event that may affect the Company's share price.

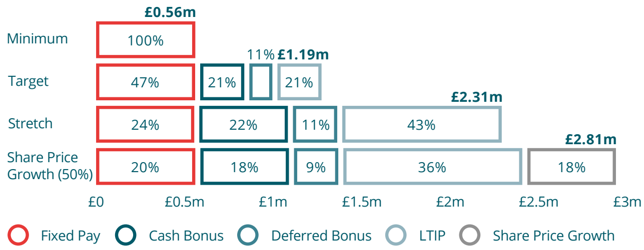
Malus and clawback

The Committee may reduce the size of unvested bonus and LTIP awards if (a) there is a material misstatement of audited results or an error in the assessment of the performance conditions applicable to an award (or it being based on inaccurate or misleading information or assumptions); (b) the Executive Director commits gross misconduct; (c) there is a material corporate failure; or (d) events or the Executive Director's behaviour have a significant detrimental impact on the Group's reputation and the Committee determines the Executive Director is responsible or directly accountable for that damage during a period beginning, in the case of bonus awards, at the start of the bonus year and ending three years after the bonus was determined and, in the case of the LTIP, at the start of the performance period and ending on the sixth anniversary of the grant date. During the same period, the Committee may also require the participant to repay some or all the value of the cash or shares received under an award in the circumstances referred to in (a) to (d).

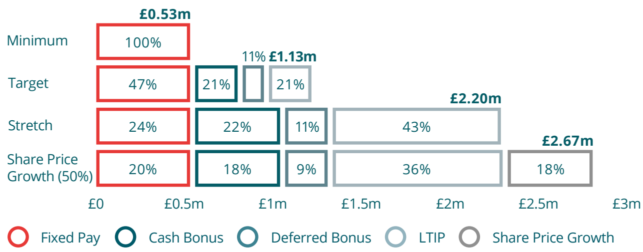
Illustration of the remuneration policy

The remuneration arrangements have been designed to ensure that a significant proportion of pay is dependent on the delivery of stretching short term and long term performance targets aligned with the Group's objectives, and on delivering shareholder value. The Committee considers the level of remuneration that may be received under different performance outcomes to ensure that this is appropriate in the context of the performance delivered and the value added for shareholders. The charts that follow provide illustrative values of the annual remuneration packages for Executive Directors based on four assumed performance scenarios. Minimum reflects fixed remuneration only. Target performance is on-target performance for bonus awards and threshold performance for LTIP (i.e. 25% of maximum). Stretch performance reflects maximum performance under both the bonus and the LTIP. Share Price Growth shows the additional impact of share price appreciation of 50% over the three-year performance period (share price has otherwise not been taken into account in the other scenarios). These charts are for illustrative purposes only and actual outcomes may differ from those shown. These scenarios are based on the proposed Remuneration policy.

Chief Executive Officer – Toby van der Meer



Chief Financial Officer – John Worth



Non-Executive Directors

Approach to fees and link to strategy	Operation	Performance measures
Fixed payment to remunerate Non-Executive Directors Set at an appropriate level to attract Non-Executive Directors of the required calibre and to reflect the time commitment and responsibility of the position.	The Chair's fee is determined by the Committee. The Non-Executive Directors' fees are determined by the Board. (No Director is involved in setting his/her own remuneration). Fee levels are determined by assessing the skills and experience required along with the likely time commitment and market indicators. Fees may be paid in cash or company shares. Non-Executive Directors receive a basic fee and an additional fee for specific Board responsibilities, including membership and chairship of committees or acting as the Senior Independent Director or where the Non-Executive Director is required to commit a materially increased amount of time (beyond what was anticipated at the start of the year) to their duties. Expenses incurred in the performance of Non-Executive Director duties for the Company are reimbursed or paid for directly by the Company, as appropriate, with the Company bearing the cost of individual tax liability on such payments by grossing up the reimbursement. Non-Executive Director fees are subject to a maximum cap of £1,500,000 as stated in the Company's Articles of Association. Any changes in this would be subject to shareholder approval.	None

Directors' Remuneration Policy continued

Directors' service contracts

Executive Directors have rolling service contracts which are terminable on six months' notice on either side. The contracts provide for mitigation of any payment in lieu of notice to the extent that the Executive Director secures alternative employment during what would have been the full notice period. The service contracts for Executive Directors make no provision for termination payments, other than for payment in lieu of salary.

The Executive Directors' service contracts contain provisions relating to salary, car allowance, pension arrangements, salary continuance in the event of extended absence due to illness, holiday and sick pay, life insurance, personal accident, medical insurance, dependants' pensions, and the reimbursement of reasonable out of pocket expenses incurred by the Executive Directors while on Company business.

The service contracts in respect of Executive Directors who were in office during the year are rolling service contracts and therefore have no end date. The date of commencement for the service contract is 1 March 2018 in respect of the Chief Executive Officer and 8 October 2015 in respect of the Chief Financial Officer.

Loss of office payment policy

If the employment of an Executive Director is terminated, any compensation payable will be determined by reference to the terms of the service contract between the Company and the employee, as well as the rules of any awards relating to variable pay. The Committee may structure any compensation payments beyond the notice provisions in the contract in such a way as it deems appropriate taking into account the circumstances of departure.

The Committee reserves the right to make any other payments in connection with a Director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement of any claim arising in connection with the cessation of a Director's office or employment or for any fees for outplacement assistance and/or the Director's legal and/or professional advice fees in connection with his cessation of office or employment.

Payment in lieu of notice

The Company may at its discretion make termination payments in lieu of notice based only on base salary. The notice period for both Executive Directors is six months.

Bonus

There is no contractual entitlement to a bonus in any year. The Committee retains discretion to award bonuses for leavers taking into account the circumstances of departure. Any bonus would normally be subject to performance, and time pro-rating as appropriate and would be paid in such proportions of cash and deferred shares as the Committee considers appropriate.

Deferred bonus

If the Executive Director dies, any outstanding awards will vest at the time of his death.

Awards granted prior to 2019 will not be forfeit on cessation of employment (save for contractual breach or gross misconduct). From 2019, if an Executive Director is designated as a good leaver any outstanding deferred bonus awards will normally vest according to the usual schedule, unless the Committee determines that they should vest earlier. Good leaver circumstances are in cases of injury, disability, ill-health, retirement, the sale of the individual's employing company or businesses out of the Group or for any other reason at the discretion of the Committee. In any other circumstances, any unvested deferred bonus awards will lapse.

Long Term Incentive Plan ('LTIP')

Treatment of LTIP awards is governed by the LTIP rules. If an Executive Director is designated as a good leaver any outstanding LTIP awards will, unless the Committee determines otherwise, be pro-rated to reflect the portion of the performance period that has elapsed at the time the Executive Director leaves and will normally vest based on performance to the end of the original performance period, unless the Committee at its absolute discretion determines an alternative approach should apply. Good leaver circumstances are in cases of injury, disability, ill-health, retirement, the sale of the individual's employing company or businesses out of the Group or for any other reason at the discretion of the Committee. In the event of death, awards will normally vest early taking to account the Committee's assessment of performance against the performance conditions to the date of death and, unless the Committee determines otherwise, the pro-rating as described above. In any other circumstances, any unvested LTIP awards will lapse.

In the event that any Executive Director leaves during a holding period applicable to an award, his award will normally be released as if he had not left unless the Committee determines the holding period should end earlier. However, if the Executive Director is summarily dismissed during the holding period, his award will lapse.

Change of control

In the event of a change of control of the Company, outstanding incentive awards will be treated in line with the provisions of the applicable plan rules. Deferred bonus awards will vest in full and LTIP awards will vest to the extent determined by the Committee, taking into account the extent to which the performance conditions have, in the Committee's opinion, been satisfied and, unless the Committee determines otherwise, the proportion of the performance period elapsed. Any holding periods applicable to LTIP awards will cease to apply.

In the event the Company is wound up or there is a demerger, special dividend or other event which, in the Committee's opinion, may affect the share price, it may allow awards to vest on the same basis as a change of control.

Other payments

Other payments such as legal fees or outplacement costs may be paid if it is considered appropriate.

Recruitment policy

In determining remuneration for new Executive Directors, the Committee will consider all relevant factors, including the requirements of the role, the external market and internal relativities, while aiming not to pay more than is necessary to secure the preferred candidate. The Committee will seek to align the new Executive Director's remuneration package to the Policy set out on page 106.

Normally, benefits including pension will be limited to those outlined in the Policy table above, including relocation assistance where necessary. The maximum level of variable pay (excluding any buyouts) that may be awarded to a new Executive Director will be limited to 450% of base salary, as set out in the Policy table. The Committee believes that the existing incentive plans contain sufficient flexibility to provide any specific awards that may be necessary to secure a particular individual. Within this limit, the Committee may include any element included within the approved policy, or any other element which the Committee considers is appropriate given the particular circumstances.

The Committee may buy out remuneration terms a new hire has had to forfeit on joining the Group. Any such buyout awards will be of comparable commercial value and reflect as closely as practicable the form and structure of the forfeited awards, including time horizons and performance conditions and the probability of those conditions being met. Where appropriate, the Committee retains the discretion to use the provisions provided in the Listing Rules for the purpose of making such an award, or to utilise any other incentive plan operated by the Group.

The service contract for new appointments will be consistent with the Policy set out above for existing Executive Directors.

Where an Executive Director is appointed from within the Group, any legacy arrangements would be honoured in line with the original terms and conditions as long as these do not cause a material conflict with the Policy set out above. If an Executive Director is appointed following an acquisition of, or merger with, another company, legacy terms and conditions that are of higher value than provided in the Policy would normally be honoured.

If a new Chair or Non-Executive Director is appointed, remuneration arrangements will normally be in line with those detailed earlier in the Policy report.

Employee consultation

The Company is committed to the alignment of all employee interests with shareholders, using every opportunity to further evolve and strengthen our position, especially via the Hastings Colleague Forum. This will realise the benefits of improved employee engagement as well as making sure that we comply with the specific requirements of the enhanced UK Corporate Governance Code ('Code'). In accordance with the revised Code, the Chair of the Board has been designated the Non-Executive Director responsible for engaging on workforce-related issues.

Other considerations

In making remuneration decisions, the Committee also considers the pay and employment conditions elsewhere in the Group, especially in terms of salary reviews and the application of awards relative to corporate performance. Colleagues within the Group receive base salary, benefits, pension and an annual bonus. The terms and value of these elements will vary based on role seniority. As noted Colleagues are invited to participate in the SIP to align interests with the Company's shareholders, however, in line with market practice only senior executives within the Company are currently eligible to participate in the LTIP.

Since the Company became a publicly listed entity, the Committee has been committed to understanding the views of the Company's shareholders, and carried out a consultation with the largest shareholders prior to finalising this Policy. The Committee is always open to listening to the views of our shareholders and engaging in ongoing dialogue with them on executive remuneration matters. The Committee also takes full account of the guidelines of investor advisory bodies and shareholder views in determining the remuneration arrangements in operation within the Group.

