Hastings Group Holdings plc

Preliminary results announcement for the year ended 31 December 2017

1 March 2018

Hastings Group Holdings plc (the Group, or Hastings), one of the fastest growing general insurance providers to the UK market, today announces its preliminary results for the year ended 31 December 2017.

Hastings presents another strong set of results as it celebrates 20 years since selling its first insurance policy. The Group continues to grow customer numbers, profits and dividends whilst simultaneously investing in the future to achieve the ambitious targets set by the Board in March 2017.

Highlights

- **Sustained growth of live customer policies** to 2.64 million as at 31 December 2017, a 13% year on year increase (2.35 million as at 31 December 2016).
- **Growing share** of the UK private car insurance market to 7.3% as at 31 December 2017 (6.5% as at 31 December 2016).
- **Strong increase in gross written premiums** up 21% to £930.8m for the year ended 31 December 2017 (2016: £769.0m).
- **Growth in net revenue** of 21% to £715.6m for the year ended 31 December 2017 (2016: £590.3m).
- **Continued increase in adjusted operating profit**[1] up 39% to £184.1m (2016: £132.1m, or up 21% from £152.1m before the impact of the Ogden rate change).
- **Calendar year loss ratio**[2] for the year ended 31 December 2017 of 73.0%, better than the target range of between 75% and 79% (2016: 77.7% or 73.7% before the impact of the Ogden rate change).
- **Continued reduction in net debt leverage multiple**[3] to 1.4x adjusted operating profit (1.9x as at 31 December 2016).
- **Voted Moneyfacts Car Insurance Provider of the Year** by customers for the fourth time.
- **Continuing investment in future growth** with Guidewire, our next generation claims and broker platform, now live on all major aggregators for private car insurance as part of phased roll out.
- **Final dividend proposed for 2017 of 8.5p per share (2016: 6.6p per share).** Together with the interim dividend, this totals 12.6p per share (2016: 9.9p per share) equating to 55.5% of adjusted profit after tax[4] (2016: 65.6%, or 55.5% before the impact of the Ogden rate change).
- **Announced orderly succession plan** as Mike Fairey retires as Chairman of the Board at the Annual General Meeting on 24 May 2018, with Gary Hoffman to succeed him. Ahead of this, Toby van der Meer today replaces Gary Hoffman as Chief Executive Officer.

Gary Hoffman, Non-Executive Chairman Designate, commented:

"I am very pleased to report yet another strong year of profitable growth as we continue to deliver on our 2019 targets.

"We grew live customer policy numbers by 13% to over 2.6 million, gross written premiums are up 21% and adjusted operating profit is up by 39%. We continue to provide our customers with straightforward service and products and have improved our calendar year loss ratio to 73.0%, better than our target range, through disciplined underwriting.

"I have thoroughly enjoyed my time at Hastings and I'm immensely proud of what we have achieved over the last five years, including more than doubling the number of customers and colleagues. I look forward to remaining part of the Hastings family and continuing to work with Toby van der Meer, our new CEO.

"As Managing Director for Retail, Toby has been instrumental in rapidly growing our digital proposition over the last seven years. A proven leader, he has exactly the right skills and experience to guide Hastings on its ongoing profitable growth trajectory."

Toby van der Meer, Chief Executive Officer, commented:

"I'm very pleased to take on my new role today as CEO of this fantastic business. We have great momentum and our 2017 record profits are testament to our agile, data driven business model and the passion and commitment of our 3,100 colleagues.

"Over the last few years we have grown from a small private company to a plc with over 2.6 million customer policies. With over 31 million cars and 20 million homes in the UK, and increased consumer switching through digital channels, we have plenty of opportunity for further growth. Looking ahead I want to ensure Hastings remains a leader in using digital and technology to make insurance straightforward for customers."

Outlook statement

The competitive environment continues to be intense, with slower premium inflation since the end of the third quarter than that experienced in the first half of 2017 following the proposed Ogden rate review. As ever, we continue to focus on the quality of our underwriting, profitable growth, giving great service to our customers and on delivering value for our shareholders. We remain confident of delivering on all of our targets during 2019.

Webcast

The Group will host an update webcast for investors and analysts at 9:00am GMT on 1 March 2018. Details are available on the Group's website www.hastingsplc.com.

About Hastings

Founded in 1996 in Bexhill-on-Sea on the Sussex coast, Hastings has become one of the fastest growing general insurance providers to the UK market, with over 2.6 million live customer policies and employing over 3,100 colleagues at sites in Bexhill, Leicester, London and Gibraltar.

Hastings provides straightforward products and services to UK car, bike, van and home insurance customers with around 90% of policies directly underwritten by its Gibraltar based insurer, Advantage Insurance Company Limited.

Hastings Direct is a trading name of Hastings Insurance Services Limited, the Group's UK broker, which also trades via 'Hastings Premier', 'Hastings Essential', 'Hastings Direct SmartMiles', 'People's Choice' and 'insurePink'.

The Group operates as an integrated insurance provider with two businesses. The Group's Retail business, Hastings Insurance Services Limited, is responsible for the end customer pricing, fraud management, product design, distribution and management of the underlying customer relationships. The Group's Underwriting business, Advantage Insurance Company Limited, engages in risk selection, underlying technical pricing, reserving and claims handling.

Retail is supported by, and benefits from, Underwriting's prudent approach to risk and reserving and also benefits from a panel of insurance partners who provide additional underwriting capacity. The Group's integrated model deliberately separates underlying product manufacturing from its distribution.

Forward looking statements

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

Forward looking statements are subject to known and unknown risks and uncertainties and are based on potentially inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward looking statements. Our actual results could differ materially from those anticipated in our forward looking statements for many reasons, including the factors described in the section entitled “Managing our risks” in our 2016 Annual Report. In addition, even if our actual results are consistent with the forward looking statements, those results or developments may not be indicative of results or developments in subsequent periods.

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Notes

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

(2) Calendar year loss ratio is a measure of underwriting performance, representing net claims incurred divided by net earned premiums.

(3) Net debt leverage multiple represents the Group’s net debt expressed relative to 12 months trailing adjusted operating profit.

(4) Adjusted profit after tax for the purposes of dividend payout ratio is net income adjusted to exclude the impact of share scheme costs.

Strategic report

Chairman's statement

Maintaining Strong Leadership

"The changes to the Board leave the Company in very safe hands to enable its continued success for the benefit of all stakeholders."

This is my last statement as Chairman as I shall be retiring at the forthcoming Annual General Meeting in May.

I was appointed as Chairman to guide the Company through the IPO and its early years as a listed entity, and to establish a strong Board to underpin the Company's future growth and development. Whilst no formal timeframe was set for my tenure, I feel that having successfully achieved those objectives, it is now the right time for me to retire as Chairman. As announced in January this year, Gary Hoffman who joined the business as Chief Executive Officer in November 2012, will succeed me as Non-Executive Chairman of the Board.

Succession planning has been high on the Board's agenda as it seeks to sustain the Group's growth and development. The Board therefore prioritised various considerations as part of the succession process; primarily continuity and stability, together with the need for strong independent governance and effective strategic leadership.

The Board is aware of the provisions of the UK Corporate Governance Code (the Code) in that a Chief Executive should not go on to be Chairman of the same company but, after full and careful consideration, the Directors agreed unanimously that Gary's transition from Chief Executive Officer to Chairman would be in the best interests of the Company and its shareholders.

Gary has been a key individual in the Group's success, not only in the years leading up to the IPO, but in the period since, which has seen nine successive quarters of profitable growth. The Board therefore regarded retaining Gary's services as critical to the Group's continued success. Gary has extensive experience of chairing various boards, notably having served as Vice-Chairman of Barclays plc, Chairman of Barclay's UK Banking division and Barclaycard, and currently serves as Non-Executive Chairman of VISA Europe. Gary will not chair or be a member of any Board Committees and Tom Colraine, Senior Independent Director, will be appointed as Chairman of the Company's Nomination Committee from 1 March 2018.

In anticipation of Gary's appointment as Chairman, Toby van der Meer, who has been the Managing Director of the Company's UK trading subsidiary, Hastings Insurance Services Limited since 2011, will be appointed to the Board with effect from 1 March 2018 as Chief Executive Officer. Toby has played a pivotal role in the significant growth and development of the Group's retail business over the past six years and is a well-respected leader within the Group. I congratulate both Gary and Toby on their appointments.

In my statement last year, I explained that on 1 March 2017, Rand Merchant Investment Holdings Limited (RMI), a South African investment holding company acquired 29.9% of the Company's issued share capital. Under the terms of a relationship agreement between RMI and the Company, as long as RMI holds at least 15% of the Company's issued share capital, RMI is entitled to appoint one Director to the Company's Board. Herman Bosman, CEO of RMI was appointed as a Director of the Company on 14 March 2017 and at the same time; Michele Titi-Cappelli (representative of the Goldman Sachs Shareholders) and Edward Fitzmaurice (representative of the Founder Shareholders), resigned as Directors. On behalf of the Board, I welcome Herman as a Director who brings a wealth of experience in the insurance and banking sectors. In August this year, Richard Brewster, also a representative of the Founder Shareholders, resigned as a Director. He was succeeded by Founder Shareholder nominee, Selina Sagayam in August this year. I express my gratitude to Michele, Edward and Richard for their contribution as Directors of the Company and welcome Selina. The diversity of the Board was also reviewed by the Nomination Committee. As announced on 2 February 2018, Malcolm Le May tendered his resignation as a Non-Executive Director of the Company following his appointment as Group Chief Executive Officer of Provident Financial plc. The date on which Malcolm's resignation will become effective has yet to be decided and the Company is in discussions regarding an appropriate period of notice.

