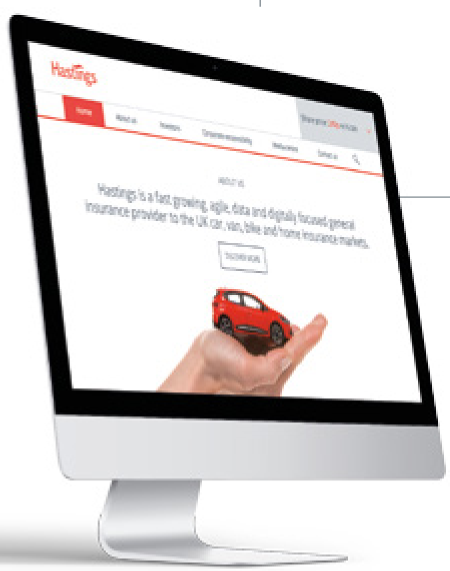
Hastings Group Holdings plc
Annual Report 2016

Delivering on our promises

Hastings Group is a fast growing, agile, data and digitally focused general insurance provider to the UK car, van, bike and home insurance markets.



Links to further information are illustrated with the following markers:

www.hastingsplc.com

Read more on **pages XX to XX**

Highlights

We are delighted to report an excellent performance in our first full year since we listed on the London Stock Exchange. We have delivered against the promises we made at the time of the IPO and now have over 2.3 million live customer policies. We have a strong infrastructure, effective support systems with clear market insight, and look forward to building on our positive momentum.

What makes us different

Founded in 1996 in Bexhill-on-Sea on the Sussex coast, Hastings is now one of the fastest growing general insurance providers to the UK market, with over 2.3 million live customer policies and employing over 2,600 colleagues at sites in Bexhill, Newmarket, Leicester and Gibraltar.

Our approach

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

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.

Vision

Protect
1 in 10 by 2020

Values

It is our attitude and the way we run our business that makes Hastings different. All of our actions are based on our 4Cs cultural framework: Colleagues, Customers, Company and Community. Getting it right for our colleagues is always our first step. By creating the right environment and giving our colleagues the right tools to do their job they will do more for our customers, and the Company, enabling us to grow profitably and sustainably, allowing us to invest in the communities we serve.

Delivering the 4Cs

Colleagues

2,680

Colleagues in Bexhill, Gibraltar, Newmarket and Leicester

2015: 2,322

Customers

2.35m

Live customer policies

2015: 2.04m

Company

£132.1m

Adjusted operating profit (post-Ogden)

2015: £126.1m

Community

£132,000

Charitable donations in the year

2015: £159,000

Read more on **pages 34 to 37**

Value creation

We have a clear strategy for growth and value creation, supported by recognised brands which together with our vision and values enable us to deliver on our promises and generate sustainable stakeholder value.

Our strategy

Grow
Driving profitable growth by targeting 3 million live customer policies during 2019

Discipline
Focus on prudent underwriting

Focus
Continued focus on cash generation and de-leveraging

Agile
Rapid reaction to market changes

Invest
Invest in digital capability and mobile distribution channels

Expand
Expand our product offering and invest in our competitive proposition

Our brands and products

Hastings DIRECT

Our largest and best known brand, delivering great value car, van, bike and home insurance in a refreshingly straightforward way.
www.hastingsdirect.com

Hastings PREMIER

Our premium cover for car, van, bike and home. Offering all the benefits of Hastings Direct plus a range of additional features included as standard.
www.hastingsdirect.com

Hastings ESSENTIAL

Our no frills car and home insurance, providing just the essentials.
www.hastingsdirect.com

Hastings DIRECT smartmiles

Our telematics brand measures and rewards good driving behaviour, helping young and inexperienced drivers save money on their car insurance.
www.hastingsdirectsmartmiles.com

insure Pink. Supporting the Pink Ribbon Foundation

InsurePink provides competitive car insurance, donating £10 from every policy sold to the Pink Ribbon Foundation.
www.insurepink.co.uk

People's Choice

People's Choice car insurance provides great benefits at a competitive price.
www.peopleschoice.co.uk

Investment case

A differentiated, highly focused business, with digital distribution built for the way in which customers now buy insurance.

An agile, data driven retail business underpinned by the ability to react rapidly to movements in the market, creating a sustainable competitive advantage.

Underwriting built on a bedrock of sophisticated risk selection and pricing with leading integrated fraud management, resulting in a lower risk profile combined with attractive loss ratios and the optimal use of capital.

A track record of strong, profitable growth.

Confidence in trajectory, with continued growth, increasing profitability and strong cash generation.

Delivering on our promises

We are very pleased to be reporting such positive results for our first full year as a listed company. In particular, we are proud to have successfully delivered on the promises that we made when we listed and are equally pleased to have in place a strategy, business model and governance structure that will support and enable future growth.

"We continued to deliver on promises made to shareholders."

Mike Fairey
Chairman

Overview and strategy

It is with great pleasure that I introduce the Annual Report for Hastings Group Holdings plc for the first complete year as a listed entity. The Group continued to deliver on its promises made to shareholders at the IPO in October 2015. Live customer policies ('LCP') grew to 2.35 million, well on our way to beat our target of 2.5 million at the end of 2017. This strong growth has meant that the Group has delivered on its strategy and increased profitability. The Board is aware that the Group is on track to either meet or beat the targets set out at the IPO last year; as a result, the Board has reviewed and approved updated targets. Further details are provided by the Chief Executive Officer in his update.

2016 review

Similar to last year, the year was one of increasing premiums for the car insurance market with premium inflation ahead of claims inflation. Along with increased policy numbers, the Group's profit after tax increased to £78.4m (2015: £2.3m) and adjusted operating profit for the year increased to £132.1m (2015: £126.1m). Adjusted operating profit was £152.1m before the impact of a £20.0m one off charge due to the reduction in the personal injury discount rate (the 'Ogden rate') announced by the Lord Chancellor on 27 February 2017.

The Group's continued growth has also led to the expansion of the Group's operations. The quality and diversity of talent available in Leicester means we now employ nearly 700 colleagues in the city, which has helped to enhance the Group's operational resilience and capability. Our operational capabilities at locations in Bexhill and Gibraltar have also been further strengthened as a result of our focus on talent and development.

Final dividend	Full year dividend
6.6p per share	9.9p per share

The Board and governance

As explained last year, the composition of the Board was not fully compliant with the UK Corporate Governance Code 2016 ('the Code') as at least half the Directors excluding the Chairman did not meet the independence criteria. I am pleased to report that the Board has delivered on its intention to be Code compliant with the appointment of two new Independent Non-Executive Directors in July 2016. Teresa Robson-Capps and Alison Burns bring a breadth of knowledge and experience from across the financial services industry.

The Board recognises that the Company does not currently fully comply with the Code in relation to the composition of the Remuneration Committee in that not all members of this Committee are Independent Non-Executive Directors. The Board continues to believe that the independence of the Remuneration Committee is not compromised as it has an Independent Chairman and a majority of Independent Non-Executive Directors.

The Company announced on 14 December 2016 that it was notified by its majority shareholder, Hastings Investco Limited, that along with certain individual shareholders it had reached an agreement to sell a proportion of its shareholding in the Company ('the Transaction') to Rand Merchant Investment Holdings Limited ('RMI'), a South African investment holding company, of up to 29.9% of the Company's issued share capital. The Transaction completed on 1 March 2017. 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 and have an observer attend, but not vote at, meetings of the Board and the Board Audit, Remuneration and Risk Committees. As a consequence of this transaction the Founder Shareholders have agreed that one of its appointees would step down as a Director of the Company once RMI's shareholding reached at least 19.9% and the Goldman Sachs Shareholders have agreed that one of its appointees would step down once that shareholding reached 29.9%. Details of these Board changes will be announced once confirmed.

Optimising shareholder value – dividends

The Board remains confident in the Group's long term prospects and is pleased to propose a final dividend of 6.6 pence per share. This dividend will be paid on 31 May 2017 to shareholders on the register on 5 May 2017 with an ex-dividend date of 4 May 2017. This is the Company's second dividend for the year having paid 3.3 pence per share in November, taking the full year dividend to 9.9 pence per share. This final dividend is subject to shareholder approval at the Annual General Meeting to be held on 25 May 2017.

Mike Fairey
Chairman

1 March 2017

Board governance priorities

Leadership
Clear division of responsibilities and constructive independent challenge underpins our commitment to the long term success of the Company.

Effectiveness
The Board and its Committees have the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively.

Accountability
Based on sound risk management and internal control principles, the Board provides a fair, balanced and understandable assessment of the Company's position and prospects.

Remuneration
To promote the long term success of the Company, performance-related remuneration is transparent, stretching and rigorously applied.

Relations with shareholders
The Board welcomes constructive interaction with all shareholders at the Annual General Meeting in May and throughout the year.

Read more on **pages 58 to 60**

Investing in our colleagues

Getting it right for our colleagues is always the first step in our 4Cs culture. We make sure that we invest in and listen to them so they continue to contribute and thrive.

Our 4Cs

Our 4Cs culture frames our decision making process, guiding us as we continue to grow a sustainable and financially stable Group in a responsible manner.

"The one thing that comes through loud and clear in our annual colleague survey is that the best thing about working at Hastings is the people and the sense of 'team.' Our 4Cs culture makes Hastings successful and what makes us stand out."

Carole Jones
Group HR Director

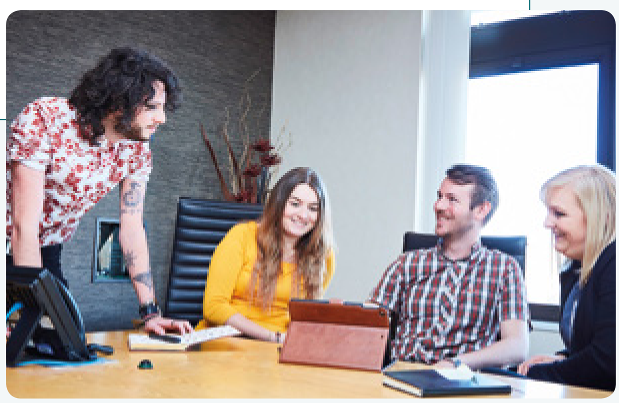
Your voice

As we grow, it's important that colleagues tell us how they feel about life at Hastings.

We run a yearly engagement survey and take the colleague feedback to co-create Company wide and local action plans that feed through to our 4Cs objectives. This is just one way that our colleagues tell us what's on their minds. We regularly ask for colleagues to share their thoughts, ideas and frustrations which they do through the weekly newsletter, monthly Colleague Forums, annual Colleague Roadshows and even in the queue for coffee. Regular conversations allow us to listen and respond in the best possible way.

"My daily commute was severely affected by recent rail strikes. I've made use of a free coach replacement service offered by the Company. This service was set up as a result of feedback through our Colleague Forum. It's much appreciated and shows Hastings is keen to listen and to support us however it can during challenging times."

Reece Elliott
Customer Services



Delivering on our promises

We listened to our colleagues...
who wanted to understand the 'bigger picture'

and took action...
with 22 Roadshows hosted by the Chief Executive Officer and half yearly updates hosted by senior leaders.

Your career

We're committed to developing the skills and careers of our colleagues and continually invest in our training and development programmes.

