Hastings

Hastings Group Holdings plc

Interim results announcement for the six months ended 30 June 2018

8 August 2018

Hastings Group Holdings plc (the 'Group', or 'Hastings'), the technology driven insurance provider, today announces its interim results for the six months ended 30 June 2018.

Hastings' strong results and continued profitable growth in a competitive market demonstrates the agility, digital focus and underwriting discipline that has driven the growth of the Group from a market disruptor in 2011 into the successful listed group that it is today.

Financial highlights

- **Sustained growth of live customer policies** to 2.70 million as at 30 June 2018, a 6% year on year increase (30 June 2017: 2.54 million).
- **Increased share of the UK private car insurance market** to 7.5% as at 30 June 2018 (30 June 2017: 7.0%).
- **Continued growth in gross written premiums of 5%** to £485.6m for the six months ended 30 June 2018 (30 June 2017: £462.0m).
- **A 9% increase in net revenue** to £376.3m for the six months ended 30 June 2018 (30 June 2017: £345.2m).
- **Strong growth in adjusted operating profit**[1] up 22% to £105.1m (30 June 2017: £86.5m) after including £14.6m of prior year VAT recovery and £7.0m impact from adverse weather in the first quarter, or up 13% to £97.5m before the adverse weather and prior year VAT.
- **Underwriting discipline maintained** during a period of market price reductions, with the Group's average written premiums 2% above the six months ended 30 June 2017.
- **Calendar year loss ratio**[2] for the period ended 30 June 2018 of 73.8% (30 June 2017: 73.4%), better than the target range of between 75% and 79%, despite the claims impact from adverse weather experienced in the first quarter.
- **Continued reduction in net debt leverage multiple**[3] to 1.1x adjusted operating profit at 30 June 2018 (31 December 2017: 1.4x) and achieved target level of around 1.0x during the six months to 30 June 2018.
- **Diversification of debt structure with a successful 7 year £250m investment grade senior bond issue,** replacing funds drawn under the Revolving Credit Facility and providing longer term financing and protection from interest rate increases.
- **Strong solvency position,** with a Solvency II coverage ratio of 171% (31 December 2017: 167%).
- **Significant increase in free cash generated,** up £42.0m to £107.8m for the six months to 30 June 2018 (30 June 2017: £65.8m).
- **Interim dividend for 2018 of 4.5p per share (30 June 2017: 4.1p per share),** 10% higher than last year. Achieving the leverage target in the period allows a move towards a policy of increasing distributions to shareholders over time.

Operational highlights

- **Continuing phased rollout of the next generation Guidewire platform**, with home policies now live on selected price comparison websites and car renewals migration underway. Guidewire will enable continued delivery of operational efficiencies.
- **Market leading anti-fraud programme enhanced with Iovation digital fraud tracking** and action taken against over 30 ghost broking rings so far this year.

- **Introduction of a new mobile app and enhanced functionality on customer portal** enabling 80% of policy changes to be made online and as of May 2018, digital customer contacts now exceed telephone contacts.
- **Additional digital capability for total loss claims processing rolled out** as the customer journey continues to be simplified and electronic claims notification currently in testing.
- **Joined a partnership with the UK Smart Mobility Living Lab,** a working group of select brands focusing on research and development in vehicle technology and the future of personal mobility solutions.
- **RAC strategic partnership now live,** providing market leading breakdown service to customers and to be included as standard cover for the Hastings Premier product.

Notes[1,2&3] *refer to the end of the Business highlights section for definitions and explanations.*

Toby van der Meer, Chief Executive Officer, commented:

"I am pleased to announce a strong set of results for the first half of 2018 that has seen us grow our customer numbers to 2.7 million and adjusted operating profit by 22% to £105.1m. This has been in an environment where we have seen market prices come down from the highs of 2017, driven by lower claims frequencies, the prospect of regulatory reform, and competition. We have also seen adverse weather, continued fraud activity across the market, and some increase in the cost of repairs and mid-range bodily injury claims, resulting in a claims inflation outlook for the full year towards the upper end of a 3% to 5% range.

"We remain excited about the future – a fast moving and increasingly digital landscape plays to our strengths. Our capabilities in agile pricing, analytics and anti-fraud combined with our disciplined underwriting and strong capital position means we are well positioned to continue to identify and grow in profitable parts of the market. These core attributes have transformed our business from a small disruptor in 2011 into the household name we are today and will continue to drive our strategy in a large market with over 50 million car and home policies.

"Looking forward, we will continue to invest in technology. Alongside the continued rollout and enhancements to our core Guidewire platform, we have developed new digital capabilities over the last few months and very recently, launched our new Hastings mobile app. Our pricing and anti-fraud platforms also continue to develop and we have identified and taken action against over 30 different fraud rings so far this year. Today we are also announcing our participation in a mobility and vehicle technology research programme alongside a range of other partners from the automotive and mobility sectors.

"Our strong financial position and continuing cash generation means we are declaring an interim dividend of 4.5p per share, a 10% increase over last year and allows us to move towards a policy of increasing distributions to shareholders over time now our leverage target has been achieved.

We remain on track to meet all our 2019 targets and I would like to thank my 3,400 colleagues for what they do for our customers and each other, every day. It is their hard work, passion and commitment that has achieved a set of results that we can all be proud of."

Outlook statement

The Group has continued to deliver profitable growth over the six months to 30 June 2018 and the Board is pleased to confirm that Hastings is well positioned to deliver in line with all of its targets during 2019 despite the competitive market and expected claims inflation.

Webcast

The Group will host an update webcast for investors and analysts at 9:00am BST on 8 August 2018. Details are available on the Group's website www.hastingsplc.com.

Forward looking statements

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

Forward looking statements are subject to known and unknown risks and uncertainties and are based on potentially inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward looking statements. Our actual results could differ materially from those anticipated in our forward looking statements for many reasons, including the factors described in the section entitled “Managing our risks” in our 2017 Annual Report. In addition, even if our actual results are consistent with the forward looking statements, those results or developments may not be indicative of results or developments in subsequent periods.

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Business review

Hastings has demonstrated the continued success of its digital business model and agile pricing as the Group reports another period of profitable growth in an environment of reducing premiums. Hastings has grown gross written premiums by 5% over a very strong 2017, and increased its market share of UK private car insurance to 7.5% by continuing to find value in a competitive market without compromising its underwriting discipline or loss ratio target. As a result, the Group has grown adjusted operating profit by 22% to £105.1m, or 13% to £97.5m before adverse weather and additional input VAT recoverable on prior years.

Since Autumn 2017, there have been announcements of regulatory reform including proposed revisions to the compensation tariff intended to reduce whiplash claims and a proposed change to the method for calculating the Ogden discount rate used to determine large bodily injury claims payments. These changes are expected to reduce claims costs and as a result, have put downward pressure on average motor premiums in the market. The competitive nature of the market, combined with these expectations, have led to reductions in market average motor premiums during the 6 months to 30 June 2018, after a period of significant growth.

Hastings' track record of profitable growth shows that the Group is able to sustain growth throughout the insurance pricing cycle. The average written premium inflation Hastings achieved of 2% over the 6 months to 30 June 2017 is a positive given the current pricing pressures across the market, but this is behind the claims inflation the Group continues to experience. The current expectation is that claims inflation will be towards the high end of the 3% to 5% range for the full year given the adverse weather in the first quarter and general trend of frequencies stabilising but severities of accidental damage and mid-range bodily injury cost increasing. Hastings continues to prioritise underwriting discipline, and the loss ratio is expected to be just below, or at the lower end of, the target range of 75% to 79% for the full year.

The Group has seen slightly higher growth in live customer policies ('LCP') in the second quarter of 2018, with a 0.8% increase from 2.64 million at 31 December 2017 in the 3 months to 31 March 2018, and a 1.3% increase in the 3 months to 30 June 2018. Hastings continues to benefit from the growing Price Comparison Websites ('PCW') market with the Group's share of PCW new business remaining broadly stable. This digital focus combined with sophisticated and agile pricing, investment in new initiatives, the continued but cautious roll out of home underwriting and the addition of new home panel underwriters, means the Group remains well placed to deliver all of its targets during 2019. Current progress towards these targets is as follows:

Targets	Where we are at 30 June 2018
Calendar year loss ratio[2] of between 75% and 79%.	Calendar year loss ratio for the six months ended 30 June 2018 of 73.8%, better than the target range (30 June 2017: 73.4%).
3 million customer policies during 2019, but not at the expense of profitability.	2.70 million customer policies as at 30 June 2018, a 6% increase year on year (30 June 2017: 2.54 million) and a 22% increase in adjusted operating profit.
Net debt leverage multiple[3] of around 1.0x during 2019.	Reduced net debt leverage multiple to 1.1x at 30 June 2018, in line with our 2019 target, from 1.4x as at 31 December 2017 and 1.7x as at 30 June 2017.
Dividend payout ratio of between 50% and 60% of adjusted profit after tax[4].	Proposed interim dividend of 4.5 pence per share, a 10% increase on prior year (30 June 2017: 4.1 pence per share).