When the Company listed on the London Stock Exchange in 2015, it was not fully compliant with the Code due to the composition of the Remuneration Committee. This non-compliance was as a result of the requirement of the major shareholders at the time of the IPO to be represented on this Committee; this stipulation was part of the relationship agreement between the Company and these shareholders. The Board agreed that the independence of the Remuneration Committee was not compromised as it has had an independent Chairman and a majority of Independent Non-Executive Directors. Following discussions with the shareholders in question, I am pleased to announce that they have no longer nominated Directors to the Remuneration Committee and the composition of this Committee is now fully Code compliant.

Optimising shareholder value – dividends

The Board remains confident in the Group's long term prospects and is pleased to propose a final dividend of 8.5p per share. This dividend will be paid on 31 May 2018 to shareholders on the register on 4 May 2018 with an ex-dividend date of 3 May 2018. This is the Company's second dividend for the year having paid 4.1p per share in November, taking the full year dividend to 12.6p per share. This final dividend is subject to shareholder approval at the Annual General Meeting to be held on 24 May 2018.

Farewell

It has been a pleasure to serve as Chairman of the Company and to oversee its early years as a publicly listed company. The changes to the Board will leave the Company in very safe hands to enable its continued success for the benefit of all stakeholders. I thank Gary, his management team and all of the colleagues at Hastings for their hard work, commitment and dedication contributing to the profitable and sustainable growth of the Group to date. I would also like to thank our shareholders for their support throughout my tenure. I remain confident that the Group will continue to deliver long-term value and returns for shareholders.

Mike Fairey

Chairman

28 February 2018

Chief Executive Officer's Q&A

Maintaining our momentum

"In my past five years as CEO we have achieved some major milestones. We listed on the London Stock Exchange, have achieved 2.6 million live customer policies and employ over 3,100 colleagues. We are now valued at £2bn and RMI has made significant long-term investment in our company. In a challenging marketplace, we maintain momentum and continue to deliver profitable growth.

We are committed to do the right thing for all of our 4Cs and I am proud to be part of the Hastings family. In my new role as Chairman from May 2018, that will continue."

Gary Hoffman
Chief Executive Officer

Q. Tell us more about how you will achieve your new targets?

We set ourselves four targets at the time of the IPO and we refreshed these in March 2017. Our targets include a growth target: to have 3 million customers during 2019; a risk target: to deliver a calendar year loss ratio within the range of 75 - 79%; and two cash and capital targets: to reduce our net debt leverage multiple to 1.0x during 2019, and to continue paying a healthy dividend with a payout ratio of between 50% and 60%.

We've continued to make good progress in executing our growth strategy, with a 13% increase in policy numbers throughout 2017, and are very confident of meeting our target of 3 million customers during 2019.

The majority of our planned growth will come from our core motor book, with continued momentum from an increasing share of price comparison websites (PCW) sales, a profitable maturing book and the launch of a new multicar proposition in 2018 which will be enabled by the implementation of Guidewire.

We are continuing to see more customers using PCW to buy their insurance and we have been able to apply our successful approach in motor to the home insurance market. We now have over 2.6 million customers and we started underwriting home insurance ourselves as a lead insurer in small volumes earlier this year.

Q. It's been a year since RMI acquired 29.9% of the company. How has the relationship evolved?

The transaction with RMI concluded on 1 March 2017, and represents a real statement of intent and long term confidence in Hastings. Since then, Herman Bosman, the CEO of RMI has joined our Board and attended many board meetings and provided additional insights.

When we announced RMI as our new major shareholder, we said that we might explore potential areas of co-operation with them and their subsidiary, OUTsurance, given their experience in the general insurance market and if it was the right thing to do for our 4Cs ways of working. To support our colleagues and customers in early 2018, we started working in partnership with OUTsurance to take calls primarily over evenings and weekends. This is in addition to the large scale recruitment across our UK sites, which will allow us to improve shift patterns for our Hastings colleagues, making them more flexible and reducing the number of evenings and weekends they are asked to work. As you would expect when we shared this news internally it was well received.

Q. How has Hastings invested in colleagues to support future growth plans?

Our continued success is a testament to the work of our colleagues and we are very lucky to have some of the best people in the industry working for us. Our agile, data driven business model and strong reputation have attracted some very experienced colleagues this year into senior roles that will help us deliver ambitious growth plans. We continue to attract a growing number of full time and part time colleagues who deliver great customer and claims service at our head office site in Bexhill and second site in Leicester which is now home to over 1,200 colleagues. We have introduced a new homeworking model for some of our frontline colleagues and plan to use OUTsurance more this year to support our colleagues and customers, primarily over evenings and weekends.

We remain committed to developing the skills and careers of all of our colleagues and to provide them with the right tools to do their jobs. In 2017, we launched our new internal career portal that provides information about internal career frameworks and guidance on the training and development colleagues need to help develop their careers with Hastings. We also made significant investment in Guidewire our new system that will help both colleagues and customers.

Q. There's been significant investment in Guidewire; can you tell us more about it and its implementation?

Guidewire is a market leading software that supports claims, broking and billing in an integrated platform. We have also invested in additional software components to increase the ability of our customers to self-serve through digital engagement. Improvements for our customers and our colleagues include reducing the claims lifecycle, more informed pricing, and enhancing our customer services by providing a 24/7 online self-service portal.

We have realised significant benefits following the launch of the claims module, and continue to improve and enhance the system based on colleague feedback and customer experience. We are following a staged roll out of the broker platform and all major PCW were live on Guidewire for private car insurance by the end of 2017. In addition, we have commenced migrating our private car insurance renewals business to Guidewire. It will enable efficiencies that will deliver value and provide a platform for future growth.

Q. What is your outlook on premium rate increases?

We began increasing premiums in the first half of 2014, ahead of the market that started raising rates in 2015, after a three year period of sustained price reductions. Premiums continued to rise across the market driven by continuing claims inflation, with additional increases seen following the change to the Ogden rate in February 2017, which increased both claims costs and the cost for excess of loss reinsurance. In the last quarter of 2017, we started seeing pricing fluctuations following the UK Government's subsequent announcement regarding further proposed changes to the Ogden rate calculation. As you look into the future, we would expect premium rate changes to follow claims inflation, with some uncertainty surrounding the proposed changes to the Ogden rate, and also from the planned whiplash reforms. As ever, we continue to focus on the quality of our underwriting, and the agility of our pricing model means we can react quickly to claims, market or regulatory changes.

Q. What's your view on the impact of autonomous cars on the insurance industry?

We welcome any environment that improves road safety; however we do view broad adoption of fully automated vehicles as being many years away. Manufacturers will continue to introduce partial automation that will improve the safety of vehicles and in turn help to reduce the frequency of accidents. We have found that the improvements in technology have made it more expensive to repair vehicle damage, which is offsetting the benefits from lower frequency of accidents. We expect these trends to continue in the future and we use our data and analytical skills to build these changes into our prudent underwriting approach.

Q. Can you tell us about corporate responsibility at Hastings?

It's important for me and my colleagues to see firsthand the difference we can make through our charitable and community interactions so we focus our attention locally rather than supporting national or global initiatives. This approach is embraced by our colleagues through their fundraising efforts and participation in community days.

As an example, in July, our leadership team took the opportunity to join forces to give back to the local community and say thank you for the past 20 years. The teams took part in beach cleaning, student career advice and providing afternoon tea and bingo for older people, and also ran charity shops with items donated by colleagues. It was great to give practical help as well as raise money for our local charity partners.

I am very proud of the work we do with local students in Bexhill and Leicester through our 'Be the Change' programme which aims to raise the aspirations of local 13 and 14 year olds by providing workshops, one to one sessions and workplace visits. It is particularly humbling and gratifying when students speak openly and honestly about their actions or feelings as a result of our business mentors sharing their own experiences with them. I know that my fellow business mentors are equally as proud of Be the Change and the difference we can make to the younger members of our local communities.

Q. What has been your personal highlight of 2017?

We've achieved a number of milestones including celebrating our 20th anniversary with our colleagues and communities. In the time that I have been here, live customer policies (LCP) have more than doubled - from 1.1 million in 2012 to 2.6 million today - and our colleague numbers have increased to over 3,100. Another key highlight is RMI's investment of 29.9% in Hastings. This shows a real statement of intent and long term confidence in what we are, what we are doing and what we are going to do.

I am honoured to be part of the Hastings 20 year history and the team that has achieved so much in creating a successful, fast growing UK general insurance provider.

Q. Looking forward, why the change from CEO to Chairman?

With Mike Fairey's decision to retire as Chairman at the AGM in May 2018 and the Board's unanimous support, it felt as if it was the right thing to do. It allows me to remain part of the Hastings family and to draw on my experience of chairing boards and committees, notably as Vice-Chairman of Barclays PLC, Chairman of UK Banking and Barclaycard at Barclays, and in my current role as Non-Executive Chairman of VISA Europe.

Mike has achieved a huge amount for us over the past three years, including guiding us through the IPO and our early years as a listed entity, and I wish him all the best on his retirement.

Q. What do you think Toby Van Der Meer will bring to the role of CEO?

Toby has an extensive background in direct financial services and I am delighted that we were able to promote internally after an industry-wide search.