We provide classroom and live academy training for customer serving colleagues, who are regularly upskilled, and all colleagues have opportunities to improve skills to support their careers with us. In 2017 we'll be expanding our approach and will invest in high level apprenticeships so we retain and attract critical skills needed to grow our business.

"Since I joined it's been a journey of development, learning, and building my confidence and in just two years I've moved from customer services to claims. There's never a dull moment at Hastings!"

Samia Patel
Leicester colleague

Expanding

Our Leicester site opened in May 2015 to support our growth strategy.

In less than two years we now employ nearly 700 colleagues, have moved to our permanent city centre location and have completed phase two of our expansion to support our continuing growth. Our third phase of expansion is underway, which will give us space to support up to 1,200 colleagues. It's been a hugely successful move for us and allows us to invest in and attract the best talent so we continue to deliver refreshingly straightforward service to our growing customer base.

"Hastings Direct has brought new life to St George's Way and to Leicester, creating many jobs for our vibrant city. Gary Hoffman and the team have fulfilled their promises to us and we look forward to a long lasting relationship."

Sir Peter Soulsby
Leicester City Mayor

Building our momentum

It's been a year of expansion and continued investment for the benefit of our 4Cs. We've welcomed 340 more colleagues to our new site in Leicester, and made a difference to our local communities through our 'Be the Change' local education initiative. We continue to deliver on our promises and I am delighted to share updated targets for our future growth plans.

"I am proud to lead a great team of colleagues and together we have established an enviable and attractive track record of strong, profitable growth."

Gary Hoffman
Chief Executive Officer

Q It's been over a year since IPO, looking back, what are your personal highlights?

A I am very proud to be part of the team that has delivered another successful year for Hastings. We continue to deliver on the promises we set out at the time of the IPO and I am delighted to be sharing updated targets with you following our strong performance to date. We have delivered profitable growth for shareholders, increased live customer policies by 15% to over 2.3 million and our share of the UK private car market has increased to 6.5% driving growth across all key metrics. Gross Written Premiums continued to rise, up 25% to £769m, driving revenues of £590m. It's important to note that our profitable growth has been achieved whilst maintaining our disciplined approach to underwriting with a pre-Ogden calendar year loss ratio of 73.7%, below our stated target of between 75% and 79%. We also continue to make significant investment in our colleagues and infrastructure through the rollout of Guidewire, the state of the art, integrated end to end platform for claims, broking and billing, and through the expansion of our third UK site in Leicester which has seen over 340 new colleagues join us in 2016. As you would expect, the recruitment of such a large number of new colleagues and the size and scale of the Guidewire implementation have not been without their challenges. It is our agility and the hard work, expertise, dedication and support of my 2,680 colleagues that have ensured that we continue to deliver for our colleagues, customers and the Company, and we are as focused on the long term as we are on our annual performance.

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

A Our planned growth will come from two key areas. Firstly, growth of our core motor book with continued momentum from an increasing share of price comparison new business sales, a profitable maturing book and the launch of a new multicar proposition in 2017. Secondly, via expansion into home where we are seeing more customers using price comparison websites ('PCW') to buy their policies instead of through the traditional mortgage lender or bank route. We are also able to apply our successful approach in motor insurance to home insurance. We now have over 168,000 customers and we plan to start underwriting home insurance as lead insurer in 2017.

We've continued to make steady progress in executing our growth strategy with a 15% increase in policy numbers throughout 2016.

Delivering on our promises | Updated targets

	Original target	Updated target
Calendar year loss ratio	75-79%	75-79%
Customer numbers but not at the expense of profitability	2.5m by end of 2017	3.0m during 2019
Net debt leverage multiple	1.5x by end of 2017	1.0x during 2019
Dividend payout ratio	50-60% of adjusted profit after tax	50-60% of adjusted profit after tax

Q What factors do you think have powered the business' successes in 2016?

A As I've always said, our achievements reflect the refreshingly straightforward business model we've built. The way in which customers buy insurance has changed. The world is now digitally led and we've created a model that is built to take advantage of this shift throughout the entire customer journey, whether that's through the PCW distribution of our products, which account for around 90% of our new business sales, our innovative use of data or through our advanced risk selection and fraud detection capabilities. Every element of our business is optimised for a digital world. Secondly we've remained agile as we've grown in size and our model, in particular our use of data, enables us to respond quickly to changing market conditions, averaging 35 changes to pricing per month, giving us a significant advantage over our competitors. Finally we underpin everything with our culture built around the principles of the 4Cs; Colleagues, Customers, Company and Community. This defines 'how' we do things and ensures we remain entrepreneurial with a can do attitude that reflects itself throughout every level of the business on a daily basis.

Q What is the impact of Brexit on Hastings?

A Hastings is a general insurance provider writing only UK business so it's very much business as usual for us. Our underwriting business, Advantage, is based in Gibraltar. It underwrites in the UK under a bilateral agreement with the UK and this is not expected to be impacted by Brexit. Whilst commentators expect some slowing of the UK economy, motor insurance is a compulsory purchase for motorists and it's not cyclical. We may just see more customers shopping around. Our business model is well positioned to take advantage of this so we just need to continue to provide refreshingly straightforward products that are competitively priced. We also find that when economic growth slows, miles driven also decreases which is a positive for our claims experience. Furthermore Hastings is not exposed to undue risk, either in terms of the constitution or size of its investment portfolio.

Q Will there be any change to your strategic focus following RMI's acquisition of up to 29.9% in the company?

A I can confirm there will be no change. We will continue to grow the core motor book and plan to grow our home and telematics propositions. We believe RMI's breadth of experience and capabilities could provide opportunities over time to help Hastings further deliver our growth strategy.

Live customer policies	Adjusted operating profit (pre-Ogden)
2.35m	£152.1m
↑ 15%	↑ 21%

Q Can you tell me more about Guidewire and its implementation?

A Guidewire is a state of the art, integrated end to end platform for claims, broking and billing. It will greatly enhance our customer experience, including improved communications via a 24/7 online self-service portal. It will deliver significant benefits to our colleagues and Company, including reducing the claims lifecycle through improved workflow and activity management and more informed pricing, and supporting our future growth plans. We have also built our own digital and mobile components to add to the core platform provided by Guidewire.

The claims module was delivered in November 2015 and is already handling all of our new claims and around 80% of our overall claims. During 2016 we started to roll out Guidewire to broking and billing and we went live with four price comparison websites by the end of the year.

We have invested significant capital expenditure in the implementation of Guidewire and expect to see the platform deliver operating cost efficiencies from 2018 onwards to support our continued growth.

Q Tell us more about your local corporate social responsibility strategy and why it's important to you?

A We have a very local approach to CSR so rather than sponsor or fundraise for large (and you can say equally deserving) global initiatives we have decided to focus on the communities where we work and live so we can see the difference we make, first hand. Last year, working with the team from social enterprise, Humanutopia and local recruiters, LoveLocal Jobs, we launched a new local education three year programme called 'Be the Change' in Bexhill and Leicester. The aim of the programme is to help disengaged students, aged 13–14 years, remove barriers that stop them getting on at school and to provide them with life skills to shape their future. The programme is delivered through workshops, one to one sessions and workplace visits. It has been a humbling and hugely gratifying experience for me and a number of my colleagues who have been involved as business mentors and I'm delighted that the schools are already beginning to see a difference through the reduction of truancy and bullying reported. I really enjoy talking to investors and the media about our strong performance, profit and what makes Hastings different. How we conduct ourselves in our financial and local communities is equally important to me. I am very proud of Be the Change and the difference we can make to younger members of our local communities.

Q You've been at Hastings for over four years now, what's next?

A I've been asked that question quite a lot recently! To be clear, I have no ambition to be a Chief Executive Officer anywhere else. Hastings is a great place to work and still retains its family feel which is testament to our 4Cs culture. I'm proud to be part of this successful company that has grown both in size and profitability. Colleague and customer numbers have doubled since I joined in 2012 and our stretching targets show that there is more growth planned. We do things differently at Hastings. We're an agile, data and digitally focused business that is built for the way customers buy insurance and we have a strong and dedicated team that deliver on their promises. I am proud to lead a great team of colleagues.

Gary Hoffman
Chief Executive Officer

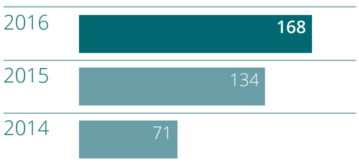
1 March 2017

Our growth opportunities

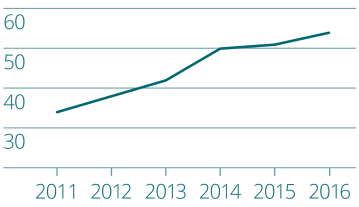
It has been another strong year for the business with live customer policies showing a 15% increase to 2.35 million, our share of the UK private car market increasing to 6.5% driving growth across all key metrics. We have issued updated targets of achieving 3 million live customer policies during 2019, underpinned by concrete growth plans in our core motor book as well as the continued expansion into home.

Home

Live customer policies ('000s)



UK Home market new business sales through PCWs (%)



Source: eBenchmarkers

We see the UK Home market as an attractive segment and a great opportunity for us.

Consumers are increasingly buying home insurance via price comparison websites ('PCW'), and new business sales via PCW increased significantly, with 54% of the market now choosing to buy their home insurance via a PCW compared to 26% in 2011.

We have applied our retail optimisation skills to home insurance purchased via PCW and as a result we have made excellent progress; we now have 168,000 Home policies which are underwritten by a panel of insurers.

We are currently progressing on the development of new home products while building capability, data and models. Following a 'test and learn' approach, we plan to start underwriting home insurance as lead insurer in 2017.

Delivering on our promises

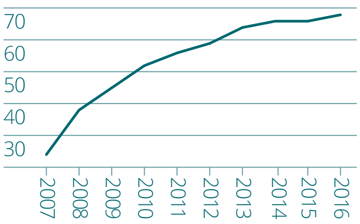
Our original growth target was...
that we would have 2.5 million live customer policies by the end of 2017

and our updated growth target is...
to have 3 million live customer policies during 2019.

Motor

A large part of our growth will come from our core motor business; we are enjoying the benefits of the continued growth of our share of new business sales via PCW, combined with a profitable maturing renewal book.

UK Motor market new business sales through PCWs (%)



Source: eBenchmarkers

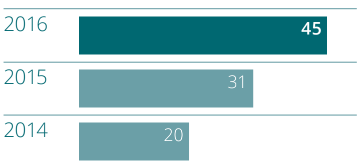
As a result of rising premiums across the market, more customers are shopping around and switching provider. This has put pressure on retention rates across the industry. We are not immune to this but our retention rates have remained strong and well above the market average of circa 70%.

Many customers who switch insurance providers are doing so via PCW leading to an increase in penetration of motor new business via these websites of 2% in 2016 to 68%. We are net beneficiaries of what is going on at this stage of the cycle.

Our share of PCW has continued to increase, driving an increase in our overall market share up to 6.5% from 5.8% at the full year 2015.

Telematics

Customer policies ('000s)



We have continued to focus on developing our telematics proposition, which is ready for scaling as the market continues to develop; we now have 45,000 telematics policies.

Our proposition helps us to identify good and bad drivers and price accordingly, which minimises our exposure to the poorest performing loss ratio segments.