The Board has declared an interim dividend of 4.5p, an increase of 10%, reflecting confidence in the strength of the business and the outlook for 2018. Importantly, during the 6 months to 30 June 2018 the Group achieved its target of a net debt leverage multiple of around 1.0x. Following the successful issue of the investment grade Bond in May 2018, the Group has stable and secure debt funding and expects to maintain its net debt leverage multiple around this number going forward. This allows a move towards a policy of increasing distributions to shareholders over time.

Operational review

Hastings products have again been recognised by customers, with the Group's Hastings Direct, Hastings Premier, Hastings Direct SmartMiles, InsurePink and People's Choice car insurance products all being awarded Moneyfacts five star ratings as voted for by customers.

Hastings continues to invest in digital, and during 2018, the Group enhanced the functionality of the online portal, launched a new online chat service and released the new Hastings mobile app. Customers are now able to make 80% of policy changes digitally, resulting in digital contacts from customers exceeding traditional telephone contacts for the first time in May 2018. The Group also rolled out its digital total loss tool which provides customers with a quick and easy online claims settlement journey, and set a new internal record for settling a total loss claim in around 23 minutes from notification.

These successes, which will benefit customers and generate efficiencies, have all been achieved through the continuing investment in the new Guidewire platform and supporting technologies, and the commitment and diligence of all of the colleagues involved.

The Group continues to enhance 'Insight', its market leading fraud detection programme designed to combat fraud at the point of quote, point of sale and point of claim. During 2018, the programme has been instrumental in identifying and taking action against over 30 ghost broking rings trying to set up fake policies to defraud genuine customers. This has resulted in the conviction and custodial sentencing of one prolific ghost broker and provides a serious deterrent to other fraudsters. This effective fraud prevention guards against paying erroneous claims and therefore protects customers from unnecessarily high premiums.

Hastings increased its headcount, which grew from 2,900 in June 2017 to 3,400, with over 1,400 in Leicester, and aims to be an employer of choice in each of the areas it operates. Colleagues are encouraged to work as flexibly as their role allows and the Group is currently in the process of establishing a long term outsourcing partnership with OUTsurance, to provide additional support and help fill less popular shifts.

Key Performance Indicators ('KPIs')

The Group's successful profitable growth for the period is reflected in its KPIs which are defined on pages 24 to 26 of the Hastings Group Holdings plc 2017 Annual Report and summarised below:

	Six months ended		Year ended
	30 June 2018	**30 June 2017**	**31 December 2017**
Financial KPIs			
Adjusted operating profit[1] (£m)	105.1	86.5	184.1
Adjusted operating profit margin[1] (%)	27.9%	25.1%	25.7%
Profit after tax (£m)	72.9	57.9	126.7
Calendar year loss ratio[2] (%)	73.8%	73.4%	73.0%
Expense ratio (%)	15.5%	15.5%	14.0%
Combined operating ratio (%)	89.3%	88.9%	87.0%
Solvency II coverage ratio (%)	171%	173%	167%
Net debt leverage multiple[3] (x)	1.1	1.7	1.4
Non-financial KPIs[9]			
Share of total stock (UK private car) (%)	7.5%	7.0%	7.3%
Live customer policies (million)	2.70	2.54	2.64

Financial review

Summary consolidated statement of profit or loss

	Six months ended					
	30 June 2018			30 June 2017		
	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	485.6	-	485.6	462.0	-	462.0
Net earned premiums	219.2	-	219.2	195.1	-	195.1
Other revenue	154.0	-	154.0	147.0	-	147.0
Investment and interest income	3.1	-	3.1	3.1	-	3.1
Net revenue	376.3	-	376.3	345.2	-	345.2
Net claims incurred	(161.8)	-	(161.8)	(143.3)	-	(143.3)
Acquisition costs	(34.6)	-	(34.6)	(31.7)	-	(31.7)
Other expenses	(74.8)	-	(74.8)	(83.7)	-	(83.7)
Adjusted operating profit	105.1	-	105.1	86.5	-	86.5
Amortisation and depreciation	(3.5)	(10.8)	(14.3)	(2.8)	(10.7)	(13.5)
Finance costs	(3.9)	(0.1)	(4.0)	(3.9)	(0.2)	(4.1)
Taxation	(15.8)	1.9	(13.9)	(12.9)	1.9	(11.0)
Profit after tax	81.9	(9.0)	72.9	66.9	(9.0)	57.9

Continued growth in live customer policies ('LCP') combined with the earn through of average written premium increases and a VAT refund in respect of prior periods, have driven the 26% growth in profit after tax from £57.9m to £72.9m for the six months ended 30 June 2018 and a 22% growth in adjusted operating profit to £105.1m for the six months to 30 June 2018 (30 June 2017: £86.5m).

During the period, the First-tier Tribunal found in favour of the Group in proceedings brought by Hastings Insurance Services Limited ('HISL') as to whether insurance intermediary supplies provided by HISL and received by Advantage Insurance Company Limited ('AICL') should be treated as outside the scope of VAT. This decision resulted in £14.6m of input VAT incurred in prior periods becoming recoverable and a corresponding reduction in other operating expenses. The current year results have also been impacted by the unusually severe weather experienced in the UK during February and March, reducing the Group's adjusted operating profit by £7.0m. Before the VAT refund in respect of prior periods and the impact of the severe weather, adjusted operating profit was £97.5m, a 13% increase on the six months ended 30 June 2017.

Financial review (continued)

Gross written premiums

Gross written premiums by product	Six months ended 30 June 2018 £m	30 June 2017 £m
Private car	464.6	438.9
Bike	9.6	8.2
Van	7.9	12.4
Home	3.5	2.5
Total gross written premiums	485.6	462.0
Total gross earned premiums	467.2	403.2

Gross written premiums have increased by 5%, principally driven by private car policy count as Hastings continued to grow market share to 7.5% through new business and above market retention. The Group's agile pricing and digital distribution model combined with the continued penetration of PCW provides plenty of opportunity for additional growth in private car market.

Home LCP remain broadly in line with the prior period at 168,000 (30 June 2017: 175,000) as the Group rolls out its digital business model to the home insurance market. During the second half of 2017, AICL began underwriting business as the lead insurer on a small number of home policies and this proposition continues to be cautiously rolled out to customers to ensure that a disciplined underwriting approach is applied. The Group expects to benefit from the continued rollout of Guidewire to home customers and 3 new underwriters are ready to join the home panel during the second half of 2018 to provide further capacity for growth.

Net revenue

Net revenue by type	Six months ended 30 June 2018 £m	30 June 2017 £m
Net earned premiums	219.2	195.1
Fees and commission	52.1	49.9
Ancillary product income	25.3	25.5
Premium finance interest	50.9	44.9
Reinsurance commissions	17.8	19.0
Other income	7.9	7.7
Other revenue	154.0	147.0
Investment and interest income	3.1	3.1
Net revenue	376.3	345.2

Net revenue has grown by 9% to £376.3m for the period (30 June 2017: £345.2m) 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 12% to £219.2m over the prior period (30 June 2017: £195.1m).

The growth in policies sold has also led to increased fees on the sale of insurance contracts. 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 reflect the growth in ceded premiums, on which commission is paid, offset by the higher loss ratio experienced following the adverse weather in February and March.

Financial review (continued)

Loss ratio, expense ratio and combined operating ratio

Combined operating ratio reconciliation	Six months ended 30 June 2018	Six months ended 30 June 2017
Accident year loss ratio	75.2%	74.1%
Prior year development	(1.4%)	(0.7%)
Calendar year loss ratio[2]	73.8%	73.4%
Expense ratio[2]	15.5%	15.5%
Combined operating ratio[2]	89.3%	88.9%

As a result of 'Storm Emma' and the 'Beast from the East', the Group has incurred an additional £7.0m weather-related claims costs in Q1 2018 relative to Q1 2017. This has contributed to an accident year loss ratio of 75.2% compared with 74.1% for the six months ended 30 June 2017. The Group is experiencing claims inflation of around 5% per annum and anticipates claims inflation for the full year at the higher end of the 3%-5% range previously advised.