Before joining Hastings, Toby was a Managing Director at MoneySupermarket, one of the UK's leading PCW, where he was responsible for the money and broker led businesses 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. Toby joined us in 2011 as Managing Director for Retail and in this role has been responsible for the development of the company's UK retail business, which covers around two thirds of our Group profits. Toby also has considerable digital and customer service experience, and is currently responsible for product and retail pricing, brand and marketing, digital, and customer operations at our Bexhill and Leicester sites. In his seven years with us, Toby has played a pivotal role in the significant growth and development of the Group's retail business and he is a well-respected leader within the Group. These credentials and his commitment to our 4Cs ways of working, make Toby a natural successor to take Hastings forward to the next stage of its journey. I wish Toby every success in his new role.

Update on targets:

We remain on track with all targets, delivering sustainable growth and value for our shareholders.

	Target	As at 31 December 2017
Calendar Year Loss Ratio	75-79%	73.0%
Customer numbers but not at the expense of profitability	3.0 million during 2019	2.64 million
Net debt leverage multiple	1.0x during 2019	1.4x
Dividend payout ratio	50-60%	55.5%

Chief Financial Officer's statement

Delivering continued profitable growth

“I am pleased to present another strong set of results as the Group maintains its momentum. We continue to grow customer numbers, profits and dividends whilst simultaneously investing in the future to achieve the ambitious targets set by the Board.”

We have achieved another record year of customer numbers and premiums, as we work towards achieving the promises made last year. Live customer policies increased by 13% to 2.64 million as our refreshingly straightforward approach continued to attract new customers and helped maintain our strong retention rates. This increase in policies, combined with sustained premium rate increases following the Ogden rate change in February, has driven gross written premiums up 21% to £930.8m. Due to both the earn through of these higher average premiums and a rigorous focus on maintaining underwriting discipline, we have achieved a calendar year loss ratio of 73.0%, below our target range of between 75% and 79%.

Maintaining strong growth has not been achieved at the expense of profitability, as we have delivered adjusted operating profit of £184.1m, up 39%, generating retail free cash of £114.1m (2016: £98.1m). This has enabled us to continue to reduce our net debt leverage multiple whilst strengthening the balance sheet and paying dividends within our target range. The Board has proposed a final dividend of 8.5p per share, which, in addition to the interim dividend of 4.1p per share paid in November, means total dividends in respect of 2017 will be £82.8m, a payout ratio of 55.5%.

We continue to invest in the future and Guidewire, our state of the art integrated claims and broking platform, has successfully continued its phased roll out, achieving the milestone of handling all new business quotes for car insurance from price comparison websites. Guidewire allows us to deliver increased digital and self-service capabilities, more efficient claims handling and improved services for all our customers.

The Group’s Underwriting business, Advantage Insurance Company Limited (AICL), remains well positioned to continue to expand. During the year, the Gibraltar Financial Services Commission granted AICL the right to apply undertaking specific parameters (USPs) when calculating its solvency coverage requirement. The use of USPs combined with continued capital growth of the business has allowed AICL to increase its solvency coverage ratio to 167% (2016: 140%).

I am proud of our achievements as we deliver another year of profitable growth whilst further strengthening the financial and operational performance of the Group. We continue to deliver on the promises we made and propose a final dividend of 8.5p per share.

Richard Hoskins

Chief Financial Officer

28 February 2018

Strategic report

Summary consolidated statement of profit or loss

	Year ended					
	31 December 2017			31 December 2016		
	Underlying trading[5]	Non-trading items[5]	Total	Underlying trading[5]	Non-trading items[5]	Total
	£m	£m	£m	£m	£m	£m
Gross written premiums	930.8	-	930.8	769.0	-	769.0
Net earned premiums	410.1	-	410.1	334.8	-	334.8
Other revenue	298.7	-	298.7	248.3	-	248.3
Investment and interest income	6.8	-	6.8	7.2	-	7.2
Net revenue	715.6	-	715.6	590.3	-	590.3
Net claims incurred	(299.5)	-	(299.5)	(260.1)	-	(260.1)
Acquisition costs	(64.9)	-	(64.9)	(51.9)	-	(51.9)
Other expenses	(167.1)	-	(167.1)	(146.2)	-	(146.2)
Adjusted operating profit[1]	184.1			132.1		
Impact of Ogden rate change	-			20.0		
Adjusted operating profit before impact of Ogden rate change	184.1			152.1		
Amortisation and depreciation	(5.5)	(21.5)	(27.0)	(5.6)	(22.0)	(27.6)
Finance costs	(7.8)	(0.3)	(8.1)	(9.6)	(0.6)	(10.2)
Taxation	(26.2)	3.9	(22.3)	(20.0)	4.1	(15.9)
Profit after tax	144.6	(17.9)	126.7	96.9	(18.5)	78.4

Strong growth in live customer policies (LCP) combined with average written premium increases have driven growth in profit after tax from £78.4m to £126.7m for the year ended 31 December 2017.

The prior year results were impacted by the reduction in the personal injury discount rate (the Ogden rate) which is used to settle large personal injury claims. This was reduced from 2.5% to minus 0.75%, with effect from 20 March 2017, which resulted in a reduction in adjusted operating profit of £20.0m and a decrease in profit after tax of £18.0m.

On 7 September 2017, however, the UK Government announced their intention to introduce legislation that would result in the discount rate being calculated with reference to the yields on a portfolio of low risk investments. This would likely result in an increase to the discount rate but the legislation has not yet been enacted.

Gross written premiums

	Year ended	
	31 December 2017	31 December 2016
Gross written premiums by product	£m	£m
Private car	888.1	733.9
Bike	16.0	12.8
Van	20.9	17.9
Home	5.8	4.4
Total gross written premiums	930.8	769.0
Total gross earned premiums	856.1	691.8

Gross written premiums have increased by 21%, principally driven by private car policies as Hastings continued to grow market share to 7.3%.

Through agile pricing and data enrichment, the Group has been able to make targeted rate increases resulting in average written premiums per policy increasing by 7% whilst maintaining its above market average retention rate.

The Group has continued to apply its digital business model to the home insurance market and during the year, the Group's underwriting business began writing home insurance as lead insurer having built experience by participating in a co-insurance arrangement as secondary insurer. Home LCP of 173,000 (2016: 168,000) are 3% higher than the prior year as the Group ensures a disciplined approach is applied to its transition to underwriting the new product. The Group has also agreed terms with a number of additional home insurance underwriters to join the Group's panel in 2018.

Net revenue

	Year ended	
	31 December 2017	**31 December 2016**
Net revenue by type	**£m**	**£m**
Net earned premiums	410.1	334.8
Fees and commission	101.3	88.5
Ancillary product income	50.6	48.4
Premium finance interest	94.4	78.2
Reinsurance commissions	37.0	16.4
Other income	15.4	16.8
Other revenue	298.7	248.3
Investment and interest income	6.8	7.2
Net revenue	715.6	590.3

Net revenue has grown by 21% to £715.6m for the period (2016: £590.3m) through growth in earned premium and broking revenue streams.

Sustained growth in LCP and the earn through of higher average written premiums increased net earned premiums by 22% to £410.1m over the prior period (2016: £334.8m).

The growth in policies sold has also led to increased fees on the sale of insurance contracts and increased ancillary product income. Premium finance interest income benefitted from the combination of higher average premiums and a continued increase in the number of customers paying in monthly instalments.

Reinsurance commissions recognised have grown as a result of an increase in underlying earned premiums, the reduction in accident year and calendar year loss ratios and the impact of the Ogden rate reduction in the prior year.

Loss ratio, expense ratio and combined operating ratio

Combined operating ratio reconciliation	Year ended 31 December 2017	Year ended 31 December 2016
Accident year loss ratio	73.8%	76.6%
Prior year development	(0.8%)	1.1%
Calendar year loss ratio[2]	73.0%	77.7%
Expense ratio[2]	14.0%	13.6%
Combined operating ratio[2]	87.0%	91.3%

The calendar year loss ratio has improved significantly compared to the prior year due to the 4% impact of the Ogden rate reduction on the 2016 loss ratio and the earn through of premium rate increases applied over the last 12 months outweighing claims inflation during the year. Average earned premiums have increased 7% year on year compared to claims inflation of 5%, reducing the Group's accident year loss ratio to 73.8%. Positive prior year development of £3.1m (2016 adverse development of £3.7m) reduced the calendar year loss ratio to 73.0%.

The expense ratio for the period increased slightly as the Group continued to invest in the business, including integrating Guidewire and claims management services to support future growth and efficiencies.

The Group's combined operating ratio reduced as the reduction in the calendar year loss ratio offset the slight increase in the expense ratio.

Adjusted operating profit and profit after tax

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Underwriting adjusted operating profit	71.4	30.3
Retail adjusted operating profit	115.0	101.2
Net impact of corporate and consolidation adjustments	(2.3)	0.6
Adjusted operating profit	184.1	132.1
Underlying amortisation and depreciation	(5.5)	(5.6)
Underlying finance costs	(7.8)	(9.6)
Tax on underlying trading	(26.2)	(20.0)
Net income[6]	144.6	96.9
Non-trading expenses, net of tax	(17.9)	(18.5)
Profit after tax	126.7	78.4

The 39% increase in adjusted operating profit to £184.1m (2016: £132.1m) primarily reflects the growth in LCP, the earn through of higher average premiums and the increase in retail income as well as the £20.0m impact of the Ogden rate reduction recognised in 2016.

Profit after tax increased 62% due to higher adjusted operating profit, lower finance costs and a reduction in non-trading expenses.