Independent auditor's report

to the members of Hastings Group Holdings plc

1. Our opinion is unmodified

We have audited the Financial Statements of Hastings Group Holdings plc (the 'Company') for the year ended 31 December 2018 which comprise the Consolidated Statement of Profit or Loss, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows, Parent Company Balance Sheet, Parent Company Statement of Changes in Equity, Parent Company Statement of Cash Flows and the related Notes, including the accounting policies in note 2.

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRSs as adopted by the EU');
- the Parent Company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders on 23 September 2015. The period of total uninterrupted engagement is for the four financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: group financial statements as a whole	£6.3m (2017: £6.5m) 4.1% of profit before tax (2017: 4.6% of profit before tax)	
Coverage	100% (2017: 100%) of group profit before tax	
Risks of material misstatement vs 2017		
Recurring risks	Valuation of outstanding claims liabilities	◀▶
	Recoverability of reinsurance assets	◀▶
	Recoverability of the cost of investment in subsidiaries	◀▶
Event driven	**New:** The impact of uncertainties due to the UK exiting the European Union on our audit	▲

2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the Financial Statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the Financial Statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Key audit matter

The impact of uncertainties due to the UK exiting the European Union on our audit

Refer to page 34 (principal risks), page 33 (viability statement), page 87 (Risk Committee Report) and page 124 (Basis of preparation).

The risk

Unprecedented levels of uncertainty

All audits assess and challenge the reasonableness of estimates, in particular as described in outstanding claims liabilities, reinsurance assets and recoverability of the cost of investment in subsidiaries below. All of these depend on assessments of the future economic environment and the Group's future prospects and performance.

In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the Directors' statement that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.

Our response

We developed a standardised firm wide approach to the consideration of uncertainties arising from Brexit in planning and performing our audits. Our procedures included:

- **Our Brexit knowledge:** We considered the Directors' assessment of Brexit related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks.
- **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on outstanding claims liabilities, reinsurance assets and recoverability of the cost of investments in subsidiaries, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.

Our result

As reported under outstanding claims liabilities, reinsurance assets and recoverability of the cost of investment in subsidiaries, we found the resulting estimates and related disclosures of these items to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Key audit matter

Valuation of outstanding claims liabilities (£1,340.1 million; 2017: £1,193.3 million)

Refer to page 76 (Audit Committee Report), page 126 (accounting policies) and page 150 (financial disclosures).

The risk

Subjective valuation:

Valuation of outstanding claims liabilities is the area requiring the most significant judgement in the Financial Statements.

The Group maintains reserves to cover the estimated cost of settling all existing and expected future claims with respect to losses or injuries, whether or not those losses or injuries have been reported to the Group as at the balance sheet date.

Estimating the reserves required for claims incurred but not reported ('IBNR') to the Group involves significant judgement and the use of actuarial and statistical projections.

Large bodily injury claims, which form a substantial part of claims incurred and reported, exhibit greater variability and judgement as to the severity of the damages.

This judgement is applied to a number of key assumptions, such as the frequency and severity of incurred bodily injury, accidental damage and third party property damage losses, the choice of development pattern, and the choice of discount rate to estimate the present value of large bodily injury claims.

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of insurance contracts liabilities has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.

Our procedures included:

- **Control observation:** including whether the Group had followed their documented reserving policy in estimating IBNR.
- **Control re-performance:** We tested controls over the completeness and accuracy of claims data underlying the actuarial projections used by the internal and external actuaries to set the IBNR reserves. We tested controls over the setting and monitoring of case reserves over large bodily injury claims.
- **Our actuarial experience:** Using our actuarial specialists we evaluated the findings of the Group's internal actuary and the independent actuary report. Through critical assessment of these actuarial reports and supporting documentation, and through discussion with both actuaries, we analysed and challenged the differences in reserving methodology applied by both actuaries as well as the key assumptions being used including claims frequency, claims severity, claims inflation, discount rates, subrogation and the impact of legislative and process developments. We performed diagnostics on paid and incurred claim severities and claim frequencies. Alternative projections were performed on the bodily injury and third party property damage perils as these were identified as the most material areas of risk to the audit.
- **Benchmarking assumptions:** We evaluated the assumptions through assessment of claims development trends and benchmarking to market data.
- **Historical comparisons:** We compared prior year reserves to actual outcomes to assess whether the Group has historically set adequate reserves. We assessed the extent to which the margin between the reserves booked and the actuarial best estimate was determined consistently with prior periods and in line with the reserving methodology.
- **Test of detail:** For individual large bodily injury claims, we evaluated the level of review, oversight and third party evidence available and the frequency of updates against new information.
- **Benchmarking:** Large bodily injury claims – we challenged the Group's estimate of the effect of potential changes in the 'Ogden' discount rate applied to bodily injury claims and whether the frequency assumption, sensitivity and development patterns were comparable to our actuarial benchmarks and the group's historical experience.

Independent auditor's report continued

- **Assessing transparency:** We considered the adequacy of the Group's disclosures regarding the degree of estimation uncertainty and the sensitivity of recognised amounts to changes in assumptions.

Our result

We found the valuation of the outstanding claims liabilities to be acceptable (2017: acceptable).

Key audit matter

Reinsurance assets (£951.0 million; 2017: £840.2 million)
Refer to page 76 (Audit Committee Report), page 126 (accounting policies) and page 150 (financial disclosures).

The risk

Subjective valuation:
As part of the Group's overall risk mitigation, the Group purchases quota share and non-proportional excess of loss reinsurance. The valuation of outstanding claims liabilities recoverable from reinsurers is dependent on, but not directly correlated to, the valuation of outstanding claims liabilities.

The risk of default by a reinsurer is a significant inherent risk. If any reinsurer fails to pay the Group, or fails to pay on a timely basis, the Group could experience significant losses. Though the Group spreads its reinsurance cover across a panel of different reinsurers, the Group bears credit risk to each counterparty, especially to longer term assets arising as a result of recoveries from IBNR and periodic payment order claims reserves.

Our response

Our procedures included:

- **Control re-performance:** We tested the process and controls over the approval of new reinsurance contracts in order to support the recognition of a reinsurance asset.
- **Control observation:** We tested the monitoring of controls over the credit ratings of the panel of reinsurers to assess the risk of default.
- **Our actuarial experience:** We used our own actuarial specialists to assess the reasonability of the reserves for reinsurance recoveries by considering the historical reinsurance recovery ratios whilst taking into consideration changes in the underlying reinsurance programme.
- **Risk of default assessment:** We assessed the risk of default of the panel of reinsurers based on credit ratings provided by rating agencies. We checked the post period end receipts of reinsurance receivables to provide evidence over the recoverability of certain of the year end reinsurance assets.
- **Test of detail:** We obtained third party confirmation of the contractual arrangements in place between the Group and the reinsurer and reported claims amounts with the reinsurance broker.

Our result

We found the valuation of the Group's reinsurance assets to be acceptable (2017: acceptable)

Key audit matter

Recoverability of the cost of investment in subsidiaries (£1,275.7 million; 2017: £1,274.3 million)
Refer to page 171 (accounting policies) and page 172 (financial disclosures).

The risk

Low risk, high value
The carrying amount of the Parent Company's investments in subsidiaries represents 99.91% of the Company's total assets as at 31 December 2018.

Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of its Parent Company Financial Statements, this is considered to be the area that had the greatest effect on our overall Parent Company audit.

Our response

Our procedures included:

- **Tests of detail:** Comparing the carrying amount of 100% of investments with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making.
- **Our sector experience:** For the investments where the carrying amount exceeded the net asset value, comparing the carrying amount of the investment with the expected value of the business based on a suitable multiple of the subsidiaries' profit.
- **Assessing subsidiary audits:** Assessing the work performed by the subsidiary audit teams on all of those subsidiaries and considering the results of that work, on those subsidiaries' profits and net assets.

Our result

We found the Company's assessment of the recoverability of the investment in subsidiaries to be acceptable (2017: acceptable).

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group Financial Statements as a whole was set at £6.3m (2017: £6.5m), determined with reference to a benchmark of Group profit before tax, of which it represents 4.1% (2017: 4.6% of Group profit before tax).

Materiality for the parent company financial statements as a whole was set at £5.0m (2017: £3.1m) which represents 0.4% of total assets (2017: 4.6% of profit before tax). This represents a change from last year where the benchmark was profit before tax. We have assessed that total assets is an appropriate benchmark as the main balance in the financial statements of the parent company is investments in subsidiaries.

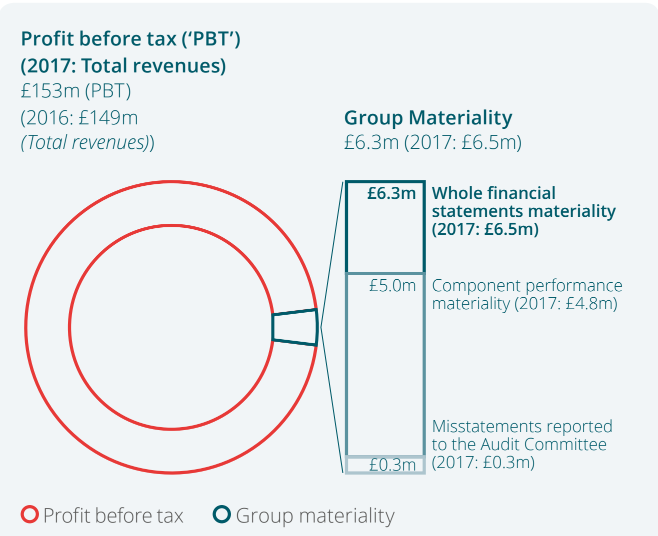
We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.3m (2017: £0.3m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 8 (2017: 10) reporting components, we subjected 8 (2017: 10) to full scope audits for group purposes. The components within the scope of our work accounted for 100% of Group revenue, Group profit before tax and Group net assets.These audits were undertaken by the Group audit team with the exception of two components being Advantage Insurance Company Limited ('AICL') and Conquest House Limited, where the audit was undertaken by overseas component auditor who reported back to the Group audit team.

The Group audit team instructed the overseas component auditor, KPMG Gibraltar, as to the significant areas to be covered, including the relevant risks and the information to be reported back.

The Group team agreed the AICL component performance materiality of £5.0m (2017: £4.8m), which was also applied by all components for the audit for group reporting purposes.

The Group team visited KPMG Gibraltar during 2018 and 2019 to discuss the significant audit risks, findings and also to complete a file review. Telephone conference meetings and regular meetings with the members of the component audit team in the UK were also held with KPMG Gibraltar throughout the year.



4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources over this period were:

- adverse insurance reserves development;
- a deterioration in the valuation of the Group and Company's investments.