What's shaping our market

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

Private car, van and bike insurance

Distribution trends: continued growth in the digital channel

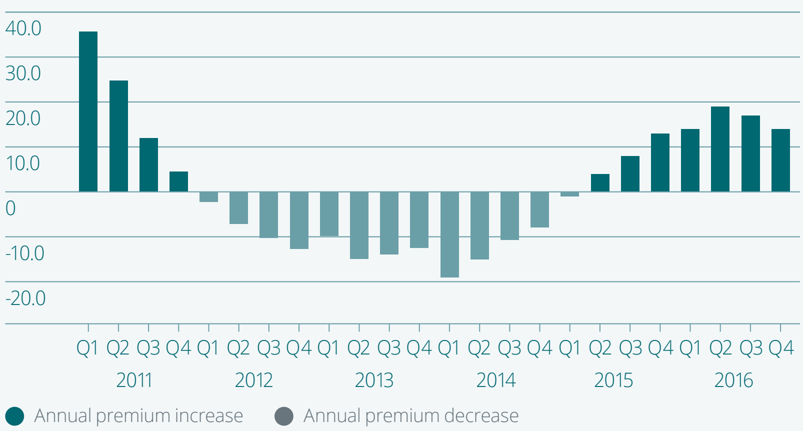
The private car, van and bike insurance markets in the UK are some of the most competitive markets in the world. The internet and digital age have enabled customers to access a large amount of information about their car insurance quickly. The growth of price comparison websites ('PCW') has been instrumental in creating such a market. The total size of the UK general insurance market has remained relatively stable and grew by an average of 1% per year between 2007 and 2016.

Over the same period the proportion of car new business sales from PCW, has increased from 24% to 68%. Consumers in the modern era are increasingly using digital devices and technology to purchase their insurance products. All of this has created an intensely competitive market, where only the most agile and adaptive businesses can outperform. At Hastings, our way of thinking, processes and procedures are optimised for the digital distribution and PCW market. We continually monitor all segments of the market and are able both to react quickly to changes, and identify and quickly explore opportunities.

Pricing trends: 2016, another year for premium inflation

Following a sustained period of price reductions from the market since 2012, insurers began increasing premiums in the first half of 2015. Hastings increased premiums ahead of the rest of the UK market in the first half of 2014. The level of pricing sophistication in the car, van and bike insurance markets continues to increase through an improvement in both the breadth and quality of data being used and the mathematical techniques utilised by insurers to analyse the data. Our passion for data and analytics underpins our advanced risk selection and, alongside our award winning counter fraud capabilities, enables the Group to sustain strong loss ratios whilst gaining market share.

Year on year change in average comprehensive car insurance premiums



Source: Confused.com car insurance price index, in association with Towers Watson

Claims trends: Ogden an opportunity for Hastings

In respect of claims inflation we have seen frequency being slightly down across the book, with inflation primarily being driven by increases in severity.

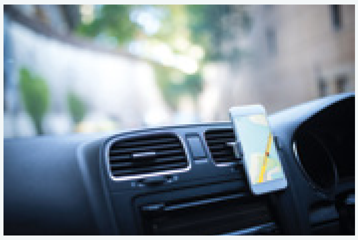
This was particularly the case for third party property damage, where the impact of the Coles Hetherton case continues to drive up repair bills. It was also true for personal injury, where claims management companies remain active and solicitors appear to be taking a more aggressive approach in relation to larger personal injury claims.

In the 2016 Autumn Statement, the Chancellor announced a cap to the amount people can claim for whiplash injuries, and a ban on the right to cash compensation. An increase is also planned to the small claims court limit for all personal injury claims from £1,000 to £5,000.

The announcement regarding Ogden interest rates may benefit Hastings, as insurance premiums are likely to rise as a result, leading to an increased tendency for customers to shop around at renewal.

Read more on
page 27

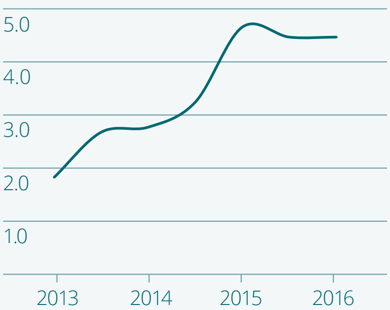
Future perspective



The digital retail market is expected to continue to grow for the foreseeable future, including increased use of mobile technology. Our digital business model and agile approach enables us to identify such opportunities and outperform.

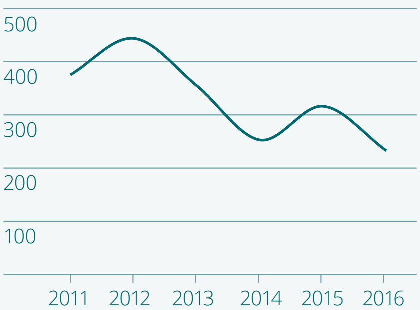
Hastings continues to benefit from its counter-fraud capabilities, risk selection techniques and use of technology to monitor and report claims in order to minimise costs and the impact on its customers.

UK penetration of new business telematics insurance %



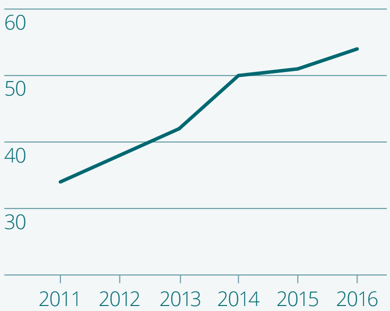
Source: eBenchmarkers monthly report at October 2015

Turnover of personal injury claims management companies £m



Source: Claims Management Regulation Annual Reports

Proportion of new business Home sales from PCW %



Source: eBenchmarkers data

Creating value through differentiation

Our unique model is at the core of our ability to deliver on our strategy, operate efficiently and effectively, and continue to generate value for our stakeholders.

Our vision: protecting 1 in 10 by 2020

Investing in value creation drivers

We have an ongoing programme of investment in the key areas that drive our value creation process.

Customer proposition

The Group has a unique proposition – 'refreshingly straightforward insurance'. The Group's brand advertising, online and offline direct marketing and social media activity all promote this proposition. At Hastings we make the whole customer experience straightforward with great value products and great service.

Sophisticated data capture

The Group employs a team of highly specialised people who are empowered to drive the Group's sophisticated pricing capabilities. A dedicated team of decision scientists are focused on improving the pricing structures and assessing overall customer lifetime value.

Technology

The business is underpinned by sophisticated IT systems to analyse and process applications. In order to support the Group's business strategy with the delivery of digital/customer self service capabilities, the Group's software systems are being upgraded to Guidewire ClaimCenter, PolicyCenter and BillingCenter. These will help to optimise the claims process by providing greater control to colleagues, reducing the claims lifecycle workflow and facilitating activity management and early liability decisions.

Maximising value from our business

Our business development model has been designed to be successful in the high growth, dynamic digital distribution segment of the UK car insurance market.

Data capture
Sophisticated data capture allows us to refine and optimise our pricing strategies

Agile pricing maximises customer capture and income without negatively impacting underwriting profitability

Determines the appropriate technical net rate

Retail
Hastings Insurance Services Limited

Underwriting
Advantage Insurance Company Limited

Price comparison websites

Direct

Disciplined approach and risk expertise

Underpinned by leading technology, software, counter fraud capability and risk management

Strategic drivers

We have a consistent set of strategic drivers that underpin our business model

Growth

Discipline

Focus

What we do

The breakdown of our business

Car insurance	Home insurance	Bike insurance	Van insurance
86%	7%	4%	3%

Our customer proposition
Refreshingly straightforward

Our distribution
90% of our business is though price comparison websites
10% is direct

Our differentiator
Sophisticated data capture to optimise our pricing strategies

The Hastings approach
- An agile fast moving company where colleagues can contribute and thrive
- Passionate about data and analytics
- The most straightforward claims and service experience for customers

Our brands

Hastings DIRECT
Hastings PREMIER
Hastings ESSENTIAL
Hastings DIRECT smartmiles
insure Pink – Supporting the Pink Ribbon Foundation
People's Choice

Creating value

We are fully focused on maximising value for our key stakeholders.

Colleagues
2,680
Colleagues in Bexhill, Gibraltar, Newmarket and Leicester

Customers
2.35m
Live customer policies

Company
£132.1m
Adjusted operating profit (post-Ogden)

Community
£132,000
Charitable donations in the year

Read more on pages 20 to 21

Agile
Invest
Expand

Sustaining our momentum

In order to sustain our momentum, we remain committed to implementing the strategic drivers that have been at the heart of our development to date.

Our strategic pillars	2016 progress
Growth Driving profitable growth by targeting in excess of 2.5 million customer policies by the end of 2017	• Achieved customer policy growth of 15% • 2.35 million live customer policies by the end of 2016
Discipline Focus on prudent underwriting	• Calendar Year Loss Ratio of 73.7%, below the 75%–79% target range, or including the impact of the Ogden rate change, 77.7%
Focus Continued focus on cash generation and deleveraging	• Retail cash generated of £98.1m up 21% on 2015 • Net debt leverage decreased from 2.1x to 1.8x • Final dividend proposed of 6.6p, taking 2016 dividend to 9.9p
Agile Ability to respond quickly to market changes	• Our structure allows us to combine the use of technology and data with deep underwriting knowledge and experience, and anti-fraud capabilities in order to allow us to react quickly to changing market conditions and we made on average 36 retail price changes per month in 2016 • Continuing the phased roll out of Guidewire across our claims and broking operations
Invest Invest in digital capability and mobile distribution channels	• Have developed and begun to roll out new digital capabilities following implementation of Guidewire
Expand Expand our product offering and invest in our competitive position	• Continued strong growth in home and telematics • Developed proposition and capability for Advantage underwriting on home

KPIs	Key risks	Our focus for 2017/18
Live customer policies ('000s) 2016: 2,348 2015: 2,042 2014: 1,711	1 3 Read more on **pages 42 to 45**	• Revised target to 3 million live customer policies in 2019 • Customer policy growth not at the expense of profitability
Calendar year loss ratio (%) 2016: 77.7 2015: 75.4 2014: 72.4	1 Read more on **pages 42 to 45**	• No changes to our underwriting approach • Deliver loss ratios in the target range of 75–79%
Net debt leverage multiple (times) 2016: 1.9x 2015: 2.1x 2014: 3.6x	1 2 3 Read more on **pages 42 to 45**	• Continued focus on de-leveraging with a revised target of achieving net debt leverage of 1.0x during 2019 • Dividend pay out ratio target maintained at 50–60%
Expense ratio 2016: 13.6 2015: 15.9 2014: 16.3	1 3 Read more on **pages 42 to 45**	• Completing the roll out of Guidewire providing further operational efficiencies and giving customers an end to end insurance experience
Capital expenditure (£m) 2016: 20.9 2015: 29.1 2014: 9.4	1 2 3 Read more on **pages 42 to 45**	• Continued investment in the digital capabilities offered by our new broking platform • Increasing mobile digital capability through production of a mobile app
Home LCP ('000s) 2016: 168.0 2015: 134.0 2014: 71.0	1 2 Read more on **pages 42 to 45**	• Launch of our Advantage underwriting proposition

A successful performance

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

Financial KPIs[1]

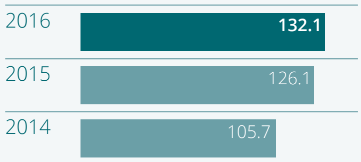
Measure | **Data** | **Performance**

Adjusted operating profit

Adjusted operating profit is the Group's primary profit measure used to assess operating performance. It is defined as profit before taxation expense, finance costs, amortisation and depreciation, non-trading costs and the effects of accounting for business combinations.