Taxation

The tax charge for the year was £22.3m (2016: £15.9m), an effective tax rate (ETR) of 15.0% (2016: 16.9%). The tax charge has increased due to higher profits before tax; however 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.

Strategic report

Dividends

Dividend payout ratio	Year ended 31 December 2017 £m	31 December 2016 £m
Net income	144.6	96.9
Share based payment expense (including social security charges)	5.7	2.8
Tax on share based payment expense	(1.0)	(0.5)
Adjusted profit after tax[4]	149.3	99.2
Impact of the Ogden rate change	-	18.0
Adjusted profit after tax before the impact of the Ogden rate change	149.3	117.2
Interim dividend paid	26.9	21.7
Final dividend proposed	55.9	43.4
Total dividends in respect of financial year	82.8	65.1
Dividend payout ratio[4]	55.5%	65.6%
Impact of the Ogden rate change	-	(10.1%)
Dividend payout ratio before impact of Ogden rate change	55.5%	55.5%

The proposed final dividend for the year ended 31 December 2017 is £55.9m (2016: £43.4m), a payout of 8.5 pence per share (2016: 6.6 pence per share).

The dividend payout ratio of 55.5% in respect of 2017 (2016: 65.6% or 55.5% before the impact of the Ogden rate change) is within the Group's target payout of between 50% and 60% of adjusted profit after tax.

Dividends are satisfied by the Group's Retail business through retail free cash generated and dividends from the Underwriting business. During the year, the Retail business generated free cash of £114.1m (2016: £98.1m).

Summary consolidated balance sheet

	As at	
	31 December 2017 £m	31 December 2016 £m
Assets		
Goodwill	470.0	470.0
Intangible assets	87.4	97.2
Property and equipment	14.2	12.7
Reinsurance assets	1,087.7	822.0
Deferred acquisition costs	31.1	24.2
Insurance and other receivables	432.9	365.0
Financial assets at fair value	539.6	403.6
Cash and cash equivalents	154.6	168.0
Total assets	2,817.5	2,362.7
Liabilities		
Loans and borrowings	272.0	286.6
Insurance contract liabilities	1,665.6	1,299.5
Insurance and other payables	251.0	204.5
Deferred income tax liabilities	16.0	18.5
Total liabilities	2,204.6	1,809.1
Net assets	612.9	553.6

Net assets and working capital

The Group's net asset position has continued to strengthen, increasing from £553.6m as at 31 December 2016 to £612.9m as at 31 December 2017. This has been driven through profits retained within the business, after dividend payments of £70.3m.

In addition to increasing retained earnings, the growth in customers has driven the increase in working capital, insurance contract liabilities and related reinsurance assets.

Return on capital employed

	Year ended	
	31 December 2017 £m	31 December 2016 £m
Average AICL deployed capital[7]	255.0	208.5
Average HISL deployed capital[7]	34.2	31.5
Average corporate free cash[8]	4.8	8.1
Average capital employed	294.0	248.1
Net income	144.6	96.9
Return on capital employed	49.2%	39.1%

The Group's return on capital employed increased reflecting the 49% growth in net income. Capital employed in the Underwriting business increased as capital generated from the profitable growth in LCP was retained in the business, thereby further strengthening its strong solvency position.

Strategic report

Cash and net debt

	As at	
	31 December 2017 £m	31 December 2016 £m
Term Loan and Revolving Credit Facility	272.0	286.6
Add back transaction costs	3.0	3.4
Gross debt	275.0	290.0
Retail free cash[8]	(16.1)	(29.3)
Corporate free cash[8]	(4.6)	(5.0)
Free cash[8]	(20.7)	(34.3)
Net debt	254.3	255.7
Adjusted operating profit	184.1	132.1
Net debt leverage multiple[3]	1.4x	1.9x

Higher adjusted operating profit, combined with the Group's strong cash generation has resulted in a fall in the net debt leverage multiple to 1.4x, compared with a multiple of 1.9x as at 31 December 2016.

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

	Year ended	
	31 December 2017 £m	31 December 2016 £m
Opening net debt	255.7	271.1
Retail cash generated[8]	(114.1)	(98.1)
AICL dividend received	(4.0)	-
Retail and Corporate taxation paid	17.9	10.9
Capital expenditure	17.3	20.6
Dividends paid	70.3	36.1
Interest, corporate and transaction costs	11.2	15.1
Closing net debt	254.3	255.7

The Group's activities continue to be highly cash generative and net cash inflow from operating activities during 2017 was £221.7m (2016: £172.5m), of which £114.1m was free cash generated from the Retail business (2016: £98.1m). This was partially offset by dividend payments, interest and loan repayments and capital expenditure, principally on the development of the Guidewire system.

During the year, the Group successfully amended its loan facility agreement to extend it by six months and replace the £290.0m Term Loan and £20.0m Revolving Credit Facility with a £310.0m Revolving Credit Facility, which allows the Group more flexibility in managing its borrowing facilities and cash requirements. At 31 December 2017, £275.0m of the Revolving Credit Facility was drawn.

Investments

Cash and cash equivalents and investments by Standard & Poor's (or equivalent) credit rating	As at 31 December 2017 £m	As at 31 December 2016 £m
AAA and AA	278.4	279.6
A	239.4	162.5
BBB	153.1	119.9
Less than BBB	10.9	4.8
No rating available	12.4	4.8
Total cash and cash equivalents and investments	694.2	571.6

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 2017, the Group's percentage of the total portfolio of investments rated A or equivalent and above was 75% (31 December 2016: 77%). The weighted average credit rating of the investment portfolio continued to be A+ (31 December 2016: A+).

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

Insurance contract liabilities

Total insurance contract liabilities of £1,665.6m at 31 December 2017 (31 December 2016: £1,299.5m) comprise £472.3m (31 December 2016: £397.6m) of unearned premiums, which are deferred and recognised in the statement of profit or loss in subsequent periods, and outstanding claims liabilities of £1,193.3m (31 December 2016: £901.9m). Gross outstanding 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 then reserves an additional risk margin. The margin has been maintained at a consistent level year on year.

The Group's reinsurance programme, described below, manages insurance risk and protects against volatile movements typically caused by large claims.

Reinsurance contracts

Reinsurance contract assets by Standard & Poor's (or equivalent) credit rating	As at 31 December 2017 £m	As at 31 December 2016 £m
AA	683.2	512.6
A	404.5	308.5
BBB	-	0.9
Total reinsurance assets	1,087.7	822.0

Reinsurance assets, comprising reinsurers' share of outstanding claims liabilities and unearned premiums, increased by 32% to £1,087.7m as at 31 December 2017 (2016: £822.0m) due to the greater exposure from increasing policy volumes.

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. The combination of these arrangements reduces volatility that could otherwise be caused by the accumulation of losses and individual large claims.

The Group has successfully renegotiated its reinsurance programme for 2018 to maintain the same level of coverage.

The Group carefully manages risk within the portfolio by working with a range of high quality, highly regarded and stable reinsurers.

Solvency

The table below presents the Underwriting business' unaudited Solvency II coverage ratio, calculated for Advantage Insurance Company Limited (AICL), the regulated entity, as at 31 December 2017 on a standard formula basis with undertaking specific parameters and as at 31 December 2016 on a standard formula basis only.

	As at	
	31 December 2017	**31 December 2016**
Solvency II:		
Own funds (£m)	286.1	251.1
Solvency Capital Requirement (£m)	171.7	179.0
Solvency II coverage ratio	167%	140%

The Underwriting business remains well capitalised under Solvency II capital requirements and is presented net of a foreseeable dividend of £40.0m (2016: £4.0m) that is expected to be declared and paid to the Company during the first half of 2018. Before including the impact of foreseeable AICL dividends, the SII coverage ratio would be 190% (2016: 142%).

Notes

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

2 Calendar year loss ratio is a measure of underwriting performance, representing net claims incurred divided by net earned premiums. Expense ratio is a measure of underwriting operational efficiency, representing incurred operational and acquisition expenses, net of certain reinsurance. 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 46 for reconciliation of the calendar year loss ratio, expense ratio and combined operating ratio to profit before tax.

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

4 Adjusted profit after tax for the purposes of dividend payout ratio is net income adjusted to exclude the impact of share scheme costs.

5 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.

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

7 Hastings Insurance Services Limited (HISL) and Advantage Insurance Company Limited (AICL) deployed capital represents respectively the average of HISL's total capital resources as stipulated by FCA regulations and the average of AICL's net assets during each year.

8 Retail free cash comprises cash held by the Retail business in excess of the regulatory capital required, which is not held on behalf of insurers. Corporate free cash comprises cash held in entities which are not subject to FCA or Solvency regulations. See page 47 for reconciliation of cash and cash equivalents to free cash and retail cash generated.