As these were risks that could potentially cast significant doubt on the Group's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 57 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

Independent auditor's report continued

5. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the Financial Statements. Our opinion on the Financial Statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the Financial Statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic Report and Directors' Report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the Financial Statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' Remuneration Report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our Financial Statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the Viability Statement on page 33, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Viability Statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer term viability.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the annual report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 60, the Directors are responsible for: the preparation of the Financial Statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud, other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at **www.frc.org.uk/auditorsresponsibilities**.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the Directors and other management (as required by auditing standards) and from inspection of the Group's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity and certain aspects of company and corporate tax legislation recognising the financial and regulated nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we identified actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

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

Salim Tharani
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London E14 5GL

27 February 2019

Financial statements

Consolidated statement of profit or loss	119
Consolidated statement of comprehensive income	120
Consolidated balance sheet	121
Consolidated statement of changes in equity	122
Consolidated statement of cash flows	123
Notes to the consolidated financial statements	124
Parent Company balance sheet	167
Parent Company statement of changes in equity	168
Parent Company statement of cash flows	169
Notes to the Parent Company financial statements	170

Consolidated statement of profit or loss
for the year ended 31 December 2018

		Year ended					
		31 December 2018			31 December 2017		
	Note	Underlying trading £m	Non-trading items[1] £m	Total £m	Underlying trading £m	Non-trading items[1] £m	Total £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	14	(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	15	(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	16			19.9p			19.3p
Diluted earnings per share	16			19.8p			19.2p

All results arose from continuing operations.

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

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.

Consolidated statement of comprehensive income
for the year ended 31 December 2018

	Note	Year ended 31 December 2018 £m	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	25	**(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

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

Consolidated balance sheet
as at 31 December 2018

	Note	As at 31 December 2018 £m	As at 31 December 2017 £m
Assets			
Goodwill	17	**470.0**	470.0
Intangible assets	18	**80.5**	87.4
Property and equipment	19	**22.7**	14.2
Deferred income tax assets	20	**6.6**	6.6
Reinsurance assets	21	**1,212.1**	1,087.7
Deferred acquisition costs	22	**34.5**	31.1
Prepayments		**7.6**	5.3
Insurance and other receivables	23, 25	**444.7**	421.0
Financial assets at fair value	25	**558.0**	539.6
Cash and cash equivalents	24, 25	**146.0**	154.6
Total assets		**2,982.7**	2,817.5
Liabilities			
Loans and borrowings	25, 26	**244.3**	272.0
Insurance contract liabilities	21	**1,820.8**	1,665.6
Insurance and other payables	25, 27	**243.4**	239.8
Deferred income tax liabilities	20	**8.5**	16.0
Current tax liabilities		**14.7**	11.2
Total liabilities		**2,331.7**	2,204.6
Equity			
Share capital	28	**13.2**	13.1
Share premium		**172.6**	172.6
Merger reserve	28	**(756.0)**	(756.0)
Other reserves	28	**(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

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

These Financial Statements were approved by the Board of Directors on 27 February 2019 and were signed on its behalf by:

Tobias van der Meer
Chief Executive Officer
Hastings Group Holdings plc

Company Number: 09635183

Consolidated statement of changes in equity
for the year ended 31 December 2018

	Note	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	29	–	–	–	–	4.8	4.8
Tax on share based payments	29	–	–	–	–	0.5	0.5
Acquisition of own shares		–	–	–	(0.3)	–	(0.3)
Dividends paid	33	–	–	–	–	(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	35	–	–	–	–	(1.3)	(1.3)
Impact of implementing IFRS 16	35	–	–	–	–	(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	29	**–**	**–**	**–**	**–**	**2.1**	**2.1**
Tax on share based payments		**–**	**–**	**–**	**–**	**(0.4)**	**(0.4)**
Acquisition of own shares		**–**	**–**	**–**	**(2.2)**	**–**	**(2.2)**
Issue of shares	28	**0.1**	**–**	**–**	**–**	**(0.1)**	**–**
Dividends paid	33	**–**	**–**	**–**	**–**	**(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**

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

Consolidated statement of cash flows
for the year ended 31 December 2018

	Note	Year ended 31 December 2018 £m	31 December 2017 £m
Profit after tax		**130.6**	126.7
Adjustments for:			
Depreciation of property and equipment	19, 10	**5.0**	2.6
Amortisation of intangible assets	18, 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	14	**8.7**	8.1
Taxation expense	15	**22.3**	22.3
Share based payment charge	29	**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	22	**(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	28	**(2.2)**	(0.3)
Repayment of lease liabilities		**(1.2)**	–
Proceeds from new loans and borrowings	26	**247.8**	–
Repayment of loans and borrowings	26	**(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	33	**(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	24	**146.0**	154.6

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

Notes to the consolidated financial statements

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 Consolidated Financial Statements comprise 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 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. IFRS comprise standards and interpretations approved by the International Accounting Standards Board ('IASB') and the International Financial Reporting Interpretations Committee.

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.

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.

1. Basis of preparation continued

Adoption of new IFRS continued

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 and transition disclosures are provided in Note 35.

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. The Group's revised accounting policy for leases has been provided in Note 2 and transition disclosures are provided in Note 35.

Amendments to IFRS 2 – Share based payment ('IFRS 2') – Classification and measurement
The amendments to IFRS 2 clarify the measurement basis for cash settled share based payments, share based payment transactions with a net settlement feature for withholding tax obligations, and the accounting for modifications that change an award from cash-settled to equity-settled. These amendments do not have a significant impact on the Group's accounting for its share based payment schemes.

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 with the implementation of 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')
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.

Notes to the consolidated financial statements continued

1. Basis of preparation continued

IFRS developments continued

IFRS 17 Insurance Contracts ('IFRS 17')

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.

2. Accounting policies continued

Revenue recognition continued

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.

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.

Notes to the consolidated financial statements continued

2. Accounting policies continued

Insurance contracts and reinsurance assets continued

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.

2. Accounting policies continued

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.

Finance costs

The Group's finance costs comprise interest payable on financial liabilities held by the Group. Interest payable on financial liabilities is recognised using the effective interest method and includes amortisation of directly attributable transaction costs.

Taxation

Income tax on the result for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to a business combination, items recognised in other comprehensive income or items recognised directly in equity.

Current taxation expense is the expected income tax payable on the taxable profit for the period, using tax rates applicable and any adjustment to income tax payable in respect of previous financial periods. Deferred taxation expense is the change in deferred income tax assets and liabilities between the reporting periods.

Deferred income tax assets and liabilities are recognised using the balance sheet method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred income tax liability is recognised for all taxable temporary differences except when they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates and tax laws that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences and unused tax losses can be utilised.

Goodwill

Goodwill is the difference between the fair value of the consideration transferred in a business combination and the fair value of the identifiable assets and liabilities of the acquired entity at the date of the business combination. Any acquisition costs are expensed as incurred.

Goodwill acquired in a business combination is allocated to cash generating units ('CGUs'). Goodwill is considered to have an indefinite useful economic life and is tested for impairment annually.

Notes to the consolidated financial statements continued

2. Accounting policies continued

Intangible assets

Software

Computer software is stated at cost less accumulated amortisation and accumulated impairment losses.

Purchased computer software is initially recognised at cost, being the fair value of consideration transferred plus directly attributable costs incurred in order to prepare the asset for its intended use.

Internally developed computer software is only recognised as an asset when the costs can be measured reliably, completion is technically and financially feasible, future economic benefits are probable and there is intention to use or sell the asset. Other research and development expenditure is recognised in profit or loss as incurred.

Software is derecognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset. On derecognition, any gain or loss arising is calculated as the difference between the net disposal proceeds and the carrying amount of the item. This is recognised in profit or loss in the period of derecognition.

Brands and customer relationships

Brands and customer relationships are recognised on acquisition at fair value and are subsequently measured using the historical cost method (their fair value on acquisition less accumulated amortisation and impairment losses).

Amortisation

Amortisation is provided on intangible assets at rates calculated to write off the cost of the assets less their estimated residual value over their expected useful lives. Amortisation is calculated using the straight line method and is recognised in profit or loss.

Expected useful economic lives and residual values are reviewed at each period end and, where necessary, changes are accounted for prospectively. The expected useful economic lives of intangible assets are as follows:

- Software 3–10 years
- Brands 8 years
- Customer relationships 5 years

Work in progress

Work in progress includes intangible assets in the course of development which are considered to be eligible for capitalisation but which have not yet reached the state where they are ready for their intended use. As such no amortisation has yet been charged on these assets.

Property and equipment

The Group has chosen to value property using the revaluation model. Properties are initially recognised at cost and subsequent to initial recognition properties are carried at their revalued amount, which is the fair value at the date of revaluation less subsequent depreciation and impairment losses. Property is revalued annually using level 3 inputs as defined in Note 2 Fair values, with independent expert valuations being performed every five years.

Revaluation surpluses are recognised in other comprehensive income. Upon disposal of a property, any revaluation surplus is recognised directly in retained earnings and is not reclassified to profit or loss. Revaluations resulting in a reduction to fair value are initially offset against the revaluation surplus and any excess is immediately recognised in profit or loss as an impairment loss.

Equipment, consisting of fixtures, fittings, office equipment, computer equipment and leasehold improvements, is stated at historical cost less accumulated depreciation and impairment losses. Cost is the fair value of consideration provided plus incremental costs incurred to bring an asset to the condition and location necessary for its intended use.

Costs incurred subsequent to the initial production of the asset are capitalised where they are deemed to have improved the original.

Depreciation is provided on all property and equipment, at rates calculated to write off the cost, or fair value in the case of property, of the assets less their estimated residual value over their expected useful lives. Depreciation is calculated using the straight line method and is recognised in profit or loss.

2. Accounting policies continued

Property and equipment continued

The expected useful economic lives of property and equipment are as follows:

- Property 50 years
- Property and leasehold improvements 4–10 years
- Computer equipment 2–5 years
- Fixtures, fittings and equipment 3–5 years

Expected useful economic lives and residual values are reviewed at each reporting date and, where necessary, changes are accounted for prospectively.

Property and equipment is derecognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset. On derecognition, any gain or loss arising is calculated as the difference between the net disposal proceeds and the carrying amount of the item. This is recognised in profit or loss in the period of derecognition.

Impairment

Carrying amounts of intangible assets and property and equipment are reviewed at each reporting date to determine if there are indicators of impairment. Where these exist, the asset's recoverable amount is estimated and compared to the carrying amount. The recoverable amount is the higher of the fair value less costs to sell and the asset's value in use.

Goodwill has an indefinite life and is tested annually for impairment. Impairment exists where the recoverable amount of the CGU is lower than the combined carrying amount of net assets and goodwill allocated to the CGU. The recoverable amount of the CGU is the higher of the fair value of the CGU less costs to sell and the CGU's value in use.

Fair value is the price that would be received in an arm's length transaction between knowledgeable market participants. Value in use is the present value of expected future pre-tax cashflows attributable to the asset or group of assets.

Where an asset's or a group of assets' recoverable amount is less than its carrying amount, the difference is recognised as an impairment loss in profit or loss, except in relation to property which is carried at revalued amount where any impairment loss is first allocated against any revaluation surplus in equity and any excess recorded in profit or loss.

Leases

A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. 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.

The Group initially measures a right of use asset at cost comprising the corresponding lease liability adjusted for any payments made at or before the commencement date plus any initial direct costs incurred and any dismantling costs, if applicable. Subsequently, from commencement date, a right of use asset is depreciated using the straight line method to profit or loss over the lease term or usage term. Right of use assets are reported in the balance sheet within property and equipment.