Positive prior year development of £3.1m (30 June 2017: £1.4m) reduced the reported calendar year loss ratio to 73.8% (30 June 2017: 73.4%), which remains better than the Group's target range of 75-79%.

Before the impact of the 'Beast from the East' and 'Storm Emma', the Group experienced an accident year loss ratio and calendar year loss ratio of 73.6% and 72.2% respectively.

The expense ratio for the period remained flat as the Group continued to invest in the business, including Guidewire and claims management capabilities to support future growth and efficiencies and the combined operating ratio increased in line with the increase in the calendar year loss ratio.

Adjusted operating profit and profit after tax

	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 £m
Underwriting adjusted operating profit	32.3	26.2
Retail adjusted operating profit	71.3	61.9
Net impact of corporate and consolidation adjustments	1.5	(1.6)
Adjusted operating profit	105.1	86.5
Underlying amortisation and depreciation	(3.5)	(2.8)
Underlying finance costs	(3.9)	(3.9)
Tax on underlying trading	(15.8)	(12.9)
Net income[6]	81.9	66.9
Non-trading expenses, net of tax	(9.0)	(9.0)
Profit after tax	72.9	57.9

Adjusted operating profit increased 22% to £105.1m (30 June 2017: £86.5m) reflecting LCP growth and earn through of higher average premiums, partially offset by £7.0m of additional claims costs as a result of the adverse weather events experienced in February and March 2018. In addition, the Group recognised £14.6m of additional input VAT recoverable on prior years, reducing other operating expenses for the period.

Financial review (continued)

Dividends

The interim dividend for the six months ended 30 June 2018 is £29.6m (30 June 2017: £26.9m), a payout of 4.5 pence per share (30 June 2017: 4.1p per share). This dividend is in line with the Group's target of paying between 50% and 60% of adjusted profit after tax in dividends.

Net assets and working capital

The Group's net asset position has continued to strengthen, increasing from £612.9m as at 31 December 2017 to £626.2m as at 30 June 2018. This has been driven through profits retained within the business, after dividend payments of £55.9m.

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

Return on capital employed

	Six months ended	
	30 June 2018 £m	**30 June 2017 £m**
Average AICL deployed capital[7]	277.4	234.7
Average HISL deployed capital[7]	44.5	35.1
Average corporate free cash[8]	4.9	3.5
Average capital employed	326.8	273.3
Net income	81.9	66.9
Return on capital employed	50.1%	49.0%

The Group's return on capital employed increased reflecting the 22% 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 further strengthening its strong solvency position.

Cash and net debt

	As at	
	30 June 2018 £m	**30 June 2017 £m**
Loans and borrowings	243.7	281.6
Add back transaction costs	6.3	3.4
Gross debt	250.0	285.0
Deduct:		
Retail free cash[8]	(11.8)	(28.8)
Corporate free cash[8]	(5.2)	(2.0)
Free cash[8]	(17.0)	(30.8)
Net debt[3]	233.0	254.2
Adjusted operating profit (for the preceding twelve months)	202.7	147.8
Net debt leverage multiple	1.1x	1.7x

Financial review (continued)

Continued growth of adjusted operating profit, combined with the Group's strong cash generation has resulted in a fall in the net debt leverage multiple to 1.1x, compared with 1.4x as at 31 December 2017 (30 June 2017: 1.7x).

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

	Six months ended	
	30 June 2018 £m	30 June 2017 £m
Opening net debt	254.3	255.7
Retail free cash generated[8]	67.8	61.8
Underwriting dividend received	40.0	4.0
Group free cash generated	107.8	65.8
Retail and Corporate taxation paid	(8.5)	(7.4)
Capital expenditure	(11.2)	(8.1)
Dividends paid	(55.9)	(43.4)
Interest, corporate and refinancing costs	(8.7)	(5.4)
Discount on issue of 3% Senior bonds	(2.2)	-
Closing net debt	233.0	254.2

The Group's activities have been highly cash generative over the period with £107.8m of Group free cash generated (30 June 2017: £65.8m). Group free cash generated comprises Retail free cash generated of £67.8m, which includes £10.3m of cash received in respect of the historic VAT refund, (30 June 2017: £61.8m) and record dividends declared by the Underwriting business of £40.0m (30 June 2017: £4.0m). These significant cash inflows were partially offset by dividend payments, interest and loan repayments and capital expenditure, principally on the development of the Guidewire system.

Refinancing

The Group successfully issued £250m of investment grade 7 year senior bonds (the 'Bond') with a fixed interest rate of 3% to provide committed, longer term financing and reduce exposure to interest rate movements. Together with free cash generated by the business, the Bond proceeds were used to fully repay the balance outstanding under the Revolving Credit Facility ('RCF'). Consequently, the RCF commitment was reduced to £110m and the term extended to May 2023.

Investments

	As at	
Cash and cash equivalents and investments by credit rating	30 June 2018 £m	31 December 2017 £m
AAA and AA	274.5	278.4
A	223.3	239.4
BBB	156.4	153.1
Less than BBB	8.7	10.9
No rating available	11.1	12.4
Total cash and cash equivalents and investments	674.0	694.2

The Group's conservative investment strategy primarily focuses on capital preservation and seeks to align the duration of the assets with the underlying insurance liabilities. As at 30 June 2018, the Group's percentage of the total portfolio of investments rated A or equivalent and above was 74% (31 December 2017: 75%). The weighted average credit rating of the investment portfolio continued to be A+ (31 December 2017: A+).

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

Insurance contract liabilities

Total insurance contract liabilities of £1,791.8m at 30 June 2018 (31 December 2017: £1,665.6m) comprise £490.7m (31 December 2017: £472.3m) of unearned premiums, which are deferred and recognised in the statement of profit or loss in subsequent periods, and outstanding claims liabilities of £1,301.1m (31 December 2017: £1,193.3m). Gross outstanding claims liabilities have increased due to the greater exposure from the increase in LCP and the impact of claims inflation.

The Group applies a consistent reserving methodology to calculate an internal actuarial best estimate and an additional risk margin.

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

Reinsurance contracts

Reinsurance assets, comprising reinsurers' share of outstanding claims liabilities and unearned premiums, increased to £1,199.6m as at 30 June 2018 (30 June 2017: £952.1m) due to greater exposure from the increase in LCP and the increase in costs of bodily injury claims.

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 individual large claims.

The Group carefully manages risk within the portfolio by working with a range of high quality, highly regarded and stable reinsurers. The Group's 2018 reinsurance programme has maintained the same level of coverage as in previous periods.

Solvency

The table below presents the Underwriting business' unaudited Solvency II coverage ratio, calculated for Advantage Insurance Company Limited (AICL), the regulated entity on a standard formula basis with undertaking specific parameters applied:

	As at	
	30 June 2018	**31 December 2017**
Solvency II:		
Own funds (£m)	306.5	286.1
Solvency Capital Requirement (£m)	179.0	171.7
Solvency II coverage ratio	171%	167%

The solvency ratio at 31 December 2017 was after taking into account the £40.0m anticipated dividend by AICL, which was proposed in February 2018 and paid during April 2018.

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 commissions, over net earned premiums. The combined operating ratio is a measure of the Group's overall underwriting performance and is the sum of the calendar year loss ratio and the expense ratio. See page 35 for a reconciliation of the calendar year loss ratio, expense ratio and combined operating ratio.

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 the dividend payout ratio is profit after tax adjusted to exclude the post-tax impact of non-trading items and 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 defined by Financial Conduct Authority ('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 36 for reconciliation of cash and cash equivalents to free cash and Group free cash generated.

9 Following a review of the management information prepared and reviewed on a monthly basis, LCP per FTE was no longer considered an insightful metric and therefore was removed from regular information provided to management with effect from 1 January 2018. This was therefore no longer considered a KPI and has not been provided.

Managing our risks

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

The Group continues to consider its material risks to be as follows:

1. Commercial performance risk (includes reinsurance risk, market risk, pricing risk and reserving risk): The risk of loss resulting from failure to meet the Group's strategic objectives and deliver the Three Year Plan.
2. Liquidity risk: The risk of loss resulting from an inability to meet financial commitments as they fall due.
3. Operational risk: The risk of loss resulting from inadequate or failed internal processes, people or systems and external events.

A full description of these risks, including the potential impact, monitoring and mitigations are set out on pages 43 – 50 of the Hastings Group Holdings plc 2017 Annual Report.

Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Profit or Loss

for the six months ended 30 June 2018

	Note	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 £m	Year ended 31 December 2017 £m
Gross written premiums	6	485.6	462.0	930.8
Gross earned premiums	6	467.2	403.2	856.1
Earned premiums ceded to reinsurers	6	(248.0)	(208.1)	(446.0)
Net earned premiums	6	219.2	195.1	410.1
Other revenue	7	154.0	147.0	298.7
Investment and interest income	8	3.1	3.1	6.8
Net revenue		376.3	345.2	715.6
Claims incurred	9	(423.0)	(363.2)	(786.9)
Reinsurers' share of claims incurred	9	261.2	219.9	487.4
Net claims incurred	9	(161.8)	(143.3)	(299.5)
Acquisition costs		(34.6)	(31.7)	(64.9)
Other expenses	10	(74.8)	(83.7)	(167.1)
Adjusted operating profit[1]		105.1	86.5	184.1
Amortisation and depreciation	10	(14.3)	(13.5)	(27.0)
Finance costs	12	(4.0)	(4.1)	(8.1)
Profit before tax		86.8	68.9	149.0
Taxation expense	13	(13.9)	(11.0)	(22.3)
Total profit attributable to the equity holders of the parent		72.9	57.9	126.7
Earnings per share attributable to the equity holders of the parent (expressed in pence per share)				
Basic earnings per share	14	11.1p	8.8p	19.3p
Diluted earnings per share	14	11.1p	8.8p	19.2p

All results arose from continuing operations.

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

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

Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2018

	Note	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 £m	Year ended 31 December 2017 £m
Total profit attributable to the equity holders of the parent		72.9	57.9	126.7
Other comprehensive income				
Items that may be subsequently reclassified to profit or loss				
Fair value loss on available for sale investments	18	(3.8)	(1.4)	(2.0)
Total items that may be subsequently reclassified to profit or loss		(3.8)	(1.4)	(2.0)
Items that may not be subsequently reclassified to profit or loss				
Revaluation loss on property		-	-	(0.1)
Total items that may not be subsequently reclassified to profit or loss		-	-	(0.1)
Total other comprehensive loss		(3.8)	(1.4)	(2.1)
Total comprehensive income attributable to the equity holders of the parent		69.1	56.5	124.6

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

Condensed Consolidated Financial Statements

Condensed Consolidated Balance Sheet

as at 30 June 2018

	Note	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Assets				
Goodwill		470.0	470.0	470.0
Intangible assets		82.4	89.5	87.4
Property and equipment		22.9	13.4	14.2
Deferred income tax assets		7.1	5.4	6.6
Reinsurance assets	15	1,199.6	952.1	1,087.7
Deferred acquisition costs		33.9	29.3	31.1
Prepayments		6.3	5.5	5.3
Insurance and other receivables	16, 18	457.1	415.0	421.0
Financial assets at fair value	18	524.0	467.4	539.6
Cash and cash equivalents	17, 18	150.0	166.2	154.6
Total assets		2,953.3	2,613.8	2,817.5
Liabilities				
Loans and borrowings	18, 19	243.7	281.6	272.0
Insurance contract liabilities	15	1,791.8	1,485.1	1,665.6
Insurance and other payables	18, 20	260.4	250.7	239.8
Deferred income tax liabilities		13.9	17.4	16.0
Current tax liabilities		17.3	9.9	11.2
Total liabilities		2,327.1	2,044.7	2,204.6
Equity				
Share capital		13.2	13.1	13.1
Share premium		172.6	172.6	172.6
Merger reserve		(756.0)	(756.0)	(756.0)
Other reserves		(1.5)	3.2	2.5
Retained earnings		1,197.9	1,136.2	1,180.7
Total equity		626.2	569.1	612.9
Total equity and liabilities		2,953.3	2,613.8	2,817.5

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

Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 June 2018

Year ended 31 December 2017		Share capital £m	Share premium £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
As at 1 January 2017		13.1	172.6	(756.0)	4.9	1,119.0	553.6
Total profit attributable to the equity holders of the parent		-	-	-	-	126.7	126.7
Total other comprehensive income		-	-	-	(2.1)	-	(2.1)
Total comprehensive income for the year		-	-	-	(2.1)	126.7	124.6
Transactions with equity holders of the parent							
Share based payments		-	-	-	-	4.8	4.8
Tax on share based payments		-	-	-	-	0.5	0.5
Acquisition of own shares		-	-	-	(0.3)	-	(0.3)
Dividends paid	22	-	-	-	-	(70.3)	(70.3)
Total transactions with equity holders of the parent		-	-	-	(0.3)	(65.0)	(65.3)
As at 31 December 2017		13.1	172.6	(756.0)	2.5	1,180.7	612.9
Impact of implementing IFRS 15	24	-	-	-	-	(1.1)	(1.1)
Impact of implementing IFRS 16	24	-	-	-	-	(0.3)	(0.3)
As at 1 January 2018		13.1	172.6	(756.0)	2.5	1,179.3	611.5
Total profit attributable to the equity holders of the parent		-	-	-	-	72.9	72.9
Total other comprehensive income		-	-	-	(3.8)	-	(3.8)
Total comprehensive income for the period		-	-	-	(3.8)	72.9	69.1
Transactions with equity holders of the parent							
Share based payments		-	-	-	-	1.5	1.5
Tax on share based payments		-	-	-	-	0.2	0.2
Acquisition of own shares		-	-	-	(0.2)	-	(0.2)
Issue of shares		0.1	-	-	-	(0.1)	-
Dividends paid	22	-	-	-	-	(55.9)	(55.9)
Total transactions with equity holders of the parent		0.1	-	-	(0.2)	(54.3)	(54.4)
As at 30 June 2018		13.2	172.6	(756.0)	(1.5)	1,197.9	626.2

Six months ended 30 June 2017		Share capital £m	Share premium £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
As at 1 January 2017		13.1	172.6	(756.0)	4.9	1,119.0	553.6
Total profit attributable to the equity holders of the parent		-	-	-	-	57.9	57.9
Total other comprehensive income		-	-	-	(1.4)	-	(1.4)
Total comprehensive income for the period		-	-	-	(1.4)	57.9	56.5
Transactions with equity holders of the parent							
Share based payments		-	-	-	-	2.5	2.5
Tax on share based payments		-	-	-	-	0.2	0.2
Acquisition of own shares		-	-	-	(0.3)	-	(0.3)
Dividends paid	22	-	-	-	-	(43.4)	(43.4)
Total transactions with equity holders of the parent		-	-	-	(0.3)	(40.7)	(41.0)
As at 30 June 2017		13.1	172.6	(756.0)	3.2	1,136.2	569.1

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

Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Cash Flows

for the six months ended 30 June 2018

		Six months ended		Year ended
		30 June 2018	30 June 2017	31 December 2017
	Note	£m	£m	£m
Profit after tax		72.9	57.9	126.7
Adjustments for:				
Depreciation of property and equipment	10	2.2	1.3	2.6
Amortisation of intangible assets	10	12.0	12.2	24.4
Net fair value losses/(gains) on financial assets recognised in profit or loss	8	0.7	(0.2)	(0.4)
Other interest income	8	(3.8)	(2.9)	(6.4)
Finance costs	12	4.0	4.1	8.1
Taxation expense	13	13.9	11.0	22.3
Share based payment charge		2.4	2.5	4.8
Change in insurance and other receivables and prepayments		(41.6)	(59.6)	(69.3)
Change in insurance and other payables		16.8	54.6	37.4
Change in reinsurance assets		(111.6)	(130.1)	(265.4)
Change in deferred acquisition costs		(2.4)	(5.1)	(6.9)
Change in insurance contract liabilities		125.6	185.5	365.4
Share based payments net settlement		(0.9)	-	-
Taxation paid		(10.0)	(9.3)	(21.6)
Net cash flows from operating activities		80.2	121.9	221.7
Purchase of property and equipment		(2.1)	(2.1)	(3.1)
Acquisition of intangible assets		(9.1)	(6.0)	(14.2)
Interest received		9.4	0.1	6.8
Outlays for acquisition of financial assets at fair value		(87.9)	(94.6)	(231.1)
Proceeds from disposal of financial assets at fair value		94.3	31.6	98.6
Net cash flows from investing activities		4.6	(71.0)	(143.0)
Purchase of own shares		(0.2)	(0.3)	(0.3)
Repayment of lease liabilities		(1.6)	-	-
Proceeds from new loans and borrowings		247.8	-	-
Repayment of loans and borrowings		(275.0)	(5.0)	(15.0)
Interest paid on loans and borrowings		(3.3)	(3.5)	(6.0)
Other interest and refinancing costs paid		(1.2)	(0.5)	(0.5)
Dividends paid	22	(55.9)	(43.4)	(70.3)
Net cash flows from financing activities		(89.4)	(52.7)	(92.1)
Net movement in cash and cash equivalents		(4.6)	(1.8)	(13.4)
Cash and cash equivalents at beginning of period		154.6	168.0	168.0
Net movement in cash and cash equivalents		(4.6)	(1.8)	(13.4)
Cash and cash equivalents at end of period	17	150.0	166.2	154.6

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

Notes to the Condensed consolidated financial statements

1. Basis of preparation

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

The Condensed Consolidated Financial Statements have been approved by the Directors and comprise the consolidated results of the Company and its subsidiaries (together referred to as the 'Group') for the six months ended 30 June 2018 and comparative figures for the six months ended 30 June 2017 and for the year ended 31 December 2017.