Consolidated statement of profit or loss

for the year ended 31 December 2017

		Year ended								
		31 December 2017			31 December 2016					
		Underlying trading	Non-trading items[1]	Total	Underlying trading pre-Ogden rate change	Ogden rate change impact[2]	Underlying trading	Non-trading items[1]	Total
	Note	£m	£m	£m	£m	£m	£m	£m	£m
Gross written premiums	6	930.8	-	930.8	769.0	-	769.0	-	769.0
Gross earned premiums	6	856.1	-	856.1	691.8	-	691.8	-	691.8
Earned premiums ceded to reinsurers	6	(446.0)	-	(446.0)	(357.0)	-	(357.0)	-	(357.0)
Net earned premiums	6	410.1	-	410.1	334.8	-	334.8	-	334.8
Other revenue	7	298.7	-	298.7	254.9	(6.6)	248.3	-	248.3
Investment and interest income	8	6.8	-	6.8	7.2	-	7.2	-	7.2
Net revenue		715.6	-	715.6	596.9	(6.6)	590.3	-	590.3
Claims incurred	9	(786.9)	-	(786.9)	(551.7)	(160.1)	(711.8)	-	(711.8)
Reinsurers' share of claims incurred	9	487.4	-	487.4	305.0	146.7	451.7	-	451.7
Net claims incurred	9	(299.5)	-	(299.5)	(246.7)	(13.4)	(260.1)	-	(260.1)
Acquisition costs		(64.9)	-	(64.9)	(51.9)	-	(51.9)	-	(51.9)
Other expenses	10	(167.1)	-	(167.1)	(146.2)	-	(146.2)	-	(146.2)
Adjusted operating profit[3]		184.1			152.1	(20.0)	132.1		
Amortisation and depreciation	10	(5.5)	(21.5)	(27.0)	(5.6)	-	(5.6)	(22.0)	(27.6)
Finance costs	12	(7.8)	(0.3)	(8.1)	(9.6)	-	(9.6)	(0.6)	(10.2)
Profit before tax		170.8	(21.8)	149.0	136.9	(20.0)	116.9	(22.6)	94.3
Taxation expense	13	(26.2)	3.9	(22.3)	(22.0)	2.0	(20.0)	4.1	(15.9)
Total profit attributable to the equity holders of the parent		144.6	(17.9)	126.7	114.9	(18.0)	96.9	(18.5)	78.4
Earnings per share attributable to the equity holders of the parent (expressed in pence per share)									
Basic earnings per share	14			19.3p					11.9p
Diluted earnings per share	14			19.2p					11.9p

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] On 27 February 2017, the UK Government's Lord Chancellor announced a reduction in the personal injury discount rate (the 'Ogden rate') from 2.5% to minus 0.75%. The Group therefore adopted the discount rate of minus 0.75% to estimate personal injury claims liabilities at 31 December 2016. This was considered to warrant separate disclosure due to the significance of the impact.

[3] 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 2017

	Note	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Total profit attributable to the equity holders of the parent		126.7	78.4
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Fair value (loss)/gain on available for sale investments	18	(2.0)	5.7
Total items that may be subsequently reclassified to profit or loss		(2.0)	5.7
Items that may not be subsequently reclassified to profit or loss			
Revaluation (loss)/gain on property		(0.1)	0.1
Total items that may not be subsequently reclassified to profit or loss		(0.1)	0.1
Total other comprehensive (loss)/gain		(2.1)	5.8
Total comprehensive income attributable to the equity holders of the parent		124.6	84.2

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

Consolidated balance sheet

as at 31 December 2017

	Note	31 December 2017 £m	31 December 2016 £m
Assets			
Goodwill		470.0	470.0
Intangible assets		87.4	97.2
Property and equipment		14.2	12.7
Deferred income tax assets		6.6	4.5
Reinsurance assets	15	1,087.7	822.0
Deferred acquisition costs		31.1	24.2
Prepayments		5.3	4.0
Insurance and other receivables	16, 18	421.0	356.5
Financial assets at fair value	18	539.6	403.6
Cash and cash equivalents	17, 18	154.6	168.0
Total assets		2,817.5	2,362.7
Liabilities			
Loans and borrowings	18, 19	272.0	286.6
Insurance contract liabilities	15	1,665.6	1,299.5
Insurance and other payables	18, 20	239.8	198.1
Deferred income tax liabilities		16.0	18.5
Current tax liabilities		11.2	6.4
Total liabilities		2,204.6	1,809.1
Equity			
Share capital		13.1	13.1
Share premium		172.6	172.6
Merger reserve		(756.0)	(756.0)
Other reserves		2.5	4.9
Retained earnings		1,180.7	1,119.0
Total equity		612.9	553.6
Total equity and liabilities		2,817.5	2,362.7

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

These Financial Statements were approved by the Board of Directors on 28 February 2018 and were signed on its behalf by:

Gary Hoffman

Chief Executive Officer

Hastings Group Holdings plc

Company Number: 09635183

Consolidated statement of changes in equity
for the year ended 31 December 2017

	Note	Share capital £m	Share premium £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
As at 1 January 2016		13.1	172.6	(756.0)	(0.7)	1,074.2	503.2
Total profit attributable to the equity holders of the parent		-	-	-	-	78.4	78.4
Total other comprehensive income		-	-	-	5.8	-	5.8
Total comprehensive income for the year		-	-	-	5.8	78.4	84.2
Transactions with equity holders of the parent							
Share based payments		-	-	-	-	2.4	2.4
Tax on share based payments		-	-	-	-	0.1	0.1
Acquisition of own shares		-	-	-	(0.2)	-	(0.2)
Dividends paid	21	-	-	-	-	(36.1)	(36.1)
Total transactions with equity holders of the parent		-	-	-	(0.2)	(33.6)	(33.8)
As at 31 December 2016 and 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 period		-	-	-	(2.1)	126.7	124.6
Transactions with equity holders of the parent							
Share based payments		-	-	-	-	4.8	4.8
Tax on share based payments		-	-	-	-	0.5	0.5
Acquisition of own shares		-	-	-	(0.3)	-	(0.3)
Dividends paid	21	-	-	-	-	(70.3)	(70.3)
Total transactions with equity holders of the parent		-	-	-	(0.3)	(65.0)	(65.3)
As at 31 December 2017		13.1	172.6	(756.0)	2.5	1,180.7	612.9

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

Consolidated statement of cash flows

for the year ended 31 December 2017

	Note	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Profit after tax		126.7	78.4
Adjustments for:			
Depreciation of property and equipment	10	2.6	2.7
Amortisation of intangible assets	10	24.4	24.9
Net fair value gains on financial assets recognised in profit or loss	8	(0.4)	(1.1)
Other interest income	8	(6.4)	(6.1)
Finance costs	12	8.1	10.2
Taxation expense	13	22.3	15.9
Share based payments		4.8	2.4
Change in insurance and other receivables and prepayments		(69.3)	(91.1)
Change in insurance and other payables		37.4	42.5
Change in reinsurance assets		(265.4)	(274.5)
Change in deferred acquisition costs		(6.9)	(4.3)
Change in insurance contract liabilities		365.4	387.4
Taxation paid		(21.6)	(14.8)
Net cash flows from operating activities		221.7	172.5
Purchase of property and equipment		(3.1)	(1.6)
Acquisition of intangible assets		(14.2)	(19.3)
Interest received		6.8	0.5
Outlays for acquisition of financial assets at fair value		(231.1)	(162.2)
Proceeds from disposal of financial assets at fair value		98.6	81.9
Net cash flows from investing activities		(143.0)	(100.7)
Purchase of own shares		(0.3)	(0.2)
Repayment of loans and borrowings		(15.0)	(10.0)
Interest paid on loans and borrowings		(6.0)	(9.7)
Other interest and finance costs paid		(0.5)	-
Dividends paid	21	(70.3)	(36.1)
Net cash flows from financing activities		(92.1)	(56.0)
Net movement in cash and cash equivalents		(13.4)	15.8
Cash and cash equivalents at beginning of year		168.0	152.2
Net movement in cash and cash equivalents		(13.4)	15.8
Cash and cash equivalents at end of year	17	154.6	168.0

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

Notes

1. Basis of preparation

Hastings Group Holdings plc (the Company, Hastings, HGH) has its registered office and principal place of business at Conquest House, Collington Avenue, Bexhill-on-Sea, TN39 3LW, United Kingdom. The Company's registered number is 09635183. The principal activities of the Group are the broking and underwriting of UK private car, van, bike and home insurance.

The financial information included in this preliminary results announcement comprises the consolidated results of the Company and its subsidiaries (the Group) for the year ended 31 December 2017 and comparative figures for the year ended 31 December 2016. The financial information presented does not comply with the full disclosure requirements of International Financial Reporting Standards as adopted by the EU (IFRS) and is an abridged statement of the full Consolidated Financial Statements. The full Consolidated Financial Statements have been prepared and approved by the Directors in accordance with the Companies Act 2006 and International Financial Reporting Standards as adopted by the EU (IFRS) that are in effect at 31 December 2017.

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

The Consolidated Financial Statements for the year ended 31 December 2016 are available on the Company website and the Consolidated Financial Statements for the year ended 31 December 2017 will be published on the Company website in due course.

a) 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.

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.

b) Basis of measurement

The financial information included within the preliminary results announcement 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 financial information requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Consolidated Balance Sheet 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 the amounts presented, are disclosed in Note 3.

Financial information included herein is prepared on the historical cost basis, except for certain financial assets and property which are measured at their fair value or revalued amounts.

c) Adoption of new IFRS

The Group has adopted the following amendments to IFRS which were effective from 1 January 2017. Except where stated, these did not have an impact upon the Consolidated Financial Statements:

- Amendments to IAS 7 Disclosure Initiative - endorsed by the EU on 6 November 2017. The amendments require additional disclosure in relation to changes in the value of liabilities arising from financing activities.
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses - endorsed by the EU on 6 November 2017. The amendments clarify that unrealised losses on debt instruments measured at fair value can give rise to deductible temporary differences.

The following amendment to IFRS was endorsed by the EU during the year but is not yet effective:

- Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – endorsed by the EU on 3 November 2017. The amendments permit an entity to defer the application of IFRS 9 Financial Instruments subject to the predominance of insurance activities. The Group currently expects to defer the application of IFRS 9 Financial Instruments.