A lease liability is initially measured and recognised at the present value of outstanding lease payments at the lease commencement date, using the Group's incremental borrowing rate in most instances; unless the interest rate implicit in the lease can be readily determined, in which case this is used instead. Lease liabilities are reported in insurance and other payables in the balance sheet.

Financial assets

The Group's financial assets comprise cash and cash equivalents, financial assets held at fair value and insurance and other receivables. For measurement purposes the Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss; financial assets classified as available for sale; and loans and receivables.

Notes to the consolidated financial statements continued

2. Accounting policies continued

Financial assets continued

Financial assets at fair value through profit or loss

Financial assets are classified as fair value through profit or loss if they are classified as held for trading or if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Financial assets held at fair value through profit or loss are initially measured at fair value (being the cost of acquisition excluding transaction costs) and are subsequently remeasured to fair value at each reporting date.

Gains or losses arising from changes in the fair value of these financial assets are recognised in profit or loss in the period in which they arise.

Purchases and sales of financial assets at fair value through profit or loss are recognised on a trade date basis, being the date on which a commitment is made to purchase or sell the asset. Transaction costs for purchases and sales are expensed as incurred in profit or loss.

Available for sale financial assets

Non-derivative financial assets are classified as available for sale when they are not classified as either loans and receivables or financial assets at fair value through profit or loss.

Available for sale financial assets are initially measured at fair value plus any directly attributable transaction costs and are subsequently remeasured to fair value at each reporting date, with unrealised gains or losses recognised in other comprehensive income and accumulated in other reserves until the point of disposal, when accumulated gains and losses are recognised in profit or loss.

Interest income or expense calculated using the effective interest rate on available for sale financial assets is recognised in the profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market and include cash and cash equivalents. Such assets are initially recognised at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less accumulated impairment losses.

Insurance and other receivables are classed as loans and receivables. Insurance receivables include amounts not yet due in respect of insurance premiums where the policyholder has elected to pay in instalments over the term of the policy.

Derecognition of financial assets

Financial assets are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and substantially all the risks and rewards of ownership have been transferred. Any residual gains or losses resulting from the derecognition of the asset are recognised in profit or loss in the period of derecognition.

Any unrealised gains or losses on available for sale financial assets previously accumulated in other reserves are reclassified to profit or loss in the period of derecognition.

Impairment of financial assets

At each reporting date, the Group assesses whether there is objective evidence that a financial asset is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has had an impact on the estimated future cash flows of the financial asset. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the Group about events such as:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments; or
- the probability that the issuer or debtor will enter bankruptcy or other financial reorganisation.

2. Accounting policies continued

Financial assets continued

Impairment of financial assets continued

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's effective interest rate. The carrying amount of the asset is reduced and an impairment loss is recognised in profit or loss for the period.

When reductions in the fair value of available for sale financial assets are considered to be impairment losses, losses accumulated in other reserves are reclassified to profit or loss. The amount reclassified is the difference between the value on initial recognition, net of any principal repayment and amortisation, and the current fair value of the asset, less any impairment loss previously recognised in profit or loss.

If in a subsequent period the amount of the impairment loss on financial assets, other than available for sale financial assets, reverses, and the reverse can be related objectively to an event occurring after the impairment was recognised (such as improved profitability of the debtor), the previously recognised impairment loss is reversed through profit or loss in the period.

If the fair value of an impaired available for sale financial asset subsequently increases, the loss is reversed through profit or loss to the extent that it offsets impairment losses previously recognised; otherwise, it is recognised in other comprehensive income.

Financial liabilities

The Group's financial liabilities comprise loans and borrowings and insurance and other payables.

Financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequently, financial liabilities are measured at amortised cost using the effective interest method with interest accrued in the Consolidated Balance Sheet in insurance and other payables.

Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the Consolidated Balance Sheet only when there is a current unconditional and legally enforceable right to offset the recognised amounts in all circumstances (including the default by, insolvency or bankruptcy of the Group and all counterparties), and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

The Group's cash and cash equivalents consist of cash in hand and in bank, investments in highly liquid money market funds and other short term deposits that are redeemable within 90 days.

Insurance intermediary assets and liabilities

Receivables and payables arising from insurance broking transactions are shown as assets and liabilities in recognition of the fact that the insurance broker has contractual rights to economic inflows from customers and obligations to third party insurers upon placement of insurance products with customers. Receivables are recognised when the Group provides financing to customers for instalment premiums payable to third party insurers. Payables arise where the Group has an obligation to remit premiums received to third party insurers.

Share capital

Shares are classified as equity when there is no obligation to transfer cash or other financial assets, or to exchange financial assets or liabilities under potentially unfavourable conditions. Where such an obligation exists, the share capital is recognised as a liability notwithstanding the legal form.

Incremental costs directly attributable to the issue of equity instruments are recognised, net of tax effect, as a deduction from share premium to the extent that there is sufficient share premium to do so.

Dividends

Dividends are recognised directly in equity when approved and payable.

Notes to the consolidated financial statements continued

2. Accounting policies continued

Fair values

Property and financial assets carried at fair value are analysed by their level within the fair value hierarchy based on the observability of inputs into the valuation. Such assets are categorised as follows:

- level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- level 2: inputs other than quoted prices included within level 1, that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in which financial assets carried at fair value have been classified in their entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

Where assets are not traded sufficiently regularly for the sales to be classified as occurring on active market, or are based on observable market data rather than on actual transactions, they are classified as level 2. Assets are valued by reference to the most recent observable market trade unless there is evidence of impairment.

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 15 and 34.

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.

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

Critical accounting estimates continued

Claims liabilities continued

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 21. Given the uncertainty in establishing the outstanding claims liabilities, it is likely that the final outcome will be different from the original liability established.

Notes to the consolidated financial statements continued

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

Critical accounting estimates continued

Claims liabilities continued

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.

4. Insurance contracts risk management continued

Risk management objectives and policies for mitigating insurance risk continued

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 25.

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 25 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.

Notes to the consolidated financial statements continued

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.

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.

5. Segmental reporting continued

Segment performance continued

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

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

Notes to the consolidated financial statements continued

5. Segmental reporting continued

Segment assets and liabilities continued

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

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

8. Investment and interest income

	Year ended 31 December 2018 £m	Year ended 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.

Notes to the consolidated financial statements continued

10. Expenses

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Profit before taxation is stated after charging:		
Operating lease rentals – buildings	–	1.8
Employee benefits (Note 13)	**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 (Note 18)	**24.0**	24.4
Depreciation of property and equipment (Note 19)	**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 34.

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. Auditor remuneration

	Year ended	
	31 December 2018 £m	31 December 2017 £m
Fees for audit services		
Group	**0.1**	0.1
Subsidiaries	**0.3**	0.3
Total fees for audit services	**0.4**	0.4
Fees for non-audit services		
Audit related assurance services	**0.1**	0.1
Other non-audit services	**0.1**	0.1
Total fees for non-audit services	**0.2**	0.2

The total amount paid for non-audit work during the year was £0.2m (2017: £0.2m) and was for assurance services connected to KPMG's role as statutory Auditor including the review of the Interim Results, reasonable assurance review of the economic balance sheet and the Solvency Capital Requirement formula, and services relating to listing of the 3% senior bonds.

13. Employee benefits

Included in other operating expenses were the following employee benefits:

	Year ended	
	31 December 2018 £m	31 December 2017 £m
Salaries	**83.1**	76.8
Social security charges	**7.1**	9.1
Defined contribution pension plan costs	**2.1**	1.6
Share based payment charge	**3.3**	4.8
Total employee benefits	**95.6**	92.3

Staff numbers (including Directors)

The average number of full-time equivalent staff was as follows:

	Year ended	
	31 December 2018 £m	31 December 2017 £m
Operational staff	**2,655**	2,383
Support staff	**200**	202
Total staff	**2,855**	2,585

Notes to the consolidated financial statements continued

13. Employee benefits continued

Key management personnel

Key management personnel compensation comprised the following:

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Short term employee benefits	**4.7**	5.4
Post employment benefits	**0.3**	0.3
Share based payments	**1.3**	3.2
Total key management personnel compensation	**6.3**	8.9

Directors' emoluments

Information relating to Directors' emoluments is disclosed within the Directors' remuneration report.

14. 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.

15. 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

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.

15. Taxation expense continued

Factors affecting total taxation expense are:

	Year ended 31 December 2018 £m	Year ended 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.

16. 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.

Notes to the consolidated financial statements continued

16. Earnings per share continued

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
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

17. Goodwill

The goodwill of £470.0m arose from the acquisition of Hastings Group Limited ('HGL') by Hastings Insurance Group (Holdings) plc ('HIG(H)') on 8 January 2014 and was allocated between the Group's two CGUs, Underwriting and Retail, as follows:

Cost	Underwriting £m	Retail £m	Total £m
As at 31 December 2017 and 31 December 2018	95.2	374.8	**470.0**

The recoverable amount of the two CGUs has been determined based on value in use calculations. These calculations use pre-tax cash flow projections based on the most recent three-year financial plans approved by the Directors, discounted by the Group's pre-tax discount rate of 7.3% (2017: 6.9%). The Directors determine financial budgets based on past performance and their expectations of market and business development.

Cash flows beyond the three year plan period are extrapolated using growth rates declining to a terminal rate of 2.0%. As the recoverable amount of each CGU is significantly higher than the cumulative total of allocated goodwill and the carrying value of the CGU's assets, the allocated goodwill is not deemed to be impaired.

18. Intangible assets

	Customer relationships £m	Brands £m	Software £m	Work in progress £m	Total £m
Cost					
As at 1 January 2017	64.0	13.0	57.7	39.2	173.9
Additions	–	–	0.8	13.8	14.6
Transfers	–	–	1.0	(1.0)	–
As at 31 December 2017	64.0	13.0	59.5	52.0	188.5
Accumulated amortisation					
As at 1 January 2017	38.2	4.8	33.7	–	76.7
Amortisation for the year	12.8	1.6	10.0	–	24.4
As at 31 December 2017	51.0	6.4	43.7	–	101.1
Net book value as at 31 December 2017	13.0	6.6	15.8	52.0	87.4
Cost					
As at 1 January 2018	**64.0**	**13.0**	**59.5**	**52.0**	**188.5**
Additions	**–**	**–**	**0.7**	**16.4**	**17.1**
Transfers	**–**	**–**	**62.0**	**(62.0)**	**–**
Disposals	**–**	**–**	**(2.5)**	**–**	**(2.5)**
As at 31 December 2018	**64.0**	**13.0**	**119.7**	**6.4**	**203.1**
Accumulated amortisation					
As at 1 January 2018	**51.0**	**6.4**	**43.7**	**–**	**101.1**
Disposals	**–**	**–**	**(2.5)**	**–**	**(2.5)**
Amortisation for the year	**12.8**	**1.6**	**9.6**	**–**	**24.0**
As at 31 December 2018	**63.8**	**8.0**	**50.8**	**–**	**122.6**
Net book value as at 31 December 2018	**0.2**	**5.0**	**68.9**	**6.4**	**80.5**

Software held as at 31 December 2018 includes internally generated software carried at £65.9m (2017: £5.4m). During the year the Group completed its implementation of Guidewire, a state of the art, integrated end to end platform for claims, broking and billing, and as such £62.0m of internally generated software was transferred from work in progress to software at the end of the year. The internally generated Guidewire software has a remaining useful economic life of up to 10 years (2017: five years). Management performed a review of the expected useful economic life of software during the year resulting in an increase in the maximum life from seven to 10 years.