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

These Condensed Consolidated Financial Statements are not statutory accounts. The statutory accounts for the year ended 31 December 2017 were prepared in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS'), have been audited and reported on by the Company's auditors and have been delivered to the Registrar of Companies. The auditors' report was:

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

The external auditors have reviewed the Condensed Consolidated Financial Statements in accordance with their report included on page 38. The Consolidated Financial Statements for the year ended 31 December 2017 are available on the Company website.

Principal activities

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

Going concern

The financial performance and position of the Group, its cash flows, liquidity position and borrowing facilities are set out in the primary statements and the subsequent notes. Further analysis of the Group's operations, capital management strategy, risk management practices and growth strategy may be found in the Hastings Group Holdings plc 2017 Annual Report.

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

Basis of measurement

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

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

Basis of consolidation

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

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

d) IFRS developments

Amendments to IFRS 4 Insurance Contracts ('IFRS 4')

On 3 November 2017, the EU endorsed Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts, permitting entities with a predominance of insurance activities to defer the implementation of IFRS 9 from 1 January 2018 to 1 January 2021. The Group has applied this exemption as it allows the Group to align IFRS 9 implementation with IFRS 17 Insurance Contracts.

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

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

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

The Group has used the cumulative effect method whereby comparatives are not restated and the cumulative impact of adjustments is recognised in the balance sheet at the date of initial application. The Group's revised accounting policy for revenue from insurance broking activities has been provided in Note 2 and transition disclosures are provided in Note 24.

IFRS 16 Leases ('IFRS 16')

The Group implemented IFRS 16 from 1 January 2018 and applied this to all leases and contracts containing leases entered into from 1 January 2018. For contracts entered into before 1 January 2018, the Group applied IFRS 16 accounting provisions to contracts that had already been recognised as operating leases under IAS 17 Leases ('IAS 17') and IFRIC 4 Determining whether an Arrangement contains a Lease ('IFRIC 4'), in accordance with the transition provisions.

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

The Group's lease contracts are primarily for the use of property and computer hardware. On transition, the Group used a modified retrospective method whereby comparatives have not been restated and the cumulative impact of opening balance adjustments is recognised in retained earnings at the date of initial application. The Group's revised accounting policy for leases has been provided in Note 2 and transition disclosures are provided in Note 24.

Issued accounting standards not yet adopted

Accounting standards or amendments to IFRS issued by the IASB that are not yet effective that could be expected to have a material impact on the Condensed Consolidated Financial Statements are included on page 112 and 113 of the Hastings Group Holdings plc 2017 Annual Report with the exclusion of, as noted above, IFRS 15 and IFRS 16 which were adopted from 1 January 2018 and the IFRS 9 deferral option under IFRS 4 which the Group adopted.

2. Accounting policies

The Group's accounting policies as disclosed on pages 114 to 121 of the Hastings Group Holdings plc 2017 Annual Report, have been applied consistently to all periods presented in these Condensed Consolidated Financial Statements except for the following new accounting policies applied from 1 January 2018 on adopting IFRS 15 and IFRS 16:

Revenue from contracts with customers

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

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

The Group may also provide contracts are for the provision of other ad hoc, point in time services to customers which fall within scope of IFRS 15. Such income is recognised when the performance obligation has been satisfied at the expected value of consideration.

Leases

A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At the commencement of a lease or contract containing a lease, the Group recognises a right of use asset and a lease liability on the balance sheet.

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

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

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 and the major sources of estimation uncertainty that have a significant risk on the amounts recognised in the Condensed Consolidated Financial Statements are provided on pages 121 to 123 of the Hastings Group Holdings plc 2017 Annual Report.

There have been no significant changes to these judgements, assumptions and estimations during the period.

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.

Notes to the Condensed consolidated financial statements (continued)

A fundamental part of the Group's overall risk management strategy is the effective governance and management of risks that impact the amount, timing and uncertainty of cash flows arising from insurance contracts. The Group's risk management objectives and policies for mitigating insurance risk are provided on pages 123 to 124 of the Hastings Group Holdings plc 2017 Annual Report and there have been no changes to this during the period.

5. Segmental reporting

Segment performance

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

Six months ended 30 June 2018	Underwriting £m	Retail £m	Corporate £m	Consolidation adjustments £m	Group £m
Net earned premiums	242.8	-	-	(23.6)	219.2
Other revenue	17.8	167.4	0.2	(31.4)	154.0
Investment and interest income	2.7	0.6	-	(0.2)	3.1
Net revenue	263.3	168.0	0.2	(55.2)	376.3
Net claims incurred	(161.8)	-	-	-	(161.8)
Other expenses	(69.2)	(96.7)	(4.1)	60.6	(109.4)
Adjusted operating profit	32.3	71.3	(3.9)	5.4	105.1
Amortisation and depreciation					(14.3)
Finance costs					(4.0)
Profit before tax					86.8

Included within other revenue is £63.4m recognised by the Retail segment arising from transactions with the Underwriting segment.

Six months ended 30 June 2017	Underwriting £m	Retail £m	Corporate £m	Consolidation adjustments £m	Group £m
Net earned premiums	210.8	-	-	(15.7)	195.1
Other revenue	19.1	172.0	0.2	(44.3)	147.0
Investment and interest income	3.0	0.1	-	-	3.1
Net revenue	232.9	172.1	0.2	(60.0)	345.2
Net claims incurred	(143.3)	-	-	-	(143.3)
Other expenses	(63.4)	(110.2)	(3.7)	61.9	(115.4)
Adjusted operating profit	26.2	61.9	(3.5)	1.9	86.5
Amortisation and depreciation					(13.5)
Finance costs					(4.1)
Profit before tax					68.9

Included within other revenue is £54.8m recognised by the Retail segment arising from transactions with the Underwriting segment.

Notes to the Condensed consolidated financial statements (continued)

Year ended 31 December 2017	Underwriting £m	Retail £m	Corporate £m	Consolidation adjustments £m	Group £m
Net earned premiums	448.8	-	-	(38.7)	410.1
Other revenue	37.1	335.3	0.3	(74.0)	298.7
Investment and interest income	6.7	0.1	-	-	6.8
Net revenue	492.6	335.4	0.3	(112.7)	715.6
Net claims incurred	(299.5)	-	-	-	(299.5)
Other expenses	(121.7)	(220.4)	(7.2)	117.3	(232.0)
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 arising from transactions with the Underwriting segment.