Notes to the Consolidated financial statements (continued)

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

IFRS 9 Financial Instruments

IFRS 9 sets out comprehensive requirements relating to the classification and measurement of financial instruments. The standard was endorsed by the EU on 22 November 2016 and is effective from 1 January 2018 unless the amendments to IFRS 4 that are discussed above are applied. The Group currently expects to apply these amendments and defer application of IFRS 9 until 1 January 2021.

The Group is currently assessing the impact of IFRS 9 alongside IFRS 17 Insurance Contracts.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 provides a five step framework for the recognition of revenue from contracts with customers and requires increased levels of quantitative and qualitative disclosures. The standard was endorsed by the EU on 22 September 2016 and is effective from 1 January 2018.

The standard will result in broking income being allocated amongst performance obligations as defined by the standard. The adoption of IFRS 15 is currently expected to result in an immaterial amount of revenue and certain acquisition costs being reallocated amongst broker services, which will have a net impact of less than £2.0m on the opening balance sheet. The application of the standard will also require additional disclosure within the Financial Statements.

The Group intends to use a modified retrospective approach whereby comparatives are not restated and the cumulative impact of adjustments is recognised in the balance sheet at the date of initial application, which will be 1 January 2018.

IFRS 16 Leases

IFRS 16 implements a single, comprehensive lease accounting model for lessees whereby lessees will be required to recognise leases on balance sheet through a right of use asset and a financial liability. The standard was endorsed by the EU on 31 October 2017 and is effective from 1 January 2019. Management are in the process of evaluating the impact of IFRS 16 on the Consolidated Financial Statements as well as the appropriate transition option, but it is anticipated that IFRS 16 will result in higher depreciation and finance charges and lower operating expenses as well as increase the amount of fixed assets and financial liabilities on the Consolidated Balance Sheet.

IFRS 17 Insurance Contracts

The IASB issued IFRS 17 Insurance Contracts on 18 May 2017. IFRS 17 provides a comprehensive framework for accounting for insurance contracts and it is anticipated to impact the treatment and measurement of income, expenses, assets and liabilities arising from insurance contracts. The standard is expected to be effective from 1 January 2021, subject to endorsement.

Management are currently in the process of assessing the impact of IFRS 17 upon the Consolidated Financial Statements.

2. Accounting policies

a) Revenue recognition

Insurance premiums, reinsurance and profit commission

Premiums related to insurance contracts are recognised as revenue 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.

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 insurance broking activities

Revenue from insurance broking activities consists principally of fees and commissions relating to the arrangement of insurance contracts, ancillary product income and other income. Revenue is measured at the fair value of the income receivable with an allowance for expected future refunds to customers in the event of cancellation before the expiry of the policy.

Revenue from commissions is recognised when the insurance policy is placed and incepted. Revenue from fees and ancillary products is recognised at the point of sale to the customer on an agency basis as the Group has no further obligations in respect of the services provided.

Premium finance interest

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

Investment and interest income

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

Discounts

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

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

b) 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 reviewed regularly.

Reinsurance contracts

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

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

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

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

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

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

Co-insurance contracts

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

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

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

Unearned premiums reserve

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

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

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

Salvage and subrogation recoveries

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

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

Deferred acquisition costs

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

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

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.

c) Non-trading items and material 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 Group reorganisation and IPO in 2015, as well as the ongoing impact of the Goldman Sachs investment on 8 January 2014.

Material items are expenses or earnings that arise due to one-off, external events that, in the judgement of the Directors, warrant separate disclosure due to the significance of the impact or nature of the event. The impact of such items is included within the classification line to which they relate, and separate analysis of the impact is provided with full disclosure of the event and impact within the Notes to the Consolidated Financial Statements.

3. Critical accounting estimates and judgements in applying accounting policies

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

The judgements that the Directors have made in applying the Group's accounting policies that have the most significant effect on the amounts recognised in the Consolidated Financial Statements and 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:

a) 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 of the Group confidence that the Group is adequately provisioned to meet its future liabilities.

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

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

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

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

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

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

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

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

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. Where management assesses that a claim will be settled through a lump sum payment, the liability is calculated with reference to the Ogden rate which is used by the courts when calculating lump sum settlements. The rate, as currently effective, is minus 0.75%, which has been used to calculate the Group's claims liabilities.

The following table sets out the impact on profit after tax and total equity that would result from an increase in the Ogden rate to 0.0%, or a reduction down to minus 1.5%:

Impact of Ogden rate being revised to:	**0.0%**	**(1.5%)**
Impact on profit after tax and total equity (£m)	4.5	(7.2)

Short tail claims 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 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.

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

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

	Year ended			
	31 December 2014	**31 December 2015**	**31 December 2016**	**31 December 2017**
Impact of 1% change (£m)	3.7	4.7	6.0	7.4

b) 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 estimations and judgements, as reinsurance assets are recognised to the extent that the Group can recover the cost of a claim.

Further judgement is required in respect of the recoverability of such assets, particularly the longer term assets arising from larger claims and PPOs. Management review the recoverability of reinsurance assets on a regular basis to determine whether any provision is required.

When recognising a reinsurance asset, the Group reviews the level of coverage provided by the reinsurer, to ensure that the recognition is appropriate, as well as the credit rating of the counterparty.

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.

a) 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. The Group's underwriting strategy is focused on a sophisticated data driven approach to pricing and underwriting through:

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

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

Pricing

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

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

Claims management

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

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

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

Reinsurance contracts

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

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

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

The Group also uses excess of loss reinsurance arrangements for home insurance policies, the effect of which is that the Group does not suffer total net home insurance losses of more than £0.5m on any individual event as of 1 January 2016 (2016: £0.5m) up to a cap of £9.3m liability per event (2016: £9.3m).

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

Investment management

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

b) 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.

c) Concentrations of insurance risk

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

5. Segmental reporting

a) 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.

b) Segment performance

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

	Underwriting	Retail	Corporate	Consolidation adjustments	Group
Year ended 31 December 2017	£m	£m	£m	£m	£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 is £104.1m recognised by the Retail segment and £0.3m 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.

	Underwriting	Retail	Corporate	Consolidation adjustments	Group
Year ended 31 December 2016	£m	£m	£m	£m	£m
Net earned premiums	359.6	-	-	(24.8)	334.8
Other revenue	16.8	288.5	-	(57.0)	248.3
Investment and interest income	7.0	0.2	-	-	7.2
Net revenue	383.4	288.7	-	(81.8)	590.3
Net claims incurred	(260.1)	-	-	-	(260.1)
Other expenses	(93.0)	(187.5)	(5.0)	87.4	(198.1)
Adjusted operating profit	30.3	101.2	(5.0)	5.6	132.1
Amortisation and depreciation					(27.6)
Finance costs					(10.2)
Profit before tax					94.3

Included within other revenue recognised by the Retail segment is £86.7m arising from transactions with the Underwriting segment. Other revenue recognised by the Underwriting segment includes £0.4m arising from transactions with the Retail segment.

c) 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 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

Notes to the Consolidated financial statements (continued)

As at 31 December 2016	Underwriting £m	Retail £m	Corporate £m	Consolidation adjustments £m	Group £m
Goodwill	-	1.9	-	468.1	470.0
Intangible assets	-	48.7	-	48.5	97.2
Investments in subsidiaries	-	-	1,271.0	(1,271.0)	-
Investments	4.2	-	-	(4.2)	-
Property and equipment	1.8	7.1	-	3.8	12.7
Deferred income tax assets	-	1.2	0.3	3.0	4.5
Reinsurance assets	822.3	-	-	(0.3)	822.0
Deferred acquisition costs	28.8	-	-	(4.6)	24.2
Prepayments	0.4	3.5	-	0.1	4.0
Insurance and other receivables	336.7	264.5	23.5	(268.2)	356.5
Financial assets at fair value	403.6	-	-	-	403.6
Cash and cash equivalents	93.8	69.2	5.0	-	168.0
Total assets	1,691.6	396.1	1,299.8	(1,024.8)	2,362.7
Loans and borrowings	-	-	286.6	-	286.6
Insurance contract liabilities	1,316.6	-	-	(17.1)	1,299.5
Insurance and other payables	150.4	325.0	0.5	(277.8)	198.1
Deferred income tax liabilities	0.1	-	-	18.4	18.5
Current tax liabilities	(0.9)	7.3	-	-	6.4
Total liabilities	1,466.2	332.3	287.1	(276.5)	1,809.1
Total equity	225.4	63.8	1,012.7	(748.3)	553.6

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 2017			Year ended 31 December 2016		
	Gross £m	Reinsurers' share £m	Net £m	Gross £m	Reinsurers' share £m	Net £m
Written premiums	930.8	(489.2)	441.6	769.0	(394.5)	374.5
Unearned premiums reserve brought forward at start of the period	397.6	(204.3)	193.3	320.4	(166.8)	153.6
Unearned premiums reserve carried forward at end of the period	(472.3)	247.5	(224.8)	(397.6)	204.3	(193.3)
Total earned premiums	856.1	(446.0)	410.1	691.8	(357.0)	334.8

7. Other revenue

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Fees and commission	101.3	88.5
Ancillary product income	50.6	48.4
Premium finance interest	94.4	78.2
Reinsurance commissions	37.0	16.4
Other retail income	15.4	16.8
Total other revenue	298.7	248.3

8. Investment and interest income

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Net fair value gains on financial assets at fair value	0.4	1.1
Other interest income	6.4	6.1
Total investment and interest income	6.8	7.2

9. Claims incurred

	Year ended 31 December 2017			Year ended 31 December 2016		
	Gross £m	Reinsurers' share £m	Net £m	Gross £m	Reinsurers' share £m	Net £m
Current period	749.5	(446.9)	302.6	644.8	(388.4)	256.4
Prior periods	37.4	(40.5)	(3.1)	67.0	(63.3)	3.7
Total claims incurred	786.9	(487.4)	299.5	711.8	(451.7)	260.1

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

10. Expenses

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Profit before taxation is stated after charging:		
Operating lease rentals – buildings	1.8	0.8
Employee benefits	92.3	76.7
Other administration and distribution costs	73.0	68.7
Other expenses	167.1	146.2
Amortisation of intangible assets	24.4	24.9
Depreciation of property and equipment	2.6	2.7
Amortisation and depreciation	27.0	27.6

11. Non-trading items

	Year ended	
	31 December 2017 £m	31 December 2016 £m
Non-operational amortisation of intangibles recognised on acquisition	21.5	22.0
Non-trading amortisation	21.5	22.0
Non-cash unwind of fair value adjustments arising on business combination	0.3	0.6
Non-trading finance costs	0.3	0.6
Tax effect of the above non-trading items	(3.9)	(4.1)
Total non-trading items	17.9	18.5

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.