This is a non-IFRS measure which is used by management as it includes the underlying trading results of the Group without the impact of Group reorganisations and business combinations. This measure was previously referred to as 'Group Operating Profit' but was renamed during the year to provide greater clarity to the users of the accounts.

£m for the year ended 31 December



The Group has continued its consistent profitable growth in 2016, with adjusted operating profit increasing by 5% from 2015 to £132.1m for 2016. This primarily reflects the 15% increase in live customer policies ('LCP') and the continuing year on year premium rate increases earning through, partially offset by the £20.0m impact of strengthening reserves for the reduction in the discount rate for personal injury damages (the 'Ogden rate') as set by the Lord Chancellor.

Adjusted operating profit margin

Adjusted operating profit margin measures the Group's operational efficiency.

It represents adjusted operating profit divided by net revenue.

% for the year ended 31 December

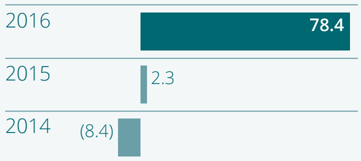
The Group's adjusted operating profit margin has reduced to 22.4% for 2016, principally due to the one off impact of strengthening reserves for the reduction in the Ogden rate.

Before the change in the Ogden rate, the adjusted operating profit margin was largely flat as the Group continued its investment in training front line colleagues in our new Leicester office and introducing the Guidewire platform. These initiatives are considered investing in the future and should give rise to efficiencies and therefore an improvement in the Group's adjusted operating profit margin in the medium term.

Profit/(loss) after tax

Profit/(loss) after tax represents the Group's performance under IFRS, including interest expense, the effects of accounting for business combinations and non-trading costs.

£m for the year ended 31 December



The Group's profit after tax of £78.4m has improved significantly due to the profitable growth of the underlying business, and the inclusion of preference share dividends, refinancing and non-trading expenses related to the IPO within the prior year comparatives.

1 The KPIs presented for the year ended 31 December 2014 represent the proforma KPIs of the Group as if the acquisition of Hastings Insurance Group Limited ('HIG') and its subsidiaries and Hastings Insurance Group (Holdings) plc ('HIG(H)') by Hastings Group Holdings plc ('HGH') occurred on 1 January 2014. HIG was the parent company within the corporate structure prior to the reorganisation as part of the Goldman Sachs investment on 8 January 2014 when it was acquired by HIG(H). HIG(H) was subsequently acquired by HGH on 12 August 2015 in a transaction that has been accounted for as a common control transaction.

Financial KPIs continued

Measure | Data | Performance

Calendar year loss ratio

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

The Group's target is a loss ratio of between 75% and 79%.

For 2014, the Group has incorporated adjustments to net earned premiums to reflect changes in quota share contracts to enable comparisons to be made with 2015 and 2016.

% for the year ended 31 December

2016	77.7
2015	75.4
2014	72.4

The Group's calendar year loss ratio continues to be within the target range, demonstrating the Group's continued focus on underwriting discipline. The loss ratio has increased year on year due to the 4.0% impact of the one off strengthening of reserves following the reduction in the Ogden rate, partially offset by higher premiums and improved risk selection.

Expense ratio

Expense ratio is a measure of underwriting operational efficiency, representing incurred operational and acquisition expenses, net of certain reinsurance commissions, divided by net earned premiums.

For 2014, the Group has incorporated adjustments to net earned premiums and reinsurance commissions to reflect changes in quota share contracts to enable comparisons to be made with 2015 and 2016.

% for the year ended 31 December

2016	13.6
2015	15.9
2014	16.3

The Group's expense ratio remained competitive and has seen an improvement year on year, driven primarily by the increase in premiums earning through and the increase in LCP that relate to renewals, which do not attract acquisition costs.

Combined operating ratio

Combined operating ratio is a measure of the Group's overall underwriting performance.

It is the sum of the calendar year loss ratio and the expense ratio, as defined above.

% for the year ended 31 December

2016	91.3
2015	91.3
2014	88.7

The Group continues to deliver a competitive combined operating ratio that reflects its underwriting discipline and operating efficiency.

Solvency II coverage ratio

From 1 January 2016, the Group's underwriting subsidiary, Advantage Insurance Company Limited ('AICL'), has been subject to a new capital adequacy regime, Solvency II ('SII'), which has replaced the Solvency I regime.

The SII coverage ratio demonstrates AICL's capital adequacy divided by the capital threshold required by its regulator, the Financial Services Commission in Gibraltar. This measure relates to the amount of own funds in relation to the Solvency Capital Requirement ('SCR').

% as at 31 December

2016	140
2015	156
2014	N/A

The Group has consistently maintained a margin above the SCR threshold required throughout the year, ensuring that AICL is appropriately capitalised.

Net debt leverage multiple

Net debt leverage multiple measures the Group's net debt relative to its profit generation and therefore reflects the Group's cash generation, level of debt and profitability.

It is calculated as the Group's net debt divided by the Group's adjusted operating profit. Net debt is calculated as gross debt less Retail free cash, dividends approved for payment by the Underwriting business and corporate free cash, as at the end of the year.

Times (x) as at 31 December

2016	1.9x
2015	2.1x
2014	3.6x

The strong operational cash inflows and growth in adjusted operating profit during 2016 have reduced the Group's net debt leverage multiple to 1.9x as at 31 December 2016, from 2.1x in the prior year.

A successful performance continued

Non-financial KPIs

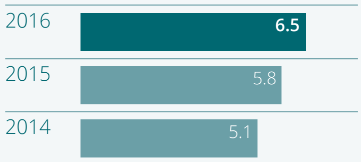
Measure

Share of total stock (private car)

Share of total stock (private car) measures the Group's share of total UK private car policies as at the end of each year.

Data

% as at 31 December



Performance

The Group's private car market share has continued to increase alongside the growth in its LCP, reaching 6.5% as at 31 December 2016.

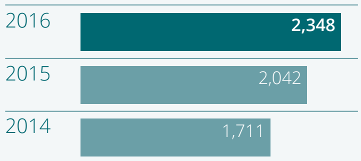
Live customer policies

Live customer policies is a principal measure of the Group's position within the UK car and home insurance markets.

It represents total policies sold by Retail for which a customer is receiving cover as at the end of the year.

Data

'000s as at 31 December



Performance

The Group is on track to beat the IPO target of 2.5 million LCP by the end of 2017, having achieved strong growth of 15%, to reach 2.35 million at 31 December 2016.

Live customer policies per full time equivalent employee ('FTE')

Live customer policies per FTE measures the Group's operational efficiency.

It is calculated as average live customer policies per average FTE.

Data

Number for the year ended 31 December

Performance

LCP per FTE decreased slightly in 2016, reflecting the investment in people the Group has made over the last 12 months to implement Guidewire and increase the headcount in Leicester as it positions itself to achieve the new, ambitious growth targets.

Establishing a strong track record

I am pleased to present another strong set of results. Our continued momentum means another record year of customer numbers and premiums, whilst we continue to deliver on all the promises made when we listed on the London Stock Exchange.

"2016 has been another record breaking year for Hastings. We continue to deliver on all our promises and look set to meet or beat every target set when we listed on the London Stock Exchange."

Richard Hoskins
Chief Financial Officer

Financial highlights

- **Continued growth of live customer policies ('LCP')** to 2.35 million as at 31 December 2016, a 15% year on year increase (2.04 million as at 31 December 2015).
- **Increased market share** for UK private car insurance to 6.5% as at 31 December 2016 (5.8% as at 31 December 2015).
- **Strong increase in gross written premiums** of 25% to £769.0m for the year ended 31 December 2016 (2015: £614.9m).
- **Growth in net revenue** of 23% to £590.3m for the year ended 31 December 2016 (2015: £481.0m).
- **Sustained increase in adjusted operating profit**[1] up 21% to £152.1m before the impact of the Ogden rate change, or 5% to £132.1m (2015: £126.1m), after allowing for the £20.0m impact of the Ogden rate change.
- **Significant increase in profit after tax** of £76.1m to £78.4m (2015: £2.3m).
- **Calendar year loss ratio**[2] for the year ended 31 December 2016 of 73.7%, before the impact of the Ogden rate change, or 77.7% after allowing for the impact of the Ogden rate change, within the target range of between 75% and 79% (2015: 75.4%).
- **Reduction in net debt leverage multiple**[3] to 1.9x adjusted operating profit (2.1x as at 31 December 2015).
- **Final dividend proposed for 2016 of 6.6 pence per share (2015: 2.2 pence per share).** Together with the interim dividend, this equates to 65.6% (2015: 56.5%) of adjusted profit after tax[4].

Details of footnotes 1–4 are on page 26.

Establishing a strong track record continued

Introduction

I am pleased to present another strong set of results. Our continued momentum means another record year of customer numbers and premiums, whilst we continue to deliver on all of the promises made when we listed on the London Stock Exchange. LCP increased by 15% to 2.35 million through continued strong retention rates and by attracting new customers with our refreshingly straightforward approach. This increase in policies combined with sustained rate increases has driven gross written premiums up 25% to £769.0m. The earn through of higher average premiums combined with a rigorous focus on underwriting discipline has maintained our calendar year loss ratio within the target range of between 75% and 79% set at IPO, after strengthening reserves following the reduction in the discount rate for personal injury damages awards (the 'Ogden rate').

The Group's sustained growth continues to be profitable and cash generative, with adjusted operating profit up 21% to £152.1m before the reduction in the Ogden rate, or, 5% to £132.1m after the reduction in the Ogden rate, and cash generated from operations of £172.5m. This has enabled us to reduce our net debt leverage multiple, strengthen the balance sheet and pay healthy dividends. The Board has proposed a final dividend of 6.6 pence per share, in addition to the interim dividend of 3.3 pence per share that was paid in November. Overall, this means the total return to shareholders in respect of the year ended 31 December 2016 will be £65.1m, a payout ratio of 65.6%.

We've continued to invest in the future, with around 700 Colleagues now based in Leicester, and have begun the phased roll out of our Guidewire broking platform, which will provide end to end capability to service customers. These investments will allow Hastings to continue to grow profitably through improving the customer experience, providing scale and delivering new home and motor products. The Group's underwriter, Advantage Insurance Company Limited ('AICL'), has made a smooth transition to the new Solvency II regime ('SII'), which came into effect on 1 January 2016, and remains well capitalised with a SII coverage ratio of 140% after the impact of the Ogden rate change.

Overall, I am proud of Hastings' achievements as we continue to meet or beat the promises made, strengthen our financial position and propose a final dividend of 6.6 pence per share. Recognising the Group's momentum, the Board has released an updated set of targets as we continue to focus on further growth from expanding our core motor book, building our home underwriting capabilities and scaling up our multicar offering.

Richard Hoskins
Chief Financial Officer

1 March 2017

1 Adjusted operating profit is defined as profit before taxation expense, finance costs, amortisation and depreciation and non-trading costs (Note 12 to the Consolidated Financial Statements).
Adjusted operating profit margin is defined as adjusted operating profit divided by net revenue.

2 Calendar year loss ratio is a measure of underwriting performance, representing net claims incurred divided by net earned premiums.
The calculations of prior year development and accident year loss ratio have been amended so that prior period adjustments to risk margin are now recorded and presented within prior year development. This change has been reflected in the comparative accident year loss ratio and prior year development figures. This change does not impact on the reported calendar year loss ratio for any period, and does not reflect a change in reserving approach.