Segment assets and liabilities

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

As at 30 June 2018	Underwriting £m	Retail £m	Corporate £m	Consolidation adjustments £m	Group £m
Goodwill	-	1.9	-	468.1	470.0
Intangible assets	-	66.3	-	16.1	82.4
Investments in subsidiaries	-	-	1,275.2	(1,275.2)	-
Investments	4.2	-	-	(4.2)	-
Property and equipment	1.7	19.0	0.3	1.9	22.9
Deferred income tax assets	-	-	0.6	6.5	7.1
Reinsurance assets	1,199.4	-	-	0.2	1,199.6
Deferred acquisition costs	31.7	43.9	-	(41.7)	33.9
Prepayments	1.0	5.7	0.1	(0.5)	6.3
Insurance and other receivables	451.5	326.9	(14.8)	(306.5)	457.1
Financial assets at fair value	524.0	-	-	-	524.0
Cash and cash equivalents	86.0	58.8	5.2	-	150.0
Total assets	2,299.5	522.5	1,266.6	(1,135.3)	2,953.3
Loans and borrowings	-	-	243.7	-	243.7
Insurance contract liabilities	1,819.7	-	-	(27.9)	1,791.8
Insurance and other payables	205.4	368.3	3.4	(316.7)	260.4
Deferred income tax liabilities	0.1	2.8	-	11.0	13.9
Current tax liabilities	4.1	13.2	-	-	17.3
Total liabilities	2,029.3	384.3	247.1	(333.6)	2,327.1
Total equity	270.2	138.2	1,019.5	(801.7)	626.2

As at 30 June 2017	Underwriting £m	Retail £m	Corporate £m	Consolidation adjustments £m	Group £m
Goodwill	-	1.9	-	468.1	470.0
Intangible assets	-	51.7	-	37.8	89.5
Investments in subsidiaries	-	-	1,272.6	(1,272.6)	-
Investments	4.2	-	-	(4.2)	-
Property and equipment	1.8	7.8	-	3.8	13.4
Deferred income tax assets	-	1.8	0.3	3.3	5.4
Reinsurance assets	951.3	-	-	0.8	952.1
Deferred acquisition costs	31.0	-	-	(1.7)	29.3
Prepayments	0.4	5.3	0.1	(0.3)	5.5
Insurance and other receivables	403.5	298.2	21.5	(308.2)	415.0
Financial assets at fair value	467.4	-	-	-	467.4
Cash and cash equivalents	74.7	89.5	2.0	-	166.2
Total assets	1,934.3	456.2	1,296.5	(1,073.2)	2,613.8
Loans and borrowings	-	-	281.6	-	281.6
Insurance contract liabilities	1,505.0	-	-	(19.9)	1,485.1
Insurance and other payables	185.5	375.5	2.8	(313.1)	250.7
Deferred income tax liabilities	0.1	-	-	17.3	17.4
Current tax liabilities	(0.3)	11.5	(1.4)	0.1	9.9
Total liabilities	1,690.3	387.0	283.0	(315.6)	2,044.7
Total equity	244.0	69.2	1,013.5	(757.6)	569.1

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 asset	-	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 liability	0.1	-	-	15.9	16.0
Current tax liabilities/ (assets)	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

6. Insurance premiums

	Six months ended 30 June 2018			Six months ended 30 June 2017		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	£m	£m	£m	£m	£m	£m
Written premiums	485.6	(266.8)	218.8	462.0	(241.3)	220.7
Unearned premiums reserve brought forward at start of the period	472.3	(247.5)	224.8	397.6	(204.3)	193.3
Unearned premiums reserve carried forward at end of the period	(490.7)	266.3	(224.4)	(456.4)	237.5	(218.9)
Total earned premiums	467.2	(248.0)	219.2	403.2	(208.1)	195.1

	Year ended 31 December 2017		
	Gross	Reinsurers' share	Net
	£m	£m	£m
Written premiums	930.8	(489.2)	441.6
Unearned premiums reserve brought forward at start of year	397.6	(204.3)	193.3
Unearned premiums reserve carried forward at end of year	(472.3)	247.5	(224.8)
Total earned premiums	856.1	(446.0)	410.1

7. Other revenue

	Six months ended		Year ended
	30 June 2018	30 June 2017	31 December 2017
	£m	£m	£m
Fees and commission	52.1	49.9	101.3
Ancillary product income	25.3	25.5	50.6
Premium finance interest	50.9	44.9	94.4
Reinsurance commissions	17.8	19.0	37.0
Other retail income	7.9	7.7	15.4
Total other revenue	154.0	147.0	298.7

8. Investment and interest income

	Six months ended		Year ended
	30 June 2018	30 June 2017	31 December 2017
	£m	£m	£m
Net fair value (losses)/gains on financial assets at fair value	(0.7)	0.2	0.4
Other interest income	3.8	2.9	6.4
Total investment and interest income	3.1	3.1	6.8

Notes to the Condensed consolidated financial statements (continued)

9. Claims incurred

	Six months ended 30 June 2018			Six months ended 30 June 2017		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	£m	£m	£m	£m	£m	£m
Current period	430.9	(266.0)	164.9	345.4	(200.7)	144.7
Prior periods	(7.9)	4.8	(3.1)	17.8	(19.2)	(1.4)
Total claims incurred	423.0	(261.2)	161.8	363.2	(219.9)	143.3

	Year ended 31 December 2017		
	Gross	Reinsurers' share	Net
	£m	£m	£m
Current period	749.5	(446.9)	302.6
Prior periods	37.4	(40.5)	(3.1)
Total claims incurred	786.9	(487.4)	299.5

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

10. Expenses

	Six months ended		Year ended
	30 June 2018	30 June 2017	31 December 2017
	£m	£m	£m
Profit before taxation is stated after charging:			
Operating lease rentals – buildings	-	0.9	1.8
Employee benefits	47.8	44.4	92.3
VAT refund in respect of prior periods[1]	(14.6)	-	-
Other administration and distribution costs	41.6	38.4	73.0
Other expenses	74.8	83.7	167.1
Amortisation of intangible assets	12.0	12.2	24.4
Depreciation of property and equipment	2.3	1.3	2.6
Amortisation and depreciation	14.3	13.5	27.0

[1]On 19 January 2018, the First-tier Tribunal proceedings found in favour of Hastings Insurance Services Limited ('HISL') and concluded that certain input VAT incurred by HISL in relation to insurance intermediary services can be recovered. As a result, £14.6m of additional recoverable input VAT in respect prior periods has been recognised in the current period as a reduction in other expenses. See note 23.

Notes to the Condensed consolidated financial statements (continued)

11. Non-trading items

	Six months ended		Year ended
	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Non-operational amortisation of intangibles recognised on acquisition	10.8	10.7	21.5
Non-trading amortisation	10.8	10.7	21.5
Non-cash unwind of fair value adjustments arising on business combination	0.1	0.2	0.3
Non-trading finance costs	0.1	0.2	0.3
Tax effect of the above non-trading items	(1.9)	(1.9)	(3.9)
Total non-trading items	9.0	9.0	17.9

12. Finance costs

	Six months ended		Year ended
	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Interest on 3% Senior bonds due 2025	0.8	-	-
Interest on Revolving Credit Facility	2.4	3.5	6.8
Non-cash amortisation of loans and borrowings	0.5	0.5	0.9
Other interest expense	0.3	0.1	0.4
Total interest expense	4.0	4.1	8.1

13. Taxation expense

	Six months ended		Year ended
	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Current tax			
Corporation tax on profits for the year	16.5	12.8	26.3
Adjustments for prior years	-	-	0.1
Current taxation expense	16.5	12.8	26.4
Deferred tax			
Deferred taxation movement relating to temporary differences	(2.6)	(1.8)	(3.9)
Adjustments for prior years	-	-	(0.2)
Deferred taxation expense	(2.6)	(1.8)	(4.1)
Total taxation expense	13.9	11.0	22.3

For the six months ended 30 June 2018 the UK Corporation tax rate applicable to the Company was 19% (30 June 2017: 19.25%).

Notes to the Condensed consolidated financial statements (continued)

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

	Six months ended		Year ended
	30 June 2018	30 June 2017	31 December 2017
Profit attributable to the equity holders of the parent (£m)	72.9	57.9	126.7
Adjusted for non-trading items:			
Non-trading items net of taxation impact (£m)	9.0	9.0	17.9
Net income (£m)	81.9	66.9	144.6
Basic weighted average number of Ordinary Shares in issue (m)	657.4	657.2	657.1
Potential Ordinary Shares and contingently issuable shares (m)	2.3	2.9	2.5
Weighted average number of shares adjusted for dilutive potential Ordinary Shares (m)	659.7	660.1	659.6
Basic earnings per share	11.1p	8.8p	19.3p
Non-trading items net of taxation per share	1.4p	1.4p	2.7p
Adjusted earnings per share	12.5p	10.2p	22.0p
Diluted earnings per share	11.1p	8.8p	19.2p
Adjusted diluted earnings per share	12.4p	10.1p	21.9p

15. Reinsurance assets and insurance contract liabilities

	As at 30 June 2018			As at 30 June 2017		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	£m	£m	£m	£m	£m	£m
Claims incurred and reported	967.5	(671.2)	296.3	741.3	(499.9)	241.4
Claims incurred but not reported	333.6	(262.1)	71.5	287.4	(214.7)	72.7
Outstanding claims liabilities	1,301.1	(933.3)	367.8	1,028.7	(714.6)	314.1
Unearned premiums reserve	490.7	(266.3)	224.4	456.4	(237.5)	218.9
Total insurance contract liabilities	1,791.8	(1,199.6)	592.2	1,485.1	(952.1)	533.0