Notes to the consolidated financial statements continued

19. Property and equipment

	Property £m	Property and leasehold improvements £m	Computer equipment £m	Fixtures, fittings and equipment £m	Work in progress £m	Right of use assets £m	Total £m
Cost or valuation							
As at 1 January 2017	6.0	4.1	6.7	1.9	–	–	18.7
Additions	–	2.0	1.8	0.2	0.2	–	4.2
Revaluations	(0.1)	–	–	–	–	–	(0.1)
Transfers	–	–	0.1	–	(0.1)	–	–
Disposals	–	(0.1)	–	(0.1)	–	–	(0.2)
As at 31 December 2017	5.9	6.0	8.6	2.0	0.1	–	22.6
Accumulated depreciation							
As at 1 January 2017	0.1	1.0	3.8	1.1	–	–	6.0
Charge for the year	0.1	0.7	1.5	0.3	–	–	2.6
Disposals	–	(0.1)	–	(0.1)	–	–	(0.2)
As at 31 December 2017	0.2	1.6	5.3	1.3	–	–	8.4
Net book value as at 31 December 2017	5.7	4.4	3.3	0.7	0.1	–	14.2
Cost or valuation							
As at 1 January 2018	**5.9**	**6.0**	**8.6**	**2.0**	**0.1**	**–**	**22.6**
Opening adjustment	**–**	**–**	**–**	**–**	**–**	**10.7**	**10.7**
Additions	**–**	**0.7**	**0.6**	**0.1**	**1.7**	**1.4**	**4.5**
Transfers	**–**	**0.5**	**–**	**–**	**(0.5)**	**–**	**–**
Disposals	**(1.7)**	**(0.2)**	**(0.6)**	**(0.1)**	**–**	**–**	**(2.6)**
As at 31 December 2018	**4.2**	**7.0**	**8.6**	**2.0**	**1.3**	**12.1**	**35.2**
Accumulated depreciation							
As at 1 January 2018	**0.2**	**1.6**	**5.3**	**1.3**	**–**	**–**	**8.4**
Charge for the year	**0.1**	**0.8**	**1.5**	**0.3**	**–**	**2.3**	**5.0**
Disposals	**–**	**(0.2)**	**(0.6)**	**(0.1)**	**–**	**–**	**(0.9)**
As at 31 December 2018	**0.3**	**2.2**	**6.2**	**1.5**	**–**	**2.3**	**12.5**
Net book value as at 31 December 2018	**3.9**	**4.8**	**2.4**	**0.5**	**1.3**	**9.3**	**22.7**

Property comprises the freehold building at Conquest House, Bexhill-on-Sea, UK. Management's valuation and an external valuation carried out by CBRE of Conquest House during the year did not result in a change to the carrying value.

If carried at cost, property would be held at £3.6m (2017: £5.2m).

During the year a depreciation charge of £1.5m was recognised on property right of use assets and £0.8m on IT hardware right of use assets, which resulted in a net book value of £8.0m and £1.8m respectively as at 31 December 2018.

20. Deferred income tax

	As at 1 January 2017 £m	Recognised in retained earnings £m	Recognised in profit or loss £m	As at 31 December 2017 £m
Deferred income tax assets				
Depreciation in excess of capital allowances	0.8	–	0.2	1.0
Insurance provisions	0.1	–	–	0.1
Deferred acquisition costs	2.9	–	0.2	3.1
Share based payments	0.7	0.5	1.0	2.2
Claims handling provision	–	–	0.2	0.2
Total deferred income tax assets	4.5	0.5	1.6	6.6
Deferred income tax liabilities				
Intangible assets	8.7	–	(3.9)	4.8
Deferred acquisition costs	4.6	–	1.3	5.9
Insurance provisions	5.1	–	0.1	5.2
Revaluation of property	0.1	–	–	0.1
Total deferred income tax liabilities	18.5	–	(2.5)	16.0

	As at 1 January 2018 £m	**Recognised in retained earnings £m**	**Recognised in profit or loss £m**	**As at 31 December 2018 £m**
Deferred income tax assets				
Depreciation in excess of capital allowances	**1.0**	**–**	**0.2**	**1.2**
Insurance provisions	**0.1**	**–**	**–**	**0.1**
Deferred acquisition costs	**3.1**	**–**	**(0.1)**	**3.0**
Share based payments	**2.2**	**(0.4)**	**(0.1)**	**1.7**
Claims handling provision	**0.2**	**–**	**0.3**	**0.5**
Other	**–**	**–**	**0.1**	**0.1**
Total deferred income tax assets	**6.6**	**(0.4)**	**0.4**	**6.6**
Deferred income tax liabilities				
Intangible assets	**4.8**	**–**	**(3.8)**	**1.0**
Deferred acquisition costs	**5.9**	**–**	**(4.6)**	**1.3**
Insurance provisions	**5.2**	**–**	**0.9**	**6.1**
Revaluation of property	**0.1**	**–**	**–**	**0.1**
Total deferred income tax liabilities	**16.0**	**–**	**(7.5)**	**8.5**

Deferred income tax assets of £1.2m have not been recognised by the Group as at 31 December 2018 in respect of tax losses (2017: £1.2m). These tax losses do not expire under current tax legislation. Deferred income tax assets have not been recognised because it is not probable that future taxable profit will be available against which the Group can utilise these tax losses.

Notes to the consolidated financial statements continued

21. Reinsurance assets and insurance contract liabilities

	As at 31 December 2018			As at 31 December 2017		
	Gross £m	Reinsurers' share £m	Net £m	Gross £m	Reinsurers' share £m	Net £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 £m	Reinsurers' share £m	Net £m	Gross £m	Reinsurers' share £m	Net £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.

The expected timing of the settlements for the net and gross claims liabilities are shown in Note 25.

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).

21. Reinsurance assets and insurance contract liabilities continued

Claims development continued

	Year ended									
	Prior periods £m	31 December 2011 £m	31 December 2012 £m	31 December 2013 £m	31 December 2014 £m	31 December 2015 £m	31 December 2016 £m	31 December 2017 £m	31 December 2018 £m	**Total £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**

Notes to the consolidated financial statements continued

21. Reinsurance assets and insurance contract liabilities continued

Claims development continued

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 £m	31 December 2011 £m	31 December 2012 £m	31 December 2013 £m	31 December 2014 £m	31 December 2015 £m	31 December 2016 £m	31 December 2017 £m	31 December 2018 £m	**Total £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.

22. Deferred acquisition costs

	Year ended	
	31 December 2018 £m	31 December 2017 £m
Deferred acquisition costs brought forward at start of year	**31.1**	24.2
Additions	**72.2**	68.0
Recognition of acquisition costs in profit or loss	**(68.8)**	(61.1)
Deferred acquisition costs carried forward at end of year	**34.5**	31.1

23. Insurance and other receivables

	As at 31 December 2018 £m	As at 31 December 2017 £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

The table below analyses insurance and other receivables between current and overdue and also analyses any provisions held. The current portion comprises balances that are normally settled within 12 months. Overdue amounts comprise all amounts which remain uncollected after the date by which they were contractually due to be paid in full.

	Insurance and other receivables £m	Provision for impairment £m	Net insurance and other receivables £m
As at 31 December 2018			
Current	**445.3**	**(0.8)**	**444.5**
Overdue	**8.2**	**(8.0)**	**0.2**
Total	**453.5**	**(8.8)**	**444.7**
As at 31 December 2017			
Current	421.5	(0.7)	420.8
Overdue	7.0	(6.8)	0.2
Total	428.5	(7.5)	421.0

Movements on the Group's provision for impairment are as follows:

	As at 31 December 2018 £m	As at 31 December 2017 £m
Provision for impairment brought forward at start of year	**7.5**	5.8
Utilised during the year	**(4.5)**	(3.4)
Impairments recognised during the year	**5.8**	5.1
Total provision for impairment carried forward at end of year	**8.8**	7.5

Notes to the consolidated financial statements continued

24. 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.

25. Financial instruments, capital management and related disclosures

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

25. Financial instruments, capital management and related disclosures continued

Financial assets and liabilities continued

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.

	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.

Cash and cash equivalents with a fair value of £146.0m, and debt securities with a fair value of £499.0m at 31 December 2018 are considered to give rise to cash flows that are solely for payments of principal and interest. During the year to 31 December 2018, fair value losses of £6.8m were recognised on these assets. Of these assets, £1.7m are considered to not have a low credit risk.

Investment funds of £59.0m at 31 December 2018 designated under IAS 39 as at fair value through profit or loss are expected to be mandatorily measured at fair value through profit or loss under IFRS 9. Fair value losses of £1.3m were recognised on these assets during the year.

Insurance and other receivable assets with a fair value of £21.1m at 31 December 2018 will be within the scope of IFRS 9. All of these assets are considered to give rise to cash flows that are solely for payments of principal and interest. Of these assets, £0.8m are considered not to have a low credit risk.

Notes to the consolidated financial statements continued

25. Financial instruments, capital management and related disclosures continued

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.

Objectives, policies and procedures for managing financial risks continued

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 cash equivalents and financial assets at fair value, were as follows:

	Debt securities £m	Investment funds £m	Cash and cash equivalents £m	Total £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 £m	As at 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

The Group has investment guidelines that restrict the amount of the investment portfolio that can be placed with a single counterparty.

25. Financial instruments, capital management and related disclosures continued

Objectives, policies and procedures for managing financial risks continued

The Group's maximum exposure to credit risk at 31 December 2018 is the carrying value of financial assets at fair value and at amortised cost, reinsurance assets and cash and cash equivalents.

The Group's insurance receivables are an aggregation of small receivables and the Group uses multiple reinsurance providers to ensure that there are no significant concentrations of credit risk. Insurance receivables are monitored closely with a view to minimising the collection period of those items. Since other assets such as cash and cash equivalents and financial assets at fair value are well diversified, the Directors believe that the Group does not hold any significant concentrations of risk.

Market risk

The only significant market risk to which the Group is exposed to is interest rate risk.

Interest rate risk is defined by the Group as the impact of unfavourable movements in market interest rates which could adversely affect the values of financial assets and liabilities, or reduce future cash flows arising from them.

Cash and cash equivalents are held in current accounts or in short term money market instruments. These are generally less than 60 days in duration, considerably reducing sensitivity to significant movements in interest rates compared to longer duration assets. The Directors consider that the exposure to interest rate risk of cash and cash equivalents balances is immaterial for the purposes of sensitivity analysis.

The carrying values of the Group's financial assets at fair value, being predominantly fixed rate debt securities, are susceptible movements in interest rates but has minimal impact on the Group Statement of Profit or Loss.