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 Group net income adjusted to exclude the impact of share scheme costs. For the 2015 dividend payout ratio, the dividend was calculated and paid at one third of adjusted profit after tax to reflect the shorter period from the IPO to the year end.

Summary Consolidated Statement of Profit or Loss

	Year ended					
	31 December 2016			31 December 2015		
	Underlying trading[5] £m	Non-trading items[5] £m	Total £m	Underlying trading[5] £m	Non-trading items[5] £m	Total £m
Gross written premiums	769.0	–	769.0	614.9	–	614.9
Net earned premiums	334.8	–	334.8	255.9	–	255.9
Other revenue	248.3	–	248.3	219.8	–	219.8
Investment and interest income	7.2	–	7.2	5.3	–	5.3
Net revenue	590.3	–	590.3	481.0	–	481.0
Net claims incurred	(260.1)	–	(260.1)	(192.9)	–	(192.9)
Acquisition costs	(51.9)	–	(51.9)	(44.3)	–	(44.3)
Other expenses	(146.2)	–	(146.2)	(117.7)	(2.4)	(120.1)
Adjusted operating profit	132.1			126.1		
Impact of Ogden rate change	20.0			–		
Adjusted operating profit before impact of Ogden rate change	152.1			126.1		
Amortisation and depreciation	(5.6)	(22.0)	(27.6)	(4.6)	(23.0)	(27.6)
Finance costs	(9.6)	(0.6)	(10.2)	(30.2)	(60.9)	(91.1)
Taxation	(20.0)	4.1	(15.9)	(15.1)	12.4	(2.7)
Profit after tax	96.9	(18.5)	78.4	76.2	(73.9)	2.3

Strong operational performance and significantly lower finance costs as a result of refinancing in 2015, have increased profit after tax by £76.1m for the year ended 31 December 2016 to £78.4m (2015: £2.3m).

Impact of Ogden rate change

On 7 December 2016, the Lord Chancellor announced a review into the discount rate for personal injury damages awards (the 'Ogden rate'), which is used by UK courts in the calculation of personal injury lump sum settlements. On 27 February 2017, it was announced that there will be a reduction in the Ogden rate from 2.5% to minus 0.75% with effect from 20 March 2017. The Group has therefore adopted a discount rate of minus 0.75% in estimating claims liabilities in existence at 31 December 2016, which has reduced adjusted operating profit by £20.0m for the year.

The reduction in the Ogden rate is not expected to have a material impact on the Group's financial outlook for 2017.

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, preference share dividends and the impact of accounting for business combinations (Note 12 to the Consolidated Financial Statements).

Establishing a strong track record continued

Gross written premiums

Gross written premiums by product	Year ended 31 December 2016 £m	31 December 2015 £m
Private car	733.9	587.4
Bike	12.8	11.3
Van	17.9	13.1
Home	4.4	3.1
Total gross written premiums	769.0	614.9
Total gross earned premiums	691.8	543.3

Gross written premiums have increased by 25% due to LCP growth and increases in average premiums.

Continued year on year market wide premium rate increases contributed to the growth in customers using PCW to buy insurance. Hastings' digitally focused business model positions the Group to benefit from increased PCW usage which, combined with a strong retention rate, has led to a 15% increase in LCP.

Through Hastings' agile pricing and data enrichment, the Group has continued to make targeted rate increases during the year resulting in average written premiums increasing by 9% whilst increasing market share in motor to 6.5%.

The Group continues to expand into home and telematics, with both benefitting from continued PCW market penetration. As at 31 December 2016, home LCP were 168,000 and telematics LCP were 45,000, a 25% and 45% increase from 31 December 2015 respectively.

Net revenue

Net revenue by type	Year ended 31 December 2016 £m	31 December 2015 £m
Net earned premiums	334.8	255.9
Fees and commission	88.5	73.5
Ancillary product income	48.4	45.0
Premium finance interest	78.2	61.3
Reinsurance commissions	16.4	28.6
Other income	16.8	11.4
Other revenue	248.3	219.8
Investment and interest income	7.2	5.3
Net revenue	590.3	481.0

The Group benefits from a wide range of risk and non-risk based revenue streams and overall, net revenue increased by 23% to £590.3m for the year (2015: £481.0m).

Net earned premiums increased by 31% to £334.8m over the prior period due to growth in LCP and earn through of higher average written premiums (2015: £255.9m).

Fees and commission on the sale of insurance contracts and ancillary product income increased due to growth in policies sold. Premium finance interest income benefitted from the premium rate increases applied by the business and an increase in the number of customers paying in monthly instalments.

Reinsurance commission volume increases were offset by the reduction in profit commission earned as a result of lower prior year releases than in the previous year and the impact of strengthening reserves for the reduction in the Ogden rate.

Loss ratio

	31 December 2016	31 December 2015[2]
Accident year loss ratio before the impact of Ogden rate change	74.1%	78.4%
Prior year development before the impact of Ogden rate change	(0.4%)	(3.0%)
Calendar year loss ratio before the impact of Ogden rate change	73.7%	75.4%
Impact of Ogden rate change	4.0%	–
Calendar year loss ratio	77.7%	75.4%

The accident year loss ratio before the impact of the reduction in the Ogden rate improved compared to prior period due to the earning through of premium rate increases applied over the last 12 months outweighing claims inflation for the year. Average earned premiums have increased 11% year on year compared to claims inflation of 6% before the impact of the Ogden rate change, reducing the Group's calendar year loss ratio to 73.7% before the impact of the reduction in the Ogden rate. After adjusting for the change in the Ogden rate, the calendar year loss ratio increased to 77.7%, within the Group's target range of between 75% and 79%.

Combined operating ratio

	Year ended 31 December 2016	Year ended 31 December 2015
Expense ratio	13.6%	15.9%
Calendar year loss ratio	77.7%	75.4%
Combined operating ratio	91.3%	91.3%

The Group has maintained a combined operating ratio of 91.3% (2015: 91.3%), as the increase in the loss ratio following the reduction in the Ogden rate has been offset by the fall in the expense ratio.

The expense ratio for the period reduced due to premiums increasing at a faster rate than underwriting expenses.

Adjusted operating profit and profit after tax

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Underwriting adjusted operating profit before impact of Ogden rate change	50.3	37.9
Retail adjusted operating profit	101.2	89.9
Net impact of corporate and consolidation adjustments	0.6	(1.7)
Adjusted operating profit before change in Ogden rate	152.1	126.1
Impact of Ogden rate change	(20.0)	–
Adjusted operating profit	132.1	126.1
Underlying amortisation and depreciation	(5.6)	(4.6)
Underlying finance costs	(9.6)	(30.2)
Tax on underlying trading	(20.0)	(15.1)
Net income[6]	96.9	76.2
Non-trading expenses, net of tax	(18.5)	(73.9)
Profit after tax	78.4	2.3

The 21% increase in adjusted operating profit to £152.1m, before the impact of the reduction in the Ogden rate, primarily reflects the growth in LCP and the earning through of higher average premiums over the past year. Allowing for the £20.0m impact of the Ogden rate reduction, adjusted operating profit has grown by 5% to £132.1m (2015: £126.1m). The adjusted operating profit margin of 22.4% (2015: 26.2%) has declined due to the impact of strengthening reserves for the reduction in the Ogden rate and the investments made by the Group in the Guidewire system, the Leicester office and the wider business as Hastings positions itself to continue the strong growth achieved since IPO.

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

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

Establishing a strong track record continued

Taxation

The tax charge for the year was £15.9m (2015: £2.7m), an increase on the prior year relating primarily to the growth in taxable profits and the reduction in finance costs. The Group's effective tax rate ('ETR') of 16.9% (2015: 54.0%) has reduced from prior year due to non-deductible Preference Share dividends included in the year ended 31 December 2015. The Group's ETR reflects the mix between Underwriting and Retail profits arising from the difference in the enacted tax rates in Gibraltar and the UK respectively. It is anticipated that the mix of the Group's profits will remain stable over the medium term, resulting in a slight reduction in the Group's ETR as the UK corporation tax rate will reduce to 19% from April 2017 and further to 17% from April 2020.

Dividends

Dividend payout ratio	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Net income	96.9	76.2
Share based payment expense (including social security charges)	2.8	0.5
Tax on share based payment expense	(0.5)	(0.1)
Adjusted profit after tax[4]	99.2	76.6
Interim dividend paid	21.7	–
Final dividend proposed	43.4	14.5
Total dividends in respect of financial year	65.1	14.5
Dividend payout ratio[4]	65.6%	56.5%

The proposed final dividend declared for the year ended 31 December 2016 is £43.4m (2015: £14.5m), a payout of 6.6 pence per share (2015: 2.2 pence per share). This, combined with the interim dividend of 3.3 pence per share paid in November 2016, will bring total dividends to £65.1m for the year ended 31 December 2016 (2015: £14.5m). The final dividend has not been reduced for the impact of the reduction in the Ogden rate, which means that the dividend payout ratio of 65.6% is above the target of between 50% and 60% of adjusted profit after tax. Dividends in subsequent periods are expected to be within the target range and the interim and final dividends are intended to represent approximately one third and two thirds of the total annual dividend respectively. This reflects the strong trading results for the year and the Board's confidence in the ongoing cash generative nature of the business.

Summary consolidated balance sheet

	As at 31 December 2016 £m	As at 31 December 2015 £m
Assets		
Goodwill	470.0	470.0
Intangible assets	97.2	102.8
Property and equipment	12.7	13.7
Reinsurance assets	822.0	547.5
Deferred acquisition costs	24.2	19.9
Insurance and other receivables	365.0	267.2
Financial assets at fair value	403.6	316.5
Cash and cash equivalents	168.0	152.2
Total assets	2,362.7	1,889.8
Liabilities		
Loans and borrowings	286.6	295.7
Insurance contract liabilities	1,299.5	912.1
Insurance and other payables	204.5	158.2
Deferred income tax liabilities	18.5	20.6
Total liabilities	1,809.1	1,386.6
Net assets	553.6	503.2

Net assets and working capital

The Group's net asset position has further strengthened, increasing from £503.2m as at 31 December 2015 to £553.6m as at 31 December 2016. This has been driven by the increase in profits retained within the business, after dividend payments of £36.1m.

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

Return on capital employed

	Year ended 31 December 2016 £m	31 December 2015 £m
Average AICL deployed capital[7]	208.5	149.8
Average HISL deployed capital[7]	31.5	30.2
Average corporate free cash[8]	8.1	15.9
Average capital employed	248.1	195.9
Net income	96.9	76.2
Return on capital employed	39.1%	38.9%

The Group's return on capital employed increased reflecting the 27% 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 maintaining its strong solvency position.

Cash and net debt leverage

	As at 31 December 2016 £m	31 December 2015 £m
Term loan	(286.6)	(295.7)
Less acquisition costs	(3.4)	(4.3)
Gross debt	(290.0)	(300.0)
Retail free cash[8]	29.3	17.7
Corporate free cash[8]	5.0	11.2
Net debt	(255.7)	(271.1)
Adjusted operating profit before the change in Ogden rate	152.1	126.1
Impact of change in Ogden rate	(20.0)	–
Adjusted operating profit	132.1	126.1
Net debt leverage multiple before the change in Ogden rate	1.7x	2.1x
Net debt leverage multiple	1.9x	2.1x

Adjusted operating profit growth, combined with the Group's strong cash generation has resulted in a fall in the net debt leverage multiple to 1.9x, compared with a multiple of 2.1x for 2015. Before the £20.0m impact of the reduction in the Ogden rate, the Group's net debt leverage multiple was 1.7x.