	As at 31 December 2017		
	Gross	Reinsurers' share	Net
	£m	£m	£m
Claims incurred and reported	870.7	(606.1)	264.6
Claims incurred but not reported	322.6	(234.1)	88.5
Outstanding claims liabilities	1,193.3	(840.2)	353.1
Unearned premiums reserve	472.3	(247.5)	224.8
Total insurance contract liabilities	1,665.6	(1,087.7)	577.9

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

	As at 30 June 2018			As at 30 June 2017		
	Gross £m	Reinsurers' share £m	Net £m	Gross £m	Reinsurers' share £m	Net £m
Outstanding claims liabilities brought forward at start of year	1,193.3	(840.2)	353.1	901.9	(617.7)	284.2
Claims paid	(324.0)	165.4	(158.6)	(264.1)	135.1	(129.0)
Movement in liabilities	431.8	(258.5)	173.3	390.9	(232.0)	158.9
Outstanding claims liabilities carried forward	1,301.1	(933.3)	367.8	1,028.7	(714.6)	314.1
Unearned premiums reserve brought forward at start of year	472.3	(247.5)	224.8	397.6	(204.3)	193.3
Deferral in period	485.6	(266.8)	218.8	462.0	(241.3)	220.7
Release in period	(467.2)	248.0	(219.2)	(403.2)	208.1	(195.1)
Unearned premiums reserve carried forward	490.7	(266.3)	224.4	456.4	(237.5)	218.9
Total insurance contract liabilities	1,791.8	(1,199.6)	592.2	1,485.1	(952.1)	533.0

	As at 31 December 2017		
	Gross £m	Reinsurers' share £m	Net £m
Outstanding claims liabilities brought forward at start of year	901.9	(617.7)	284.2
Claims paid	(533.2)	272.8	(260.4)
Movement in liabilities	824.6	(495.3)	329.3
Outstanding claims liabilities carried forward at end of year	1,193.3	(840.2)	353.1
Unearned premiums reserve brought forward at start of year	397.6	(204.3)	193.3
Deferral in period	930.8	(489.2)	441.6
Release in period	(856.1)	446.0	(410.1)
Unearned premiums reserve carried forward at end of year	472.3	(247.5)	224.8
Total insurance contracts liabilities	1,665.6	(1,087.7)	577.9

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

16. Insurance and other receivables

	As at		
	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Insurance receivables	319.4	288.9	297.7
Salvage and subrogation recoveries	56.1	65.8	61.9
Reinsurance receivables	51.4	36.4	33.3
Interest receivable	6.0	5.8	7.2
Other receivables	24.2	18.1	20.9
Total insurance and other receivables	457.1	415.0	421.0

17. Cash and cash equivalents

	As at		
	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Cash at bank and in hand	36.1	26.0	44.0
Money market funds	99.2	135.2	94.6
Short term deposits	14.7	5.0	16.0
Total cash and cash equivalents	150.0	166.2	154.6

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		
	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Financial assets			
Insurance and other receivables (excluding salvage and subrogation assets)	401.0	349.2	359.1
Total financial assets at amortised cost	401.0	349.2	359.1
Financial liabilities			
Loans and borrowings	243.7	281.6	272.0
Insurance and other payables (excluding salvage and subrogation payables and deferred income)	211.9	198.2	198.3
Total financial liabilities at amortised cost	455.6	479.8	470.3

At fair value

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

	As at		
	30 June 2018 Level 2 £m	30 June 2017 Level 2 £m	31 December 2017 Level 2 £m
Fair value through profit or loss			
Investment funds	64.8	48.6	65.7
Total financial assets at fair value through profit or loss	64.8	48.6	65.7
Available for sale			
Debt securities	459.2	418.8	473.9
Total available for sale financial assets	459.2	418.8	473.9
Total financial assets at fair value	524.0	467.4	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 is mainly comprised of fixed income debt securities.

b) Credit risk

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

	Debt securities	Investment funds	Cash and cash equivalents	Total
	£m	£m	£m	£m
As at 30 June 2018				
AAA	66.9	7.8	99.4	174.1
AA	88.9	11.5	-	100.4
A	171.2	16.5	35.6	223.3
BBB	132.2	9.2	15.0	156.4
Less than BBB	-	8.7	-	8.7
Rating not available	-	11.1	-	11.1
Total	459.2	64.8	150.0	674.0
As at 30 June 2017				
AAA	65.7	5.0	135.2	205.9
AA	87.5	10.2	-	97.7
A	140.5	18.6	17.2	176.3
BBB	125.1	5.0	13.8	143.9
Less than BBB	-	4.8	-	4.8
Rating not available	-	5.0	-	5.0
Total	418.8	48.6	166.2	633.6
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

The Group's maximum exposure to credit risk at 30 June 2018 is £2,330.7m (30 June 2017: £2,000.7m), being the carrying value of insurance and other receivables, reinsurance assets, financial assets and cash and cash equivalents. Insurance receivables are monitored closely with a view to minimising the collection period of those items.

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

	As at		
	30 June 2018	30 June 2017	31 December 2017
	£m	£m	£m
AA	798.3	599.1	683.2
A	401.3	352.0	404.5
BBB	-	1.0	-
Total reinsurance assets	1,199.6	952.1	1,087.7

Notes to the Condensed consolidated financial statements (continued)

19. Loans and borrowings

	As at		
	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
3% Senior bonds due 2025	250.0	-	-
Revolving Credit Facility	-	285.0	275.0
Arrangement fees and discounts	(6.3)	(3.4)	(3.0)
Total loans and borrowings	243.7	281.6	272.0
Current	-	-	-
Non-current	243.7	281.6	272.0
Total loans and borrowings	243.7	281.6	272.0

On 24 May 2018 the Group issued £250.0m of 7 year fixed rate investment grade senior unsecured bonds (the 'Bond') rated BBB. The Bond has a 3% coupon rate, payable 6 monthly in arrear. The proceeds were used to pay down the Revolving Credit Facility ('RCF') and the commitment under this facility was reduced from £310.0m to £110.0m, and the term extended to May 2023. At 30 June 2018, the RCF was undrawn after repayment of the balance outstanding (30 June 2017: £285.0m).

20. Insurance and other payables

	As at		
	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Amounts owed to reinsurers	110.1	101.6	102.6
Reinsurers' share of salvage and subrogation recoveries	27.8	35.0	30.6
Insurance premium tax	32.8	27.7	28.0
Accrued expenses	43.7	38.9	50.6
Deferred income	20.7	17.5	10.9
Lease liabilities	9.0	-	-
Other payables	16.3	30.0	17.1
Total insurance and other payables	260.4	250.7	239.8
Current	251.3	249.1	238.2
Non-current	9.1	1.6	1.6
Total insurance and other payables	260.4	250.7	239.8

21. Related party transactions

The Group undertakes transactions with related parties in the normal course of business and all transactions with related parties are made on normal, arm's length, commercial terms. During the six months ended 30 June 2018, the Group was charged £1.2m by OUTsurance Shared Services Limited, a subsidiary of a company with significant influence, for the provision of insurance intermediary support services (30 June 2017: £nil). There was an outstanding balance of £0.5m as at 30 June 2018 (30 June 2017: £nil). Other than this, there have been no material changes in related parties and or the related party transactions undertaken during this period and they have remained consistent with those disclosed in the Hastings Group Holdings plc 2017 Annual Report.

22. Dividends

A final dividend in respect of the year ended 31 December 2017 amounting to £55.9m or 8.5p per share was paid on 31 May 2018 (30 June 2017: £43.4m or 6.6p per share was paid on 31 May).

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

23. Contingent liabilities

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

On 16 March 2018, HMRC sought leave to appeal against the First-tier Tribunal decision and have the decision referred to the Upper Tribunal. HMRC were granted leave to appeal by the First-tier Tribunal on 14 June 2018 and submitted their Notice of appeal to the Upper Tribunal on 7 July 2018. A date for the Upper Tribunal hearing has not been set. Should HMRC prove successful in overturning the First-tier Tribunal judgement at the Upper Tribunal then the Group would have to repay £16.4m of input VAT recovered to date as well as associated costs. Having reviewed the strength of the First-tier tribunal decision and HMRC's appeal, and having considered legal advice received, the Board has assessed that it is more likely than not that the original judgement will be upheld. Therefore it is not considered probable that any refund will be required, and no provision or liability has been recognised.