A 1% increase in interest rates would have the below impact on profit after tax and equity:

	As at	
	31 December 2018 £m	31 December 2017 £m
Equity	**(10.9)**	(12.4)
Profit after tax	**(0.1)**	(1.6)

Liquidity risk

Liquidity risk is the risk that cash may not be available to meet obligations as they fall due. The Group maintains significant holdings in liquid funds to mitigate this risk. The Group makes use of regular forecasts to monitor and control its cash flow and working capital requirements.

Financial liabilities are settled in line with agreed payment terms and managed in accordance with cash availability and inflow expectations. All financial liabilities except loans and borrowings and an amount due to a reinsurer within insurance and other payables (see Note 27) are due within 12 months.

Loans and borrowings consist of the seven year £250m 3% fixed rate senior bonds, due for redemption in May 2025, with interest payable semi-annually.

The Revolving Credit Facility ('RCF') commitment term has been extended to May 2023. Any outstanding balances drawn on the RCF are due for repayment at the end of the term. As at 31 December 2018, the balance drawn down on the RCF was nil.

The assets backing insurance contracts and other short term liabilities held by the Group are considered to be more liquid than the related liabilities, and the Group is in a net current asset position.

Notes to the consolidated financial statements continued

25. Financial instruments, capital management and related disclosures continued

Objectives, policies and procedures for managing financial risks continued

The following table indicates the expected timing of net cash outflows resulting from insurance contract liabilities and reinsurance assets at the year end:

	0-1 year £m	1-2 years £m	Over 2 years £m	Total £m
As at 31 December 2018				
Gross claims liabilities	**614.8**	**375.4**	**740.2**	**1,730.4**
Less reinsurance assets	**(360.5)**	**(230.7)**	**(584.4)**	**(1,175.6)**
Net cash outflows	**254.3**	**144.7**	**155.8**	**554.8**
As at 31 December 2017				
Gross claims liabilities	589.1	345.2	619.9	1,554.2
Less reinsurance assets	(282.0)	(185.0)	(574.8)	(1,041.8)
Net cash outflows	307.1	160.2	45.1	512.4

The expected contractual undiscounted cash flows of loans and borrowings, including interest payments fall due as follows:

	0-1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m	Total £m
As at 31 December 2018					
Senior Bond	**7.5**	**7.5**	**22.5**	**261.2**	**298.7**
As at 31 December 2017					
Revolving Credit Facility	7.5	7.3	286.8	–	301.6

Actual cash flows of loans and borrowings are not expected to vary significantly as the senior bond interest is fixed at 3%.

Objectives, policies and procedures for managing capital

The Group's capital is made up of total equity of £651.0m (2017: £612.9m) and loans and borrowings of £244.3m (2017: £272.0m). The Group's dividend policy seeks to distribute excess capital to shareholders, where such capital is surplus and not required for growth, to meet regulatory requirements, or to reduce borrowing. The Group monitors and reviews the capital position of its two regulated trading subsidiaries, HISL and AICL, which are independently managed and required to comply with their respective external regulatory capital requirements.

AICL's objectives for managing capital are to comply with the Solvency II capital requirements; to safeguard its ability to continue as a going concern; and to provide an adequate return by pricing insurance contracts commensurately with the level of risk. AICL, as an insurance company, is subject to the provisions of the Solvency II regulations set by the European Parliament and European Union Commission and implemented by the Gibraltar Financial Services Commission. AICL seeks to maintain a prudent threshold above the Solvency II solvency capital requirement at all times and has maintained its capital above the solvency capital requirement throughout the year.

HISL, as an insurance intermediary in the UK, is subject to a capital resources requirement under Financial Conduct Authority rules; it exceeded that minimum capital requirement at all times during the year. HISL regularly reviews and monitors its capital position and seeks to maintain a prudent threshold above the capital resource requirement at all times.

26. Loans and borrowings

	As at 31 December 2018 £m	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 arrears. 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).

The table below reconciles the movement in the Group's loans and borrowings.

	As at 31 December 2018 £m	31 December 2017 £m
As at 1 January	**272.0**	286.6
Cash movement		
Repayment of Revolving Credit Facility	**(275.0)**	(15.0)
Issue of Senior unsecured Bond at discount	**247.8**	–
Arrangement and amendment fees incurred	**(1.5)**	(0.5)
Non-cash movement		
Amortisation of fees incurred on loans and borrowings	**1.0**	0.9
As at 31 December	**244.3**	272.0

27. Insurance and other payables

	As at 31 December 2018 £m	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

Notes to the consolidated financial statements continued

28. Share capital and reserves

Share capital

Share capital recognised as equity comprised Ordinary Shares authorised, issued and fully paid up as follows:

	Year ended			
	31 December 2018		31 December 2017	
	Number of Shares	**£m**	Number of Shares	£m
Authorised, issued and fully paid up Ordinary Shares of 2p each				
Opening Ordinary Shares	**657,217,641**	**13.1**	657,217,641	13.1
Shares Issued	**483,487**	**0.1**	–	–
Closing Ordinary Shares	**657,701,128**	**13.2**	657,217,641	13.1

Issued shares

During 2018, the Company issued 483,487 ordinary shares to the employee benefit trust to satisfy employee share schemes.

Merger reserve

During 2015, the Company acquired the entire issued share capital of Hastings Insurance Group (Holdings) plc (HIG(H)), the ultimate parent company of AICL and HISL. Both the Company and HIG(H) were under common control before and after the reorganisation and, as a consequence, the Consolidated Financial Statements have been prepared under the principles of predecessor accounting. Under this method, the difference on consolidation between consideration paid and the book value of the underlying net assets acquired on the date of the reorganisation is included within the merger reserve in the Consolidated Financial Statements.

Other reserves

Unrealised fair value movements on available for sale financial assets (Note 25) and property held at revalued amounts (Note 19) are recognised in other comprehensive income and accumulated within other reserves.

Company shares acquired and held for the purposes of funding the share based payment plans as described in Note 29 are recorded as 'own shares' within other reserves. These shares are held by employee benefit trusts that are consolidated within these Consolidated Financial Statements.

At 31 December 2018, the employee benefit trusts held 2.8m shares (2017: 0.5m) acquired at a cost of £3.6m (2017: £1.4m).

29. Share based payments

The total charge for the share based payments recognised in the profit and loss during 2018 was £3.3m (2017: £4.8m) and there was no impact on the balance sheet at 31 December 2018 (2017: £nil).

Admission awards

On 15 October 2015, certain key management personnel were granted share awards conditional upon the Company listing on the London Stock Exchange. The awards were for a fixed value of £5.9m, payable in Ordinary Shares in two tranches, the first on 31 December 2017 and the second on 31 December 2018. The awards were subject to a service condition that the members remain in employment by the Group until vesting date.

The awards are classified as equity settled share based payments and had a fair value of £4.9m at grant date. On 31 December 2017, the first tranche of £3.0m vested and was net settled by issue of 468,469 Ordinary Shares of the Company on 16 January 2018 and payment by the Group of £1.2m employee taxes arising. The second tranche of £3.0m vested on 31 December 2018 and was net settled by issue of 769,180 Ordinary Shares of the Company on 4 January 2019.

Long Term Incentive Plan

Certain management personnel are eligible to participate in the Hastings Long Term Incentive Plan ('LTIP') giving them an option to acquire shares in the Company at an exercise price of £nil. Vesting is subject to a three year service period and the achievement of certain performance conditions in respect of total shareholder return and adjusted earnings per share over a three year period.

During the year ended 31 December 2018, 3.5m options were granted, with a fair value of £7.2m (2017: 4.3m options with a fair value of £9.8m).

29. Share based payments continued

Long Term Incentive Plan continued

Awards subject to a market condition have been valued using the Monte Carlo pricing model and those not subject to a market condition have been valued using the Black Scholes model. The model inputs are as follows:

	2018 LTIP grant	2017 LTIP grant
Share price at grant date	**272p**	274p
Exercise price	**0p**	0p
Volatility	**25%**	26%
Average comparator volatility	**29%**	29%
Dividend yield	**n/a**	n/a
Risk free rate	**0.88%**	0.18%
Expected life	**3 years**	3 years

The expected life is the contractual life of the option adjusted to reflect management's best estimate of holder behaviour. Volatility was determined by reference to insurance companies within the FTSE 350.

The following table details the outstanding number of options under the LTIP:

	Year ended	
	31 December 2018 million	31 December 2017 million
Number of share options		
Outstanding at 1 January	**6.3**	2.4
Granted during the year	**3.6**	4.3
Exercised during the year	**–**	–
Forfeited during the year	**(0.2)**	(0.4)
Outstanding at 31 December	**9.7**	6.3
Exercisable at 31 December	**–**	–

Capital Appreciation Plan

On 21 December 2017, certain key management personnel were invited to participate in the Group's Capital Appreciation Plan ('CAP'), under which they may be awarded up to five free shares in the Company for every share that they place into trust. The total number of awards granted was 2,252,461. The awards are conditional upon total shareholder return over a five year period to 31 December 2022, with the number of awards dependent upon the level of return. There is also a cap on the number of shares which may be placed in the trust by each individual. Total entitlement to shares at the end of the performance period shall be released in three tranches; one third at the end of the performance period, a further third 12 months later, and the final third 12 months after that.

The awards were valued using the Monte Carlo pricing model with inputs as follows:

	2017 CAP Grant
Share price at grant date	**318p**
Exercise price	**0p**
Volatility	**24%**
Dividend yield	**n/a**
Risk free rate	**0.8%**
Expected life	**5 years**

Notes to the consolidated financial statements continued

29. Share based payments continued

	Year ended 31 December 2018 million	Year ended 31 December 2017 million
Number of share awards		
Outstanding at 1 January	**2.3**	–
Granted during the year	**–**	2.3
Exercised during the year	**–**	–
Forfeited during the year	**(0.3)**	–
Outstanding at 31 December	**2.0**	2.3
Exercisable at 31 December	**–**	–

Share Incentive Plan

The Group runs an employee Share Incentive Plan ('SIP') under which employees are entitled to purchase each month, through a trust, shares in the Company worth up to £150. The Group matches employee contributions up to £30 a month through free share awards, subject to a three year service period before the matching shares are awarded. Dividends are paid on shares, including matching shares, held in the trust by means of dividend shares. The fair value of such awards is estimated to be the market value of the awards on grant date.

In the year ended 31 December 2018, 144,617 matching shares (2017: 114,646) were granted to employees, with an estimated fair value of £0.4m (2017: £0.3m). The average unexpired life of SIP awards is 2.0 years (2017: 2.0 years).

As at 31 December 2018, 361,357 (2017: 216,740) matching shares were held on behalf of employees with a carrying value of £0.9m (2017: £0.5m) within the SIP scheme.

Deferred Bonus

On 6 April 2018 certain key management personnel in lieu of a bonus were awarded 125,267 free shares in the Company (2017: 82,234) with a fair value of £0.3m (2017: £0.2m) to be deferred for three years. These were not subject to performance or service conditions.