The Goldman Sachs transaction and associated reorganisation was accounted for as a business combination, requiring assets and liabilities to be fair valued. The amortisation of intangibles recognised of £21.5m (2016: £22.0m) and unwind of discounting in finance costs of £0.3m (2016: £0.6m) are the result of these fair value adjustments.

12. Finance costs

	Year ended	
	31 December 2017 £m	31 December 2016 £m
Interest on Term Loan and Revolving Credit Facility	6.8	8.6
Non-cash amortisation of loans and borrowings	0.9	0.9
Other interest expense	0.4	0.7
Total interest expense	8.1	10.2

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

13. Taxation expense

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Current tax		
Corporation tax on profits for the year	26.3	19.5
Adjustments for prior years	0.1	(0.3)
Current taxation expense	26.4	19.2
Deferred tax		
Deferred taxation movement relating to temporary differences	(3.9)	(3.1)
Impact of change in the UK Corporation tax rate	-	(0.1)
Adjustments for prior years	(0.2)	(0.1)
Deferred taxation expense	(4.1)	(3.3)
Total taxation expense	22.3	15.9

The Group's tax expense mostly comprises taxation charged on the UK based Retail business profits, which attract a tax rate of 19.25% (2016: 20%) and the Gibraltar based Underwriting business whose profits are taxed at 10% (2016: 10%). Effective from 1 April 2017, the UK corporation tax rate was reduced from 20% to 19%, and will be reduced further to 17% from 1 April 2020. The Gibraltar rate of tax has remained at 10% and is expected to remain at this level for the foreseeable future.

Factors affecting total taxation expense are:

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Profit before tax	149.0	94.3
Applicable tax charge at the statutory tax rate of 19.25% (2016: 20.00%):	28.7	18.9
Impact of different tax rate in Gibraltar: 10% (2016: 10%)	(6.0)	(2.1)
Non-taxable income	(0.8)	(0.7)
Adjustment relating to prior periods	(0.1)	(0.4)
Impact of change in the UK corporation tax rate	-	(0.1)
Expenses and provisions not deductible for tax purposes	0.5	0.3
Total taxation expense	22.3	15.9

For the year ended 31 December 2017 the UK Corporation tax rate applicable to the Company was 19.25% (2016: 20.00%).

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.

On 19 January 2018, the Group received the outcome of the First-tier Tribunal proceedings held in November 2016, which were brought by HISL as to whether insurance intermediary supplies provided by HISL and received by AICL should be treated as outside the scope of VAT. The First-tier Tribunal has 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. As the contested amount of VAT had already been paid, this has resulted in a VAT refund becoming due to HISL from HMRC of £10.3m in respect of the seven years ended 31 December 2015. HISL is also in the process of submitting a revision to the VAT returns submitted for the years ended 31 December 2016 and 31 December 2017 in line with this ruling, which is expected to result in an additional refund becoming due. HMRC have 56 days from 19 January 2018 within which they may lodge an appeal at the Upper Tribunal and raise protective assessments in respect of the VAT to be refunded. The timing and quantum of the final amount of VAT recoverable is therefore subject to the result of any appeal lodged at the Upper Tribunal and HMRC review of any VAT protective assessments that have been raised. No amount recoverable has been recognised in the Group's results as at 31 December 2017.

The Group's legal entities are subject to routine review and enquiries by tax authorities in the UK and Gibraltar. The Group is in discussion with HMRC regarding aspects of its business model and the allocation of certain elements of its profit between the Group's operating subsidiaries. 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.

14. Earnings per share

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

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

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

	Year ended	
	31 December 2017	31 December 2016
Profit attributable to the equity holders of the parent (£m)	126.7	78.4
Adjusted for non-trading items:		
Non-trading items net of taxation impact (£m)	17.9	18.5
Net income (£m)	144.6	96.9
Basic weighted average number of Ordinary Shares in issue (m)	657.1	657.2
Potential Ordinary Shares and contingently issuable shares (m)	2.5	1.8
Weighted average number of shares adjusted for dilutive potential Ordinary Shares (m)	659.6	659.0
Basic earnings per share	19.3p	11.9p
Non-trading items net of taxation per share	2.7p	2.8p
Adjusted earnings per share	22.0p	14.7p
Diluted earnings per share	19.2p	11.9p
Adjusted diluted earnings per share	21.9p	14.7p

15. Reinsurance assets and insurance contract liabilities

	As at 31 December 2017			As at 31 December 2016		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	£m	£m	£m	£m	£m	£m
Claims incurred and reported	870.7	(606.1)	264.6	587.2	(360.0)	227.2
Claims incurred but not reported	322.6	(234.1)	88.5	314.7	(257.7)	57.0
Outstanding claims liabilities	1,193.3	(840.2)	353.1	901.9	(617.7)	284.2
Unearned premiums reserve	472.3	(247.5)	224.8	397.6	(204.3)	193.3
Total insurance contract liabilities	1,665.6	(1,087.7)	577.9	1,299.5	(822.0)	477.5

	As at 31 December 2017			As at 31 December 2016		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	£m	£m	£m	£m	£m	£m
Outstanding claims liabilities brought forward at start of year	901.9	(617.7)	284.2	591.7	(380.7)	211.0
Claims paid	(533.2)	272.8	(260.4)	(445.1)	226.9	(218.2)
Movement in liabilities	824.6	(495.3)	329.3	755.3	(463.9)	291.4
Outstanding claims liabilities carried forward	1,193.3	(840.2)	353.1	901.9	(617.7)	284.2
Unearned premiums reserve brought forward at start of year	397.6	(204.3)	193.3	320.4	(166.8)	153.6
Deferral in period	930.8	(489.2)	441.6	769.0	(394.5)	374.5
Release in period	(856.1)	446.0	(410.1)	(691.8)	357.0	(334.8)
Unearned premiums reserve carried forward	472.3	(247.5)	224.8	397.6	(204.3)	193.3
Total insurance contract liabilities	1,665.6	(1,087.7)	577.9	1,299.5	(822.0)	477.5

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

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

Claims development

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

The development is presented for each of the most recent seven 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 2017.

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 (described in Note 11).

	Year ended								
	Prior periods	31 December 2011	31 December 2012	31 December 2013	31 December 2014	31 December 2015	31 December 2016	31 December 2017	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Development									
At end of current year	765.7	159.8	257.6	317.1	386.9	500.7	673.4	749.5	3,810.7
One year earlier	761.8	163.0	252.6	326.4	384.3	491.1	644.8	-	3,024.0
Two years earlier	765.2	170.6	243.2	312.0	369.4	451.7	-	-	2,312.1
Three years earlier	762.8	168.5	247.6	304.5	368.6	-	-	-	1,852.0
Four years earlier	753.4	177.1	254.0	306.4	-	-	-	-	1,490.9
Five years earlier	750.6	174.4	240.4	-	-	-	-	-	1,165.4
Six years earlier	740.3	167.2	-	-	-	-	-	-	907.5
Payments to date	(739.1)	(157.9)	(216.8)	(262.3)	(322.9)	(353.7)	(371.8)	(253.1)	(2,677.6)
Gross outstanding claims liabilities, net of salvage and subrogation recoveries	26.6	1.9	40.8	54.8	64.0	147.0	301.6	496.4	1,133.1
Reconciliation to gross outstanding claims liabilities									
Anticipated salvage and subrogation recoveries									61.9
Fair value acquisition adjustment									(1.7)
Gross outstanding claims liabilities									1,193.3

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 2017:

	Year ended								
	Prior periods	31 December 2011	31 December 2012	31 December 2013	31 December 2014	31 December 2015	31 December 2016	31 December 2017	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Development									
At end of current year	638.3	92.9	104.1	124.7	171.3	204.3	253.2	302.6	1,891.4
One year earlier	638.7	93.5	105.4	125.3	169.1	203.4	256.4	-	1,591.8
Two years earlier	641.1	94.4	104.9	125.2	165.5	200.6	-	-	1,331.7
Three years earlier	640.9	95.0	108.8	130.8	163.4	-	-	-	1,138.9
Four years earlier	637.8	97.4	114.6	136.4	-	-	-	-	986.2
Five years earlier	642.3	98.4	117.1	-	-	-	-	-	857.8
Six years earlier	644.4	97.4							741.8
Payments to date	(635.1)	(92.4)	(102.7)	(117.6)	(152.6)	(171.0)	(179.8)	(117.6)	(1,568.8)
Net outstanding claims liabilities, net of salvage and subrogation recoveries	3.2	0.5	1.4	7.1	18.7	33.3	73.4	185.0	322.6
Reconciliation to net outstanding claims liabilities									
Anticipated salvage and subrogation recoveries									61.9
Reinsurers' share of salvage and subrogation recoveries									(30.6)
Fair value acquisition adjustment									(0.8)
Net outstanding claims liabilities									353.1

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

16. Insurance and other receivables

	As at 31 December 2017 £m	As at 31 December 2016 £m
Insurance receivables	297.7	255.7
Salvage and subrogation recoveries	61.9	46.7
Reinsurance receivables	33.3	29.7
Interest receivable	7.2	5.8
Other receivables	20.9	18.6
Total insurance and other receivables	421.0	356.5

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 2017			
Current	421.5	(0.7)	420.8
Overdue	7.0	(6.8)	0.2
Total	428.5	(7.5)	421.0
As at 31 December 2016			
Current	357.2	(0.8)	356.4
Overdue	5.1	(5.0)	0.1
Total	362.3	(5.8)	356.5

17. Cash and cash equivalents

	As at 31 December 2017 £m	As at 31 December 2016 £m
Cash at bank and in hand	44.0	30.9
Money market funds	94.6	119.7
Short term deposits	16.0	17.4
Total cash and cash equivalents	154.6	168.0

Cash and cash equivalents include balances of £9.5m (2016: £9.2m) relating to cash and cash equivalents held on behalf of other insurers on an agency basis.

18. Financial instruments, capital management and related disclosures

a) Financial assets and liabilities

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

At amortised cost

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

	As at	
	31 December 2017 £m	31 December 2016 £m
Financial assets		
Insurance and other receivables (excluding salvage and subrogation assets)	359.1	309.8
Total financial assets at amortised cost	359.1	309.8
Financial liabilities		
Term Loan and Revolving Credit Facility	272.0	286.6
Insurance and other payables (excluding salvage and subrogation payables and deferred income)	198.3	165.5
Total financial liabilities at amortised cost	470.3	452.1

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 2017		As at 31 December 2016	
	Level 2 £m	Total £m	Level 2 £m	Total £m
Fair value through profit or loss				
Investment funds	65.7	65.7	48.5	48.5
Total financial assets at fair value through profit or loss	65.7	65.7	48.5	48.5
Available for sale				
Debt securities	473.9	473.9	355.1	355.1
Total available for sale financial assets	473.9	473.9	355.1	355.1
Total financial assets at fair value	539.6	539.6	403.6	403.6

Notes to the Consolidated financial statements (continued)

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 2016	51.9	264.6	316.5
Net increases to the fair value of assets held recognised in profit or loss	0.9	0.2	1.1
Net increases to the fair value of assets held recognised in other comprehensive income	-	5.7	5.7
Net (disposals)/additions to assets held	(4.3)	84.6	80.3
As at 31 December 2016 and 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	65.7	473.9	539.6

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

b) Objectives, policies and procedures for managing financial risks

The Group is exposed to financial risk through its financial assets and liabilities.

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 Standard & Poor's or equivalent 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 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
Rating not available	-	12.4	-	12.4
Total	473.9	65.7	154.6	694.2
As at 31 December 2016				
AAA	69.0	6.0	119.9	194.9
AA	75.8	8.9	-	84.7
A	106.2	19.1	37.2	162.5
BBB	104.1	4.9	10.9	119.9
Less than BBB	-	4.8	-	4.8
Rating not available	-	4.8	-	4.8
Total	355.1	48.5	168.0	571.6

The Standard & Poor's or equivalent credit ratings of the Group's reinsurers are analysed below:

	As at	
	31 December 2017 £m	31 December 2016 £m
AA	683.2	512.6
A	404.5	308.5
BBB	-	0.9
Total reinsurance assets	1,087.7	822.0

19. Loans and borrowings

	As at	
	31 December 2017 £m	31 December 2016 £m
Term Loan and Revolving Credit Facility	272.0	286.6
Total loans and borrowings	272.0	286.6
Current	-	8.9
Non-current	272.0	277.7
Total loans and borrowings	272.0	286.6

On 28 April 2017, the Group signed an amendment to the Term Loan and Revolving Credit Facility agreement which replaced the previous £290m Term Loan and £20m Revolving Credit Facility with a Revolving Credit Facility to cover the entire loan commitment of £310m and remove the requirement to make repayments before the end of the facility. In addition, the term of the facility was extended by six months, with any balance outstanding repayable in full in April 2021, and the margin above LIBOR was reduced.

20. Insurance and other payables

	As at	
	31 December 2017 £m	31 December 2016 £m
Amounts owed to reinsurers	102.6	89.3
Reinsurers' share of salvage and subrogation recoveries	30.6	23.0
Insurance premium tax	28.0	20.5
Accrued expenses	50.6	38.4
Deferred income	10.9	9.6
Other payables	17.1	17.3
Total insurance and other payables	239.8	198.1
Current	238.2	196.5
Non-current	1.6	1.6
Total insurance and other payables	239.8	198.1

21. Dividends

A dividend in respect of the year ended 31 December 2016 amounting to £43.4m or 6.6p per share was paid on 31 May 2017 (2016: £14.5m).

On 8 August 2017, the Board declared an interim dividend in respect of the year ended 31 December 2017 of 4.1p per share, totalling £26.9m, which was paid on 10 November 2017.

On 28 February 2018, the Board proposed a final dividend in respect of the year ended 31 December 2017 of 8.5p per share, amounting to £55.9m and payable subject to shareholder approval.

Other information

Reconciliations

Combined operating ratio reconciliation

The following tables reconcile the Group's profit before tax to the net underwriting margin 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.

	Year ended	
	31 December 2017 £m	**31 December 2016 £m**
Reconciliation of profit after tax to net underwriting margin, net claims incurred and net underwriting expenses:		
Profit before tax	149.0	94.3
Add: Finance costs	8.1	10.2
Retail and other operating expenses	131.0	115.9
Retail and Group amortisation and depreciation	24.7	25.4
Less: Retail, investment and other income	(259.6)	(216.6)
Net underwriting margin	53.2	29.2
Less: Net earned premiums	(410.1)	(334.8)
Add: Net claims incurred	299.5	260.1
Net underwriting expenses	(57.4)	(45.5)
Calculation of combined operating ratio, expense ratio and loss ratio:		
Combined operating ratio		
Net earned premiums	410.1	334.8
Less: Net underwriting margin	(53.2)	(29.2)
Net underwriting claims costs and expenses	356.9	305.6
Net earned premiums	410.1	334.8
Combined operating ratio (%)	87.0%	91.3%
Expense ratio		
Net underwriting expenses	57.4	45.5
Net earned premiums	410.1	334.8
Expense ratio (%)	14.0%	13.6%
Loss ratio		
Net claims incurred	299.5	260.1
Net earned premiums	410.1	334.8
Loss ratio (%)	73.0%	77.7%

Retail and other operating expenses are those costs incurred by the Retail business in the provision of broking 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.

Retail amortisation and depreciation is the share of the Group charge incurred by the Retail business.

Retail, investment and other income comprises net revenues and income excluding net earned premiums and expense contributions receivable from reinsurance partners.

Reconciliations

Free cash reconciliation

The following tables reconcile the Group's cash and cash equivalents per the Consolidated Financial Statements to the free cash reported in the Chief Financial Officer's statement, and the increase in cash and cash equivalents to the Retail cash generated during the year ended 31 December 2017.

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.

	Year ended	
Free cash reconciliation	**31 December 2017 £m**	**31 December 2016 £m**
Total cash and cash equivalents	154.6	168.0
Deduct restricted cash:		
Underwriting cash and cash equivalents	90.5	93.8
HISL cash held as agent on behalf of AICL and third party insurers	38.9	35.7
HISL regulatory cash requirement	4.5	4.2
Restricted cash held in regulated entities or on behalf of third parties	133.9	133.7
Closing free cash	20.7	34.3

	Year ended	
Retail cash generated reconciliation	**31 December 2017 £m**	**31 December 2016 £m**
Net (decrease)/increase in cash and cash equivalents	(13.4)	15.8
Adjust for: net increase in restricted cash	(0.2)	(10.4)
Net (decrease)/increase in free cash	(13.6)	5.4
Add back:		
Retail and Corporate taxation paid	17.9	10.9
Capital expenditure	17.3	20.6
Dividends paid	70.3	36.1
Loan repayment	15.0	10.0
Interest, corporate and transaction costs	11.2	15.1
Deduct:		
AICL dividend received	(4.0)	-
Retail cash generated	114.1	98.1

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 the Mortgage and Insurance Prudential Standard (MIPRU) 4 Capital Resources.

Shareholder information

Registered office

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Bexhill-on-Sea

East Sussex

TN39 3LW

Corporate website

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

Financial calendar

26 April 2018	–	First quarter trading update
3 May 2018	–	Ex-dividend date
4 May 2018	–	Dividend record date
24 May 2018	–	Annual General Meeting (AGM)
31 May 2018	–	Dividend payment date *(subject to shareholder approval of Final dividend at the AGM)*
8 August 2018	–	Interim results announcement