24. Impact of changes in accounting policies

IFRS 15 Revenue Recognition ('IFRS 15')

The Group implemented IFRS 15 from 1 January 2018. The Group has used a cumulative effect method whereby comparatives are not restated and the cumulative impact of adjustments is recognised in the balance sheet at the date of initial application. The comparative period has been measured under IAS 18.

The Group differentiates fees and commissions earned from panel policies from fees and commissions earned from AICL policies, both of which are recognised on arrangement of the underlying insurance policy but fall within the scope for different standards, being IFRS 15 and IFRS 4 respectively.

Acquisition costs incurred on obtaining Panel customers are initially recognised within deferred acquisition costs and are then recognised in the profit and loss account at each renewal over the expected life of the customer relationship.

IFRS 16 Leases ('IFRS 16')

The Group implemented IFRS 16 from 1 January 2018 and applied this to all leases entered into from 1 January 2018. For contracts entered into before 1 January 2018, the Group applied IFRS 16 accounting provisions to contracts that had already been recognised as operating leases under IAS 17 Leases ('IAS 17') and IFRIC 4 Determining whether an Arrangement contains a Lease ('IFRIC 4'), in accordance with the transition provisions. These contracts comprised property and computer hardware rentals.

On initial application, property lease liabilities were recognised at the present value of the lease commitments taking into consideration management's intention to lease properties for the full rental period and this resulted in a difference in the cash flows when compared to those disclosed in Note 30 in the 2017 Annual Report, as these showed the minimum commitment which was based on exercising the break clause.

At transition date, lease liabilities recognised were calculated at the present value of remaining lease payments using an incremental borrowing rate determined as at transition date taking into account the nature of the asset and the remaining lease term. The weighted average incremental borrowing rate applied to lease liabilities recognised in the balance sheet at transition was 5%. The lease term was determined using hindsight in instances where the lease contract contained options to extend or terminate the lease.

Notes to the Condensed consolidated financial statements (continued)

The Group used the transition option to recognise right of use assets at their carrying amounts as if IFRS 16 had been applied since commencement date, discounted using the incremental borrowing rate at the date of initial application. Depreciation of the right of use assets has been subsequently recognised using the straight line method in profit or loss over the expected lease term, or usage term, where the Group expects to exercise a purchase option.

In accordance with the IFRS 16 transition provisions, the Group used a modified retrospective approach under which prior year figures have not been restated and continue to be reported under IAS 17 and IFRIC 4, details of which are disclosed in the 2017 Annual Report. The cumulative impact of initial application has been recognised as an adjustment to the opening balance sheets with a net decrease of £ 0.3m in opening retained earnings.

The impact of these new standards as at transition date is summarised below:

	As at	Adjustments		Adjusted
	31 December 2017	IFRS 15 transition	IFRS 16 transition	1 January 2018
	£m	£m	£m	£m
Assets				
Property and equipment	14.2	-	10.1	24.3
Deferred acquisition costs	31.1	0.4	-	31.5
Liabilities				
Insurance and other payables	239.8	1.7	10.4	251.9
Deferred income tax liabilities	16.0	0.1		16.1
Current tax liabilities	11.2	(0.3)		10.9
Equity				
Retained earnings	1,180.7	(1.1)	(0.3)	1,179.3

In accordance with the transition requirements under IFRS 15, the table below shows the difference in the amounts recognised in the Condensed Consolidated Balance Sheet under IFRS 15 when compared to what would have been recognised under IAS 18.

	As at 30 June 2018		
	Under IAS 18	Impact of IFRS 15	As reported
	£m	£m	£m
Assets			
Deferred acquisition costs	33.5	0.4	33.9
Liabilities			
Insurance and other payables	258.7	1.7	260.4
Deferred income tax liabilities	13.8	0.1	13.9
Current tax liabilities	17.6	(0.3)	17.3
Equity			
Retained earnings	1,199.0	(1.1)	1,197.9

The implementation of IFRS 15 has not resulted in any reportable differences to the Condensed Consolidated Statement of Profit or Loss, compared to IAS 18.

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.

	Six months ended		Year ended
	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Reconciliation of profit after tax to net underwriting margin, net claims incurred and net underwriting expenses:			
Profit before tax	86.8	68.9	149.0
Add: Finance costs	4.0	4.1	8.1
Retail, corporate and other operating expenses	53.9	64.5	131.0
Retail and Group amortisation and depreciation	13.2	12.3	24.7
Less: Retail, investment and other income	(134.5)	(128.2)	(259.6)
Net underwriting margin	23.4	21.6	53.2
Less: Net earned premiums	(219.2)	(195.1)	(410.1)
Add: Net claims incurred	161.8	143.3	299.5
Net underwriting expenses	(34.0)	(30.2)	(57.4)
Calculation of combined operating ratio, expense ratio and loss ratio:			
Combined operating ratio			
Net earned premiums	219.2	195.1	410.1
Less: Net underwriting margin	(23.4)	(21.6)	(53.2)
Net underwriting claims costs and expenses	195.8	173.5	356.9
Net earned premiums	219.2	195.1	410.1
Combined operating ratio (%)	89.3%	88.9%	87.0%
Expense ratio			
Net underwriting expenses	34.0	30.2	57.4
Net earned premiums	219.2	195.1	410.1
Expense ratio (%)	15.5%	15.5%	14.0%
Loss ratio			
Net claims incurred	161.8	143.3	299.5
Net earned premiums	219.2	195.1	410.1
Loss ratio (%)	73.8%	73.4%	73.0%

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.

Other information

Reconciliations

Free cash reconciliation

The following tables reconcile the Group's cash and cash equivalents per the Condensed Consolidated Financial Statements to the free cash reported in the Financial Review, and the increase in cash and cash equivalents to the Retail cash generated during the six months ended 30 June 2018.

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

	As at		
Free cash reconciliation	**30 June 2018 £m**	**30 June 2017 £m**	**31 December 2017 £m**
Total cash and cash equivalents	150.0	166.2	154.6
Deduct restricted cash:			
Underwriting cash and cash equivalents	86.0	74.7	90.5
HISL cash held as agent on behalf of AICL and third party insurers	41.7	56.2	38.9
HISL regulatory cash requirement	5.3	4.5	4.5
Restricted cash held in regulated entities or on behalf of third parties	133.0	135.4	133.9
Closing free cash	17.0	30.8	20.7

	Six months ended		Year ended
Free cash generated reconciliation	**30 June 2018 £m**	**30 June 2017 £m**	**31 December 2017 £m**
Net decrease in cash and cash equivalents	(4.6)	(1.8)	(13.4)
Adjust for: net decrease/(increase) in restricted cash	0.9	(1.7)	(0.2)
Net decrease in free cash	(3.7)	(3.5)	(13.6)
Add back:			
Retail and Corporate taxation paid	8.5	7.4	17.9
Capital expenditure	11.2	8.1	17.3
Dividends paid	55.9	43.4	70.3
Repayment of Revolving Credit Facility	275.0	5.0	15.0
Proceeds from issuance of 3% Senior bonds	(247.8)	-	-
Interest, corporate and refinancing costs	8.7	5.4	11.2
Group free cash generated	107.8	65.8	118.1

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.

Other information

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

We confirm that to the best of our knowledge:

- the Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU
- the interim management report includes a fair review of the information required by:

  (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the Condensed Consolidated Financial Statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

  (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Toby van der Meer

Chief Executive Officer

7 August 2018

Other information

Independent auditor's review report

INDEPENDENT REVIEW REPORT TO HASTINGS GROUP HOLDINGS PLC

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 which comprises the Condensed Consolidated Statement of Profit or Loss, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Balance Sheet, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Statement of Cash Flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ('the DTR') of the UK's Financial Conduct Authority ('the UK FCA').

Scope of review

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

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

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA. As disclosed in Note 1, the Annual Report of the Group is prepared in accordance with International Financial Reporting Standards as adopted by the EU. The Directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

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

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

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

Salim Tharani
for and on behalf of KPMG LLP
Chartered Accountants

15 Canada Square
London
E14 5GL

7 August 2018

Other information

Shareholder information

Registered office

Conquest House

Collington Avenue

Bexhill-on-Sea

East Sussex

TN39 3LW

Corporate website

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

Financial calendar

04 October 2018	–	Ex-dividend date
05 October 2018	–	Interim dividend record date
19 October 2018	–	Dividend reinvestment plan election date
25 October 2018	–	Third quarter trading update
09 November 2018	–	Interim dividend payment date