The following table sets out a reconciliation of free cash flow from the Retail business to the Group's closing free cash:

	Year ended 31 December 2016 £m	31 December 2015 £m
Opening free cash	28.9	38.0
Retail cash generated[8]	98.1	81.2
Tax paid	(10.9)	(5.2)
Capital expenditure	(20.6)	(27.7)
Dividends paid	(36.1)	–
Loan repayment	(10.0)	–
Interest and corporate costs	(13.0)	(33.4)
Reorganisation, refinancing and transaction costs	(2.1)	(24.0)
Closing free cash[8]	34.3	28.9
Cash held in regulated entities or on behalf of third parties	133.7	123.3
Group cash and cash equivalents	168.0	152.2

The Group's activities continue to be highly cash generative and cash net inflow from operating activities during 2016 was £172.5m, of which £98.1m was free cash from the Retail business (2015: £81.2m). This free cash was partially offset by dividend payments, interest and loan repayments and capital expenditure, principally on the development of the Guidewire system, the costs of which are expected to reduce in future periods as the system is brought online.

7 Advantage Insurance Company Limited ('AICL') and Hastings Insurance Services Limited ('HISL') deployed capital represents respectively the average of AICL's net assets and the average of HISL's total capital resources as stipulated by FCA regulations during each year. The corporate free cash represents the average cash held during each year in the Group's other corporate entities.

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 includes cash held in the entities which are not subject to FCA or Solvency regulations.
Free cash includes both of the above and dividends to the Company approved by AICL.

Establishing a strong track record continued

Investments

Cash and cash equivalents and investments by Standard and Poor's (or equivalent) credit rating	As at 31 December 2016 £m	31 December 2015 £m
AAA and AA	279.6	274.1
A	162.5	98.6
BBB	119.9	88.7
Less than BBB or unrated	9.6	7.3
Total cash and cash equivalents and investments	571.6	468.7

The Group has a conservative investment strategy with a primary focus on capital preservation. As at 31 December 2016, the Group's percentage of investments rated A or equivalent and above of the total portfolio was 77% (2015: 80%). The weighted average credit rating of the investment portfolio continued to be A+ (2015: A+).

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

Cash and cash equivalents and investments by classification	As at 31 December 2016 £m	31 December 2015 £m
Cash and cash equivalents		
Cash at bank and in hand	30.9	42.5
Short term deposits	17.4	5.0
Money market funds	119.7	104.7
Investments		
Debt securities	355.1	264.6
Investment funds	48.5	51.9
Total cash and cash equivalents and investments	571.6	468.7

Insurance contract liabilities

Total insurance contract liabilities as at 31 December 2016 of £1,299.5m (2015: £912.1m) comprise £397.6m (2015: £320.4m) of unearned premiums, which are deferred and recognised in the statement of profit or loss in subsequent periods, and outstanding claims liabilities of £901.9m (2015: £591.7m). Gross outstanding liabilities have increased due to the greater exposure from the increase in LCP, the impact of claims inflation and the gross impact of £160.1m of the Ogden rate reduction to minus 0.75%.

The Group manages this risk by applying a consistent reserving methodology to calculate an internal actuarial best estimate and then reserving an additional risk margin. This margin has been maintained at a consistent level year on year.

The Group's reinsurance programme, described below, protects against the more volatile movements that can typically be caused by large claims and periodical payment orders ('PPOs').

Reinsurance contracts

Reinsurance contract assets by Standard and Poor's (or equivalent) credit rating	As at 31 December 2016 £m	31 December 2015 £m
AA	512.6	337.2
A	308.5	210.3
BBB	0.9	–
Total reinsurance assets	822.0	547.5

Reinsurance assets, comprising reinsurers' share of outstanding claims liabilities, increased by 50% to £822.0m as at 31 December 2016 (2015: £547.5m) due to the greater exposure from increasing policy volumes and the reduction in the Ogden rate.

The Group uses excess of loss and quota share reinsurance arrangements to limit its exposure to claims. The excess of loss programme limits the Group's exposure on any individual motor event, including PPOs, 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, and has limited the impact of the reduction in the Ogden rate on net claims liabilities.

The terms of the quota share reinsurance contracts are such that whilst the Group cedes approximately 50% of motor premiums written, in return for which the reinsurance partners contribute 50% of the claims cost for motor insurance policies that the Group incurs, the Group expects to retain the majority of profit generated on these policies through commissions receivable. The final reinsurance commissions receivable are dependent upon achieving certain performance criteria, including target loss ratios. The majority of quota share contracts are now on a rolling renewal basis, with 77% by proportion of the total 2017 programme value on two year minimum term arrangements. These contracts provide additional security and certainty regarding the availability of the Group's reinsurance arrangements.

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 as at 31 December 2016 calculated using the results of AICL, the regulated entity, on a standard formula basis.

	As at	
	31 December 2016	31 December 2015
Own funds (£m)	251.1	208.1
Solvency Capital Requirement (£m)	179.0	133.1
Solvency II coverage ratio	140%	156%

The Underwriting business remains well capitalised under the Solvency II capital requirements which came into effect on 1 January 2016, replacing the Solvency I regime.

The Solvency II coverage ratio has reduced against 2015, reflecting the reserves strengthening to allow for the reduction in the Ogden rate and an anticipated £4.0m dividend to the Company which is included in the forward looking Solvency II coverage ratio. The Solvency II coverage ratio before the impact of the Ogden rate change and anticipated dividend was 158%.

Playing an active role in our communities

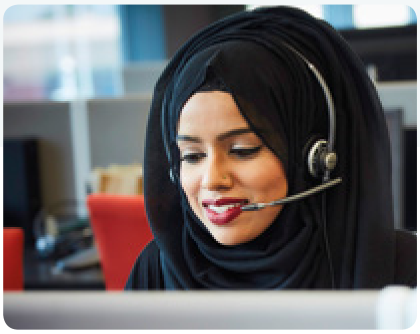
Our approach to Corporate Social Responsibility ('CSR') is simple and refreshingly straightforward: serve and invest in our colleagues, customers and communities and be a good neighbour. We focus our efforts locally so that we play an active role in the communities where we work and live.

Our 4Cs

Our 4Cs culture frames our decision making process, guiding us as we continue to grow a sustainable and financially stable Group in a responsible manner.

The 4Cs approach

Our 4Cs cultural approach drives decision making based on the belief that if we provide our colleagues with the right tools leadership, training, systems, premises and information they will be able to do more for our customers who will, in turn, buy more from us, enabling us to grow the business profitably and in a sustained way. As a result, we will invest in the communities we serve and be a responsible member of the financial services community.



4Cs Awards 2016
And the winners are…

Our Colleagues receive their 4Cs Awards for their great achievements as voted for by their peers.

Colleagues

Colleagues are always the first step in the 4Cs. We believe that engaged colleagues lead to happy customers and we actively promote a 4Cs culture where we develop, invest in and listen to our colleagues so they continue to contribute and thrive (see pages 8 to 9). We regularly recognise and reward the hard work and dedication our colleagues deliver providing the high quality service experience our customers have come to expect. We use the 4Cs to measure performance and success as individuals and as a Group, so we have a clear, consistent and balanced approach to delivering our objectives by using the right behaviours.

We also use the 4Cs to recognise and thank colleagues for going the extra mile on a monthly and yearly basis. Our 4Cs Awards programme offers colleagues the chance to nominate their team members for their great achievements and the positive impressions they make on all our colleagues, Company, customers and local communities. In 2016 we had over 1,700 nominations and the winners of the seven categories received their coveted awards at the annual 4Cs Awards VIP event.

Equal opportunities and human rights

We are committed to ensuring that everyone has the right to equal opportunities at all stages of recruitment, selection and throughout their working careers. Short listing, interviewing and selection is carried out without regard to gender, gender reassignment, sexual orientation, marital or civil partnership status, colour, race, nationality, ethnic or national origin, religion or belief or age.

Diversity

We regularly monitor the demographic and diversity of our colleagues at all levels. We consider candidates from all backgrounds as part of any recruitment process and we are committed to attracting and retaining the best talent in the industry.

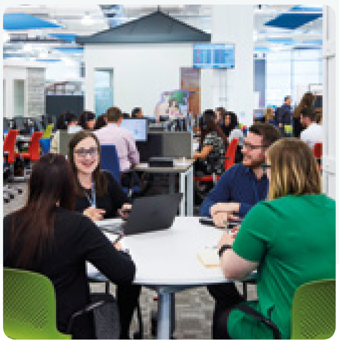
Gender diversity across the Group

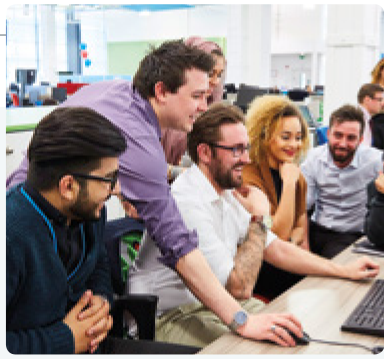
All colleagues	1,351	1,329	Total: 2,680
Underwriting and Retail senior management	75	19	Total: 94
Underwriting Board (AICL)	6	0	Total: 6
Retail Board (HISL)	4	3	Total: 7
Company Board	11	2	Total: 13

Customers

What makes us stand out from our competitors is our great value pricing and products and the way we are built for the way customers buy insurance. Key to our success is providing a refreshingly straightforward service. We do this by:

- listening and responding to our customers every week and asking them to tell us about their experience of our service and products;
- monitoring and predicting customer behaviour and market trends so we adapt our pricing and product strategy accordingly; and
- providing a quality service to all our customers by working in an open and accountable way.





Company

We try to minimise, where possible, our impact on the environment, making sure that what we do reflects our approach to CSR. It is our belief that ethical conduct is an integral component of running a business successfully and it is an expectation we have of both our colleagues and our suppliers. We continually look at ways to make improvements so we can continue to serve our communities and be a good neighbour.

Strong supplier relationships are vital to our continued success. We work closely with our local and national suppliers to communicate our standards, values, principles and sustainability goals to them. By working with our suppliers, we can offer the best price, product and service solutions to benefit our customers and colleagues.

Each colleague is responsible for achieving the highest level of business conduct and for delivering our everyday activities in a way that reflects ethical principles. We play our part by:

- inviting our customers to receive all their documentation electronically;
- supporting local businesses with over 58 unique offers that encourage and incentivise our colleagues to buy from local retailers, suppliers and services;
- promoting a 'Travel Green' initiative that supports our colleagues in making greener journeys to work through car sharing, increased cycle use and discounted rail travel;
- dedicated recycle and confidential waste stations;
- encouraging the use of travel mugs and water bottles to cut the use of disposable cups;
- using reduced energy electric light bulbs and motion sensitive lighting; and
- recycling unwanted furniture by donating it to local charities and organisations.

Community

With happy colleagues, satisfied customers and a profitable Group we are able to take the 4Cs full circle by taking an active part in serving our communities. We do this by being a good neighbour, investing in local education initiatives and being an ethical member of the financial services community.