30. Financial commitments

The Group is committed to making the following payments in future years for leases:

	As at 31 December 2018 £m	As at 31 December 2017 £m
Within one year	**3.1**	1.8
Within two to five years	**7.4**	5.4
Over five years	**3.4**	2.6
Total lease commitments	**13.9**	9.8

30. Financial commitments continued

The Group is committed to making the following payments in future years under other contracts in place as at the year end:

	As at	
	31 December 2018 £m	31 December 2017 £m
IT transaction and support costs		
Within one year	**7.1**	6.2
Within two to five years	**3.5**	4.8
IT software development costs		
Within one year	**1.0**	3.0
Within two to five years	**1.0**	–
Computer hardware costs		
Within two to five years	**0.3**	0.3
Total other financial commitments	**12.9**	14.3

The interest on the lease liabilities recognised in the profit or loss statement as at 31 December 2018 was £0.4m, details of lease related right of use assets capitalised are disclosed in Note 19, and cash outflows from lease liabilities are disclosed in the Consolidated Statement of Cash Flows.

31. Subsidiaries

The Company's subsidiaries are as follows:

Subsidiary	Registered office	Class of shares held	% ownership	Principal activity
Hastings Insurance Group (Holdings) Limited	a	Ordinary	100%	Holding
Hastings Insurance Group (Investment) Limited[1]	a	Ordinary	100%	Holding
Hastings Insurance Group (Layer Three) Limited[1]	a	Ordinary	100%	Dormant
Hastings Insurance Group (Layer Two) Limited[1]	a	Ordinary	100%	Dormant
Hastings Group (Finance) plc	a	Ordinary	100%	Holding
Hastings Group Limited[1]	a	Ordinary	100%	Holding
Advantage Global Holdings Limited[1]	b	Ordinary	100%	Holding
Advantage Insurance Company Limited[1]	c	Ordinary	100%	Underwriting
Conquest House Limited[1]	d	Ordinary	100%	Leasing of property
Hastings (Holdings) Limited[1]	d	Ordinary	100%	Holding
Hastings (UK) Limited[1]	d	Ordinary	100%	Holding
Hastings Insurance Services Limited[1]	d	Ordinary	100%	Broking
Renew Insurance Services Limited[1]	d	Ordinary	100%	Dormant
1066 Direct Limited[1]	d	Ordinary	100%	Dormant
Advantage Insurance Services Limited[1]	d	Ordinary	100%	Dormant
Hastings Direct Limited[1]	d	Ordinary	100%	Dormant
Hastings Direct Accident Management Limited[1]	d	Ordinary	100%	Dormant
People's Choice (Europe) Limited[1]	d	Ordinary	100%	Dormant

1 Held indirectly

Notes to the consolidated financial statements continued

31. Subsidiaries continued

The registered offices of the Company's subsidiaries are as follows:

a. 47 Esplanade, St Helier, Jersey, JE1 0BD

b. Ritter House, Wickhams Cay II, Road Town, Tortola VG1110, British Virgin Islands

c. Suite 23, Portland House, Glacis Road, Gibraltar

d. Conquest House, 32-34 Collington Avenue, Bexhill-on-Sea, East Sussex, TN39 3LW, UK

The Company holds 100% of the voting rights of both its directly and indirectly owned subsidiaries. The Company does not have any other significant holdings.

32. Related party transactions

The Group undertakes transactions with related parties in the normal course of business and all transactions with related parties are made on normal, arm's length, commercial terms.

During the year ended 31 December 2018, the Group entered into the following related party transactions:

- the Group was charged £0.6m in fees by Goldman Sachs Asset Management International, a subsidiary of a company with significant influence (31 December 2017: £0.5m). At 31 December 2018, £0.2m was outstanding (31 December 2017: £0.1m); and
- the Group was charged £2.7m by OUTsurance Shared Services Limited, a subsidiary of a company with significant influence, for the provision of insurance intermediary support services (31 December 2017: £ 0.1m). There was an outstanding balance of £nil as at 31 December 2018 (31 December 2017: £0.1m).

During the year, the Group received a transfer of £1.5m and 201,823 HGH plc shares from a legacy employee benefit trust which was outside the control of the Group. This has been recognised as a capital contribution in the HGH plc financial statements.

33. 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.

34. 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.

35. Impact of changes in accounting policies

IFRS 15 Revenue Recognition ('IFRS 15')

The Group implemented IFRS 15 from 1 January 2018. The Group has used a 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 comparative period has been measured under IAS 18.

The Group differentiates fees and commissions earned from panel policies from fees and commissions earned from AICL policies, both of which are recognised on arrangement of the underlying insurance policy but fall within the scope for different standards, being IFRS 15 and IFRS 4 respectively.

Acquisition costs incurred obtaining Panel customers are initially recognised within deferred acquisition costs and are then recognised in the profit and loss account at each renewal over the expected life of the customer relationship.

IFRS 16 Leases ('IFRS 16')

The Group implemented IFRS 16 from 1 January 2018 and applied this to all 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. These contracts comprised property and computer hardware rentals.

On initial application, property lease liabilities were recognised at the present value of the lease commitments taking into consideration management's intention to lease properties for the full rental period and this resulted in a difference in the cash flows when compared to those disclosed in Note 30 in the 2017 Annual Report, as these showed the minimum commitment which was based on exercising the break clause.

Notes to the consolidated financial statements continued

35. Impact of changes in accounting policies continued

IFRS 16 Leases ('IFRS 16') continued

At transition date, lease liabilities recognised were calculated at the present value of remaining lease payments using an incremental borrowing rate determined as at transition date taking into account the nature of the asset and the remaining lease term. The weighted average incremental borrowing rate applied to lease liabilities recognised in the Balance Sheet at transition was 5%. The lease term was determined using hindsight in instances where the lease contract contained options to extend or terminate the lease.

The Group used the transition option to recognise right of use assets at their carrying amounts as if IFRS 16 had been applied since commencement date, discounted using the incremental borrowing rate at the date of initial application. Depreciation of the right of use assets has been subsequently recognised using the straight line method in profit or loss over the expected lease term, or usage term, where the Group expects to exercise a purchase option.

In accordance with the IFRS 16 transition provisions, the Group used a modified retrospective approach under which prior year figures have not been restated and continue to be reported under IAS 17 and IFRIC 4, details of which are disclosed in the 2017 Annual Report. The cumulative impact of initial application has been recognised as an adjustment to the opening Balance Sheet with a net decrease of £0.3m in opening retained earnings.

The impact of these new standards as at transition date is summarised below:

	As at	Adjustments		Adjusted
	31 December 2017 £m	IFRS 15 transition £m	IFRS 16 transition £m	**1 January 2018 £m**
Assets				
Property and equipment	14.2	–	10.7	**24.9**
Deferred income tax assets	6.6	–	–	**6.6**
Deferred acquisition costs	31.1	0.4	–	**31.5**
Liabilities				
Insurance and other payables	239.8	1.7	11.0	**252.5**
Deferred income tax liabilities	16.0	–	–	**16.0**
Current tax liabilities	11.2	–	–	**11.2**
Equity				
Retained earnings	1,180.7	(1.3)	(0.3)	**1,179.1**

In accordance with the transition requirements under IFRS 15, the table below shows the difference in the amounts recognised in the Consolidated Balance Sheet under IFRS 15 when compared to what would have been recognised under IAS 18.

	As at 31 December 2018		
	Under IAS 18 £m	Impact of IFRS 15 £m	As reported £m
Assets			
Deferred acquisition costs	34.1	0.4	**34.5**
Deferred income tax assets	6.6	–	**6.6**
Liabilities			
Insurance and other payables	241.7	1.7	**243.4**
Deferred income tax liabilities	8.5	–	**8.5**
Equity			
Retained earnings	1,227.5	(1.3)	**1,226.2**

The implementation of IFRS 15 has not resulted in any reportable differences in profit or loss when compared to IAS 18.

Parent Company balance sheet
as at 31 December 2018

	Note	As at 31 December 2018 £m	31 December 2017 £m
Assets			
Investment in subsidiaries	5	**1,275.7**	1,274.3
Deferred income tax assets		**0.6**	0.7
Prepayments		**0.2**	–
Receivables		**0.4**	0.2
Cash and cash equivalents	6	**1.3**	0.2
Total assets		**1,278.2**	1,275.4
Liabilities			
Current liabilities	7	**1.5**	1.1
Total liabilities		**1.5**	1.1
Equity			
Share capital	9	**13.2**	13.1
Share premium		**172.6**	172.6
Retained earnings	9	**1,090.9**	1,088.6
Total equity		**1,276.7**	1,274.3
Total equity and liabilities		**1,278.2**	1,275.4

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

These Financial Statements were approved by the Board of Directors on 27 February 2019 and were signed on its behalf by:

Tobias van der Meer
Chief Executive Officer
Hastings Group Holdings plc

Company Number: 09635183

Parent Company statement of changes in equity
For the year ended 31 December 2018

	Note	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
As at 1 January 2017		13.1	172.6	1,085.6	1,271.3
Total profit for the year attributable to equity holders		–	–	68.5	68.5
Transactions with equity holders					
Share based payments	8	–	–	4.7	4.7
Tax on share based payments		–	–	0.1	0.1
Dividends paid		–	–	(70.3)	(70.3)
Total transactions with equity holders		–	–	(65.5)	(65.5)
As at 31 December 2017 and 1 January 2018		13.1	172.6	1,088.6	1,274.3
Total profit for the year attributable to equity holders		**–**	**–**	**85.8**	**85.8**
Transactions with equity holders					
Share based payments	**8**	**–**	**–**	**2.0**	**2.0**
Issue of shares	**9**	**0.1**	**–**	**–**	**0.1**
Dividends paid		**–**	**–**	**(85.5)**	**(85.5)**
Total transactions with equity holders		**0.1**	**–**	**(83.5)**	**(83.4)**
As at 31 December 2018		**13.2**	**172.6**	**1,090.9**	**1,276.7**

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

Parent Company 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		**85.8**	68.5
Adjustments for:			
Depreciation of property and equipment		**0.5**	–
Share based payments	8	**1.0**	1.4
Taxation expense		**(1.0)**	(1.2)
Change in other receivables		**0.9**	1.4
Change in current liabilities		**(0.7)**	0.3
Net cash flows from operating activities		**86.5**	70.4
Proceeds from issue of ordinary share capital	9	**0.1**	–
Dividends paid		**(85.5)**	(70.3)
Net cash flows from financing activities		**(85.4)**	(70.3)
Net decrease in cash and cash equivalents		**1.1**	0.1
Cash and cash equivalents at beginning of year		**0.2**	0.1
Cash and cash equivalents outflow for the year		**1.1**	0.1
Cash and cash equivalents at end of year	6	**1.3**	0.2

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

Notes to the Parent Company financial statements

1. Basis of preparation

Hastings Group Holdings plc (the Company, HGH), was incorporated on 11 June 2015. The principal activity of the Company is that of a holding company and its registered office and principal place of business is at Conquest House, Collington Avenue, Bexhill-on-Sea, TN39 3LW, United Kingdom. The Company's registered number is 09635183.

The Financial Statements comprise the results of the Company for the year ended 31 December 2018 and comparative figures for the year ended 31 December 2017. The Company made a profit after tax for the year ended 31 December 2018 of £85.8m (2017: £68.5m) and has elected not to present a Parent Company Statement of Profit or Loss as permitted by section 408 of the Companies Act 2006.