A good neighbour

Our Charity Events Committee is made up entirely of colleagues who volunteer to organise fundraising events throughout the year for local charities nominated by colleagues. We provide a helping hand to local individuals or groups by providing advice, physical support or small grants to help with fundraising. In 2016 we raised over £60,000 for local charities and organisations and spent over 5,200 hours in our communities. As part of our InsurePink product offering, where £10 from every policy is donated to a breast cancer charity (Pink Ribbon Foundation), we are pleased that our customers helped us raise over £72,000 for this worthy charity.

Hastings Direct's Programme and Change team who cycled 120 miles to raise money for Homecall.

"A massive thank you to everyone at Hastings Direct for their fundraising throughout the year, raising valuable funds and making a big difference to our small charity"

Leah Norman
Scheme Manager, Homecall

Investing in local education initiatives

We have significant interaction with schools, colleges and universities in and around our communities to help develop, attract and nurture home grown talent. In 2016 we completed the first year of a three year education programme called 'Be the Change' in Bexhill and Leicester which aims to raise the aspirations of local 13–14 year olds. The course is designed to help remove barriers that may make students disengage from school and in life and provide them with life skills to help shape their future. Our colleagues volunteer as business mentors to help support the students with anecdotal and professional advice and guidance. Hastings continues to be the only corporate organisation to sponsor a full bespoke 'Be the Change' programme in the UK.

Hastings Direct colleagues, teaching staff and pupils at the special event held at the Curve Theatre.

BE THE CHANGE

"I was a part of 'Be the Change' last year and not only did I see a positive change in the students, but I also saw a change within my peers and a change in confidence for myself. It has helped me develop my career within Hastings Direct and has helped me excel in being a coach and supporting new colleagues that come into the business."

Mohammed Patel
Hastings Business Mentor

How we protect our business

The management of the business and the execution of our strategy are subject to a number of risks. We have a robust system of analysis, assessment and mitigation planning in place to ensure that we maintain readiness for a range of eventualities.

Viability statement

The Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, for the next three years. Three years is considered to constitute an appropriate period as it is the period covered by the most recent strategic plan reviewed by the Board. The Directors' assessment has been made with reference to the Group's current financial position and prospects, the Group's strategy, the Board's risk appetite and the Group's principal risks and how these are managed, as detailed in the strategic report.

There are regular briefings to the Board, Directors and senior management, which include the progress of new strategies being implemented (e.g. product diversification or technology enhancements) and any risks and opportunities that may emerge.

The strategy and associated principal risks underpin the Group's Three Year Plan and stress testing, which the Directors review on an annual basis. The current Three Year Plan is constructed on the commercial activities of the regulated subsidiaries of Retail and Underwriting. This includes a detailed analysis of income and expenditure and the resulting free cash generated, supported by explanations of material year on year increases or reductions, over the term of the plan. The Three Year Plan also contains detailed analysis of the income drivers and means of managing expenses in line with the Group overall appetite.

The strategic risks, which include threats relating to the general insurance market and other economic and environmental risks, are aligned to the Group's Three Year Plan. These are assessed as being within appetite, with adequate and effective controls and efficient monitoring and reporting. This is underpinned by the culture and values demonstrated by the executive and senior leadership across the Group and its regulated subsidiaries, providing the rationale for the Board to maintain the reasonable expectation that the Group's strategy is sustainable for the next three years.

Our approach

The Board has established a culture of effective risk management through the identification, assessment, mitigation, monitoring and reporting of risks throughout the Group. The Board also sets risk appetite, reviews risks, both existing and emerging, and considers risk when reviewing the Group's strategy and in meeting its objectives.

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

The principal purpose of the Risk Committee is to advise the Board on risk management matters, recommend the Group framework of risk limits and risk appetite to the Board for approval and oversee the risk management arrangements of the Company and Group generally. The Committee ensures that the material risks facing the Group have been identified and that appropriate arrangements are in place to manage, mitigate, monitor and report those risks effectively and also ensures that responsibility for managing, mitigating and monitoring risk in each of the regulated subsidiaries has been effectively delegated to the respective company boards.

Risk identification and assessment

A robust risk management framework is used at Group level and within the regulated subsidiaries to ensure there is a consistent approach to risk management across the Group.

There are two approaches to risk management:

- bottom up (Business Risk) is aimed at the day to day operations of Retail and Underwriting and is linked to the trading entities annual budget; and
- top down (Strategic Risk) focuses on lower frequency, higher impact risks that could have a significant impact on the Group and/or the trading entities' ability to successfully deliver the Group's Three Year Plan.

Strategic Risk is reviewed and challenged by the Board Risk Committee and those of the Group's regulated subsidiaries. These Committees receive timely, up to date commentary on the material movement of risk, whether influenced by external or internal conditions or events, or by any material shift in Business Risk that is linked to the successful delivery of the Three Year Plan.

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

The uniform approach of the Risk Management Frameworks enables a direct link between risks in the trading entities and the Group. The standardised Risk Management methodology used in the identification, assessment, recording, monitoring and reporting of risk results in a cohesive and integrated approach, leverages the Risk Committees at subsidiary level and provides effective and consistent assessment of the Group's risks.

Internal control framework

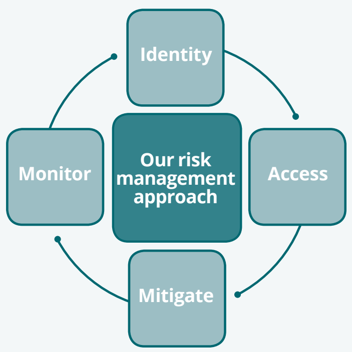
The Group has an internal control framework based on a three lines of defence approach. The three lines are comprised of:

- First Line: Business Operations:
  - has ownership, responsibility and accountability for day to day risk identification, assessment and management activity;
  - directly owns and operates risk mitigating controls and remedial actions;
  - ensures compliance with all regulatory obligations and internal policies; and
  - provides management assurance by monitoring and reporting risk, control and compliance matters for governance oversight.
- Second Line: Oversight Functions:
  - establishes boundaries by proposing Group policies and frameworks for Board approval, and standards to align Group wide practices to defined strategy;
  - facilitates guidance and direction on effective risk, control and compliance management practices to satisfy Group policies and standards and introduce Group wide best practice providing challenge, monitoring and assurance reporting directly to Risk and Audit Committees.
- Third Line: Independent Assurance:
  - offers independent challenge and assurance by internal and external auditors;
  - provides independent challenge, objective assurance and consulting activities designed to add value and improve the Group's operations; and bring a systematic, disciplined approach to evaluate and improve the effectiveness of risk management control and governance processes.

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

How we protect our business continued

Risk identification & assessment



Monitoring and quality control procedures are embedded in front line operations with clearly prescribed breach reporting and escalation processes in place. Second line oversight is provided by independent and appropriately resourced Risk, Compliance and Quality Assurance functions. Third line oversight is conducted by an internal audit function, managed and resourced via a third-party relationship with Grant Thornton UK LLP. The effectiveness of the Group's control functions is overseen by the respective Board of Directors and Committees of the Group. This is supplemented by external audit, provided by KPMG.

Internal control and risk management

The Group's governance structure, combined with embedded controls, processes and appetite statements, enables the Executive and senior management to conduct the affairs of the regulated subsidiaries in line with Board expectations. This ensures that the regulated subsidiaries adhere to approved strategies, continually monitor outcomes, and proactively identify risk and opportunities as well as initiating mitigation as required, and reporting to the Board and its Committees on a regular basis.

Strategy is implemented by suitably experienced people in the regulated subsidiaries, incentivised appropriately and guided by strong corporate culture and values across the Group. The ability to identify and respond quickly to evolving or emerging risks and issues is supported by an agile environment that encourages independent and objective challenge, focused on escalation and resolution. Timely management information is generated to enable appropriate monitoring, reporting, oversight and decision making based on sound proposals and judgement. The structures, controls and processes in place need to support the operations of the Company and are suitable and effective. These will remain appropriate and proportionate to the size, nature and complexity of the Company and are therefore regularly reviewed by the Executive management and the Group Board and its trading entities.

The Group has established various functions and models within the business to ensure effective oversight and compliance, in accordance with the three lines of defence model that is implemented across the Group and its trading entities.

Risk management function

There is a consistent risk management framework throughout the Group and its trading entities, providing support, advice and communicating the risk management strategy. This framework is approved by the Board upon recommendation of the respective Risk Committees. It provides a disciplined and structured process to reduce the potential for internal or external events that may detrimentally affect the Group through proactive risk identification, assessment, mitigation, monitoring and reporting. Through a set of continuous and developing processes applied throughout the Group, the Risk Management function ensures all known and emerging risks are managed and mitigated in line with risk appetite.

The risk management framework comprises risk registers that contain details of risks, controls, key risk indicators, actions related to risk mitigation and ownership of each risk. The framework is continuously developed to include Strategic, Business and Conduct risks. Stress and reverse stress testing and scenario analysis are regularly undertaken and reviewed by the respective Committees. For example, cash flow forecasts have been stress tested using the principal financial and operational risks listed on pages 43 to 45, including reductions in premium and other income, retention rates and new business volumes, deterioration in loss ratio and possible failure of a reinsurer. Additional focus has been applied to ensure compliance with and embedding of the requirements of the Solvency II Directive.

Risk management does not end with the reporting of risk events, it is an ongoing and iterative process whereby the organisational risk profiles of the Company and its trading subsidiaries are continually reviewed by Risk Committees and Boards alike.

Internal audit

The remit of the internal audit function is covered in the Audit Committee report on pages 62 to 66.

Compliance

The Compliance functions within the trading entities monitor compliance with the various regulatory and legal obligations of the Group, specifically those of the FCA in the UK and the FSC in Gibraltar. This monitoring helps to provide input into training, marketing and other documents as part of the continuous improvement approach to regulatory obligations.

The Group continues to ensure its Compliance oversight function remains effective in monitoring and reporting as to whether that regulatory adherence and customer conduct obligations are being met. The Compliance function provides advisory guidance to the business as well as providing second line monitoring of operations.

Fraud

The Group has a market leading counter-fraud capability, which to date has generated significant cost savings and which supports demand for participation by its insurer panel and reinsurance partners. The Group's counter-fraud operations team, Insight, operates as an integrated, comprehensive risk selection and loss validation division. Insight includes a dedicated team that includes new business review agents, analysts, intelligence operatives, claims handlers, former police officers and field based investigators. The Retail business was a founding member of the Insurance Fraud Bureau's Application Fraud Steering Committee and has a very strong relationship with the Insurance Fraud Enforcement Department.

A number of sophisticated identification and validation methodologies and databases are employed to help prevent potentially fraudulent activity at various points in the application, sale and claims process. At the point of quote, risk scoring and referencing tools including data enrichment are used to identify and reduce exposure to potentially fraudulent applications. At the point of sale, risk scoring is again undertaken to identify any quotation irregularities which are potentially 'quote manipulation' frauds. During the claims process, relational databases, external referencing and investigations are used to identify potentially fraudulent claims. The strength of the Insight team is recognised in the industry and it has been the recipient of a number of industry awards.

How we protect our business continued

Policies and procedures

To ensure stakeholders are treated equally and compliance with legislation, regulation and best practice guidance is maintained to high standards, guidance and direction is provided to all colleagues through policies and procedures.