The Parent Company Financial Statements have been prepared and approved by the Directors in accordance with the Companies Act 2006 and IFRS as adopted by the EU (IFRS) that are in effect as at 31 December 2018. IFRS comprise standards and interpretations approved by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee.

The accounting policies used in the preparation of these separate Financial Statements are consistent with the accounting policies used in the preparation of the Consolidated Financial Statements of Hastings Group Holdings plc.

Going concern

Having considered the financial performance and financial position of the Company, its cash flows and the dividend capacity of its trading subsidiaries over the next 12 months, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Parent Company Financial Statements.

Basis of measurement

The functional currency is Pounds Sterling and the 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 Financial Statements are prepared on the historical cost basis.

Application of IFRS

The accounting policies developed in accordance with the standards effective under IFRS as at 31 December 2018, have been applied consistently to these Financial Statements.

IFRS 9 Financial Instruments was effective from 1 January 2018 and adopted for the first time within these financial statements, but had no material impact on the Company.

2. Accounting policies

Employee benefits

The Company 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 Parent Company Balance Sheet. The Company has no legal or constructive obligation to make any payments to the scheme other than the contributions due.

Share based payments

The Company operates 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. Expected vesting in respect of service and non-market performance conditions is reviewed annually and adjustments are made retrospectively to the cumulative expense.

The expense for employees of the Company is recognised in the Parent Company Profit or Loss with a corresponding amount recognised within equity. Where shares are awarded to subsidiary employees, this results in an increase in the cost of investment in the subsidiary, with a corresponding amount recognised within equity.

2. Accounting policies continued

Investment in subsidiary

The investment in subsidiary is reported in the Parent Company Balance Sheet at cost less any impairment.

Cash and cash equivalents

The Company's cash and cash equivalents consist of cash in hand and in bank, investments in highly liquid money market funds and other short term deposits that are redeemable within 90 days.

Financial liabilities

Financial liabilities comprise intercompany payables and other payables. Financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequently, financial liabilities are measured at amortised cost using the effective interest method.

Share capital

Shares are classified as equity when there is no obligation to transfer cash or other financial assets, or to exchange financial assets or liabilities under potentially unfavourable conditions. Incremental costs directly attributable to the issue of equity instruments are recognised as a deduction from share premium to the extent that there is sufficient share premium to do so, net of tax effects.

Dividends

Dividends are recognised directly in equity when approved and payable.

3. Auditor remuneration

For the period ended 31 December 2018, auditor remuneration for audit services in respect of these Financial Statements amounted to £0.1m (2017: £0.1m).

4. Employee benefits

Included in other operating expenses were the following employee benefits:

	Year ended	
	31 December 2018 £m	31 December 2017 £m
Salaries	**3.0**	2.8
Social security charges	**0.3**	1.2
Defined contribution pension plan costs	**0.1**	0.1
Share based payment charge	**1.0**	1.4
Total employee benefits	**4.4**	5.5

Directors emoluments are disclosed in the Directors' Remuneration Report.

Key management personnel compensation is as follows:

	Year ended	
	31 December 2018 £m	31 December 2017 £m
Short term employee benefits	**2.3**	2.6
Post employment benefits	**0.1**	0.1
Share based payments	**1.0**	1.4
Total key management personnel compensation and Directors' emoluments	**3.4**	4.1

During the year, the average number of full-time equivalent support staff employed by the Company was four (2017: five).

Notes to the Parent Company financial statements continued

5. Investment in subsidiary

	Year ended	
	31 December 2018 £m	31 December 2017 £m
As at 1 January	**1,274.3**	1,271.0
Share based payment charge	**2.1**	3.3
Subsidiary contribution to share based payment	**(0.7)**	–
As at 31 December	**1,275.7**	1,274.3

The increase in investment in subsidiary in the year includes £2.1m (2017: £3.3m) relating to equity settled share based payments for certain management personnel employed by subsidiaries indirectly owned through HIG(H) (subsidiary undertakings).

6. Cash and cash equivalents

	As at	
	31 December 2018 £m	31 December 2017 £m
Cash at bank and in hand	**1.3**	0.2
Total cash and cash equivalents	**1.3**	0.2

7. Current liabilities

	As at	
	31 December 2018 £m	31 December 2017 £m
Accrued expenses	**0.8**	0.8
Intercompany payables	**0.7**	0.3
Total current liabilities	**1.5**	1.1

Payables are unsecured, non-interest bearing and are normally settled within 12 months.

8. Share based payments

For detailed disclosures of share based payments granted to employees refer to Note 29 of the Group financial statements.

9. Share capital

	As at	
	31 December 2018 £m	31 December 2017 £m
Authorised, issued and fully paid up Ordinary Share capital		
657,701,128 Ordinary Shares of 2p (2017: 657,217,641)	**13.2**	13.1
Total	**13.2**	13.1

Retained earnings

The Company's retained earnings of £1,090.9m (2017: £1,088.6m) represent the Company's distributable reserves.

10. Related party transactions

The Company undertakes transactions with related parties in the normal course of business and all transactions with related parties are made on normal arm's length commercial terms.

The Company has a balance payable to Hastings Insurance Services Limited of £0.7m relating to payments made on its behalf (2017: receivable of £0.3m).

11. Dividends

Full details of the dividends declared during the year are included in the Consolidated Financial Statements of Hastings Group Holdings plc above in Note 33.

Other information

KPIs and reconciliations	175
Glossary	178
Company information	179
Shareholder information	180

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.

KPIs and reconciliations continued

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).

Operating profit reconciliation

	Year ended 31 December 2018 £m	Year ended 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

Live customer polices per full time employee

Following a review of the management information prepared and reviewed on a monthly basis, Live customer polices per full time employee was no longer considered an insightful metric and therefore was removed from regular information provided to management with effect from 1 January 2018. This was therefore no longer considered a KPI and has not been provided.

Glossary

4Cs
Colleagues, customers, company and community. The Group's cultural approach that shapes decision making processes and performance.

Accident year loss ratio
Accident year loss ratio is defined as net claims incurred in the period divided by net earned premiums.

Calendar year loss ratio
Calendar year loss ratio is the accident year loss ratio adjusted to include the impact of prior year development of claims and PPO reserves.

Claims reserves
The Group's technical claims reserves represent the estimated ultimate cost of its exposure to claims and expenses against business which was previously underwritten.

Co-insurance
An agreement between more than one insurer to underwrite an insurance contract. Each co-insurer receives a pre-determined portion of the benefit and risk from the underwritten contract.

Combined operating ratio
Combined operating ratio is the sum of the calendar year loss ratio and expense ratio.

DRIP
Dividend reinvestment plan.

EFRAG
European Financial Reporting Advisory Group.

Expense ratio
Expense ratio is a measure of incurred operational and acquisition expenses, net of certain reinsurance commissions, direct cost contributions or other profit share arrangements, expressed relative to net earned premiums.

Group
The combined operations of Hastings Group Holdings plc and its subsidiaries.

Gross earned premiums
Gross written premiums in the current and prior periods recognised over the life of the underlying insurance contracts.

Gross written premiums
Total premiums the Group expects to receive over the life of insurance contracts underwritten by Underwriting. This is before ceding to the Group's reinsurers' their share of premiums and includes the Group's portion of premiums under co-insurance agreements.

IASB
International Accounting Standards Board.

LCP
Live Customer Policies; i.e. the number of active policies.

Net claims incurred
Net claims incurred represents claims expensed in the period less the portion of claims covered by the Group's reinsurers.

Net earned premiums
Net earned premiums represents gross earned premiums after deducting earned premiums ceded to reinsurers.

Net written premiums
Gross written premiums less the portion of written premiums ceded to the Group's panel of reinsurers.

Ogden rate
The Ogden rate is a discount rate set by the Lord Chancellor and used by UK courts in the calculation of lump sum settlement awards.

PCW
Price comparison websites.

PPOs
Periodic Payment Orders; these are a type of compensation award, in existence in the UK since 2005, in respect of catastrophic personal injury claims. Instead of paying a claimant a single lump sum, PPOs involve making a series of regular payments to pay for the individual's care costs for the rest of his or her life.

Profit commission
Performance based payments from reinsurers based on contractual performance targets.

Reinsurance
Agreement with a panel of insurers whereby the Group mitigates its risk of losses from claims by transmitting a portion of risk in exchange for a portion of premium. The Group utilises reinsurance on a quota share basis (a percentage share of premiums, claims and expenses) and excess of loss basis (full reinsurance for claims over an agreed value).

Retail
The Group's retail business, Hastings Insurance Services Limited (HISL), trading as Hastings Direct, based in Bexhill-on-Sea, UK.

Underwriting
The Group's underwriting business, Advantage Insurance Company Limited (AICL), based in Gibraltar.

Company information

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Credit Suisse Securities (Europe) Limited
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The Registry
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Kent
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Shareholder information

Registered office

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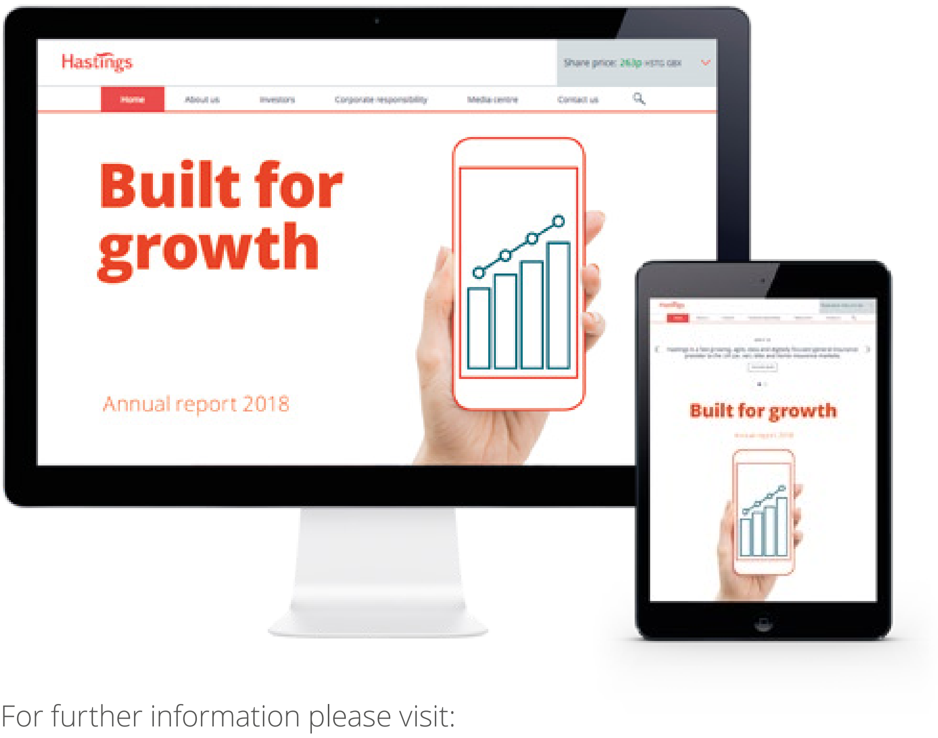
Corporate website

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



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hastingsplc.com

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Hastings

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