Policies that are critical to the Group's overall control and governance structures are reserved for formal Board review and approval. These policies typically cover legal and regulatory requirements or culture and values. They also help to communicate and embed Board approved risk appetite. The three lines of defence model ensures that the standards and appetites, as defined by these policies, function as intended and provide expected outcomes. Under the three lines of defence model, assurance testing and evidence gathering on aspects of how the business is managed is undertaken by the Group internal auditor who reports to the Board via the Audit Committee. Day to day responsibility for implementing policies and procedures is the remit of senior management whose operational decisions take into account risk, against risk appetite, and how this can be controlled effectively. Board approved polices are reviewed and approved at least once a year.

To ensure that a consistent and robust approach to governance is maintained throughout the Group, a number of policies are approved by the Group's Board and are adopted in full by the trading subsidiaries.

To be better placed to demonstrate and evidence compliance with the Solvency II regime, the systems of governance, internal controls and risk and compliance policies in the Underwriting subsidiary have been enhanced.

Risk assessment

The Directors have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

The Group considers its material risks 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.

Brexit risk

The implications of Brexit have been assessed as having low impact on the Group. The UK leaving the EU is not likely to impact the need for UK motorists and households to obtain insurance and is therefore unlikely to significantly affect demand for the Group's products.

The ongoing uncertainty as to timing and terms of the UK's exit from the EU may lead to further increased volatility in the financial markets and therefore could impact on the fair value of the Group's investments. This risk is mitigated by the conservative investment portfolio, which was demonstrated by the portfolio's resilience to the market volatility seen immediately after the referendum result announcement, and minimal exposure to foreign exchange movements.

It is not expected that there will be any immediate or short term regulatory change in Gibraltar or the UK as a result of the UK leaving the EU. At present the Group has no reason to anticipate any change to the regulatory environment, or solvency regimes, within which it operates, although it monitors developments to ensure that any potential risks are identified early and mitigated as necessary.

Overall, the UK leaving the EU is not expected to significantly impact on the Group's operations or results.

Principal risks and uncertainties

Principal risks	Key monitors
Commercial performance risk	
• Inability to manage reserving and pricing risk (Underwriting)	Regular internal and external reserve reviews reported to the Board of Underwriting and external actuaries that report to Underwriting's Reserving Committee, combined with monthly results reports submitted to the Board of Underwriting.
• Market risk	Constant market assessment and the implications for assets under management.
• Reinsurance risks (Underwriting)	Regular reviews of reinsurance arrangements and the stability of external partners that provide reinsurance programmes.
• Changes to the way that consumers purchase general insurance products – less use of PCWs (Retail)	Assessing consumer preferences, and in particular the use of PCWs for the purchase of general insurance products against our planning assumptions.
Liquidity and capital risk	
• Insufficient capital to service debt arrangements (Group)	Monitoring of cash flow from trading entities and the free cash position of the Group.
• Insufficient capital to meet Solvency II requirements (Underwriting)	Management of own funds in accordance with Solvency II and Board reviews in Underwriting. Monitoring and measurement of risk and capital implications through stress, reverse stress and scenario testing, as captured in Underwriting's Own Risk and Solvency Assessment.
• Insufficient capital to meet regulatory requirements (Retail)	Annual stress testing and management of finances against the Group's Three Year Plan.
Operational risk	
• Business interruption events as a result of systems, property or supplier failure (Underwriting and Retail)	Regular reviews of resilience risks, contingent back up capability, system stability and supplier continuity plans.
• Insufficient resources to meet the volume demand and deliver the technical and professional services	Robust and real time resource monitoring and long term planning to achieve growth plans and continue to deliver a refreshingly straightforward claims and service experience.
• Reliance on third party suppliers to provide customer facing services, and technology capability	Ongoing supplier relationship and performance management, with regular due diligence reviews.
• Information security breaches or cyber crime	Constant IT infrastructure monitoring, data assessment and perimeter testing. Increased investment in information security/cyber crime defences and controls.
• Increased exposure to claims fraud may increase claims related expenditure	Dedicated team that deploys effective and anti-fraud techniques.

How we protect our business continued

External risks

Risk	Impact	Mitigation and movement in the year
Economic stress Failure to deliver the Group's strategy due to unforeseen economic changes.	Adverse economic conditions could reduce the opportunity to deliver the strategic plans and/or reduce the income from investments. Whilst the car insurance industry has been relatively unaffected by economic downturns, as the Group diversifies into home products, more of its product exposure will be subject to the effects of a sustained economic downturn.	The Group and trading entity Boards regularly consider the investment portfolios managed in the respective trading entities against the economic outlook and the Group's risk appetite. The strategy is to continue to grow the home product whilst keeping a watchful eye on the economy and the longer term impacts for the Group's product strategy. The economic situation and forecasting have been monitored and assessed against the strategic plan.
Regulatory change Changes to the regulatory environment that introduce inhibitors for income generation in the general insurance industry.	The regulatory landscape is constantly being reformed, which may introduce constraints that reduce the income drivers from general insurance. Equally, however, changes to the regulatory landscape could present opportunities for incremental income generation, dependent on consumer behaviour. The Group strategy is based on the current regulatory regime and guidelines and foreseeable changes. Any material shift in the regulations that apply to general insurance could impact the commercial plans of the Group.	The Group has an effective regulatory horizon scanning capability to review the potential implications for the Group and more importantly of its regulated subsidiaries. In addition the trading entities continue to foster good working relationships with their respective regulators, and take the opportunity to embrace regulatory change early and, where appropriate, adjust the strategic plans to accommodate that change. Retail is often engaged in consultations with the FCA, providing its views on regulatory reform which gives the Group early insight and opportunity to contribute towards the shape of future regulation. Underwriting has worked more closely with the Gibraltar FSC in 2016, since the implementation of Solvency II. During the year the Group has invested in developing its governance, risk and control in Underwriting as it further embeds Solvency II. Within Retail and Underwriting, Risk and Compliance teams have been supplemented with additional resource and capability to strengthen the second line of defence.
Operational risk Climate change that results in increased frequency and severity of claims that reduces the commercial performance of the Group.	The Group's ability to meet its strategic plan could be compromised in the event of increased claims frequency and or severity.	Underwriting adopts a prudent approach to the risk accepted and the pricing strategies used continue to reduce this risk. In addition the industry wide implications of increased claims as a result of climate change would probably result in premium inflation across the market. Maintaining the conservative underwriting approach will ensure that the Group protects its revenue generation whilst minimising the cost implications for claims.
Market conditions risk Competition in the insurance market increases.	Reduces or restricts the Group's market share that results in an impaired commercial performance.	The Group constantly monitors the markets in which it competes for pricing and other changes that could impact its commercial objectives. This monitoring and the ability to rapidly adjust pricing strategies ensure the Group remains competitive by managing both income generation and policy volumes with agility.

Internal risks

Risk	Impact	Mitigation and movement in the year
Commercial risk Commercial performance does not meet Group expectations or the Three Year Plan.	The Group either incurs additional expenses or is unable to generate sufficient income.	The Group, through its governance, Risk and Compliance functions, coupled with targeted Internal Audit in the respective trading entities, assesses the effectiveness of critical processes and procedures on a regular basis. These are assessed alongside the risk appetite at both Group and trading entity level through the management reporting that is provided at Risk Committees and Boards. This provides assurance to the Board that risks to commercial performance and the successful delivery of the Three Year Plan are adequately and effectively mitigated. Underwriting and pricing agility enables the Group to react to external influences, ensuring that it is able to optimise commercial performance. Embedding and realising efficiencies and benefits from new technology introduced processes for claims handling and policy administration. This will also continue to enhance and simplify the customer experience and drive more positive outcomes.
Operational risk Business disruption event in a regulated subsidiary.	A sustained business disruption event could materially affect the Group's ability to deliver its strategic plans.	The Group continues to improve and invest in power and systems resilience programmes that have, and will continue to improve the stability of Retail in the event of a business interruption. The Retail Board is satisfied that there are adequate and effective contingency plans and recovery capability to continue to conduct business in the event of a disruption event. The continued expansion of UK operating facilities also introduces options for natural resilience across the Retail locations. Underwriting has adequate and effective resilience plans to continue its operations. The Boards of the respective regulated subsidiaries review business disruption risks on a regular basis against the risk appetite that is set and are confident that there are mitigating controls and recovery options to ensure that this is a well managed risk.
Operational risk Supplier failure.	A supplier, delivering a key service, fails leading to the Group not being able to continue to operate and deliver its strategic objectives.	The Group has policies and procedures in place to manage and monitor the procurement process and contract management in the trading entities. The Group monitors the key risks in each trading entity and the processes in place to ensure that the risk is within appetite. The Group has a clear view of the risks associated with suppliers, through the interaction that the respective trading entity Boards have with executive and senior leaders. Efforts continue to introduce additional controls and monitoring as well as develop the internal capabilities to drive good commercial value from supplier arrangements and minimise the risk.

Maintaining effective governance

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

Board structure

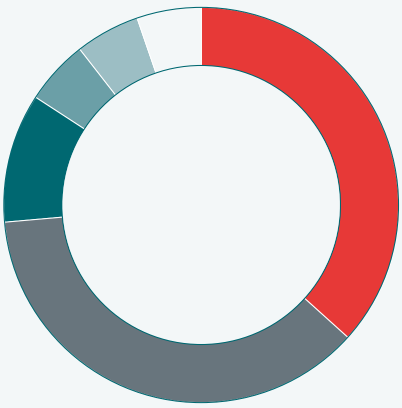
Board balance

Chairman	1
Executive Directors	2
Independent Non-Executive Directors	6
Non-Executive Directors	4

Board diversity

Male	11
Female	2

Board experience



Mike Fairey
Chairman

N Re

Appointed:
3 September 2015

Experience: Mike has been the Chairman of the Group since June 2015. Mike was Deputy Chief Executive of Lloyds Banking Group for 10 years until 2008 and currently holds a number of Non-Executive positions, including as Non-Executive Chairman of OneSavings Bank plc.

Gary Hoffman
Chief Executive Officer

N

Appointed:
3 September 2015

Experience: Gary has been the Chief Executive Officer of the Group since November 2012 and joined the Board in September 2015. He has extensive experience in the banking and insurance industries. Prior to joining the Group, Gary was Chief Executive Officer of NBNK Investments, an investment vehicle formed in August 2010 to establish personal and business retail banking in the UK. Prior to that, he led the UK government's turnaround of Northern Rock as its Chief Executive. From 2006 to 2008, he was Vice-Chairman of Barclays PLC, having previously been Chairman of UK Banking and Barclaycard at Barclays PLC following five years as Chief Executive of Barclaycard. He is the Non-Executive Chairman of VISA Europe, a Non-Executive Director of VISA Inc. and Chairman of the UK sports charity, the Football Foundation.

Richard Hoskins
Chief Financial Officer

Appointed:
3 September 2015

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

Key
● Committee Chairman
A Audit Committee
N Nomination Committee
Re Remuneration Committee
R Risk Committee

Our Board comprises individuals with a range of skills, each Director bringing specifically relevant experience to ensure that we achieve the right levels of balance and effective stewardship.

Richard Brewster
Non-Executive Director

N

Appointed:
3 September 2015

Experience: Richard was part of the management buy out of Hastings completed in February 2009. Richard became involved with Hastings in 2007 and has held Non-Executive Director positions in Group entities, including Hastings Insurance Services Limited. He previously held positions at Cox Insurance Holdings plc, and Mercantile and General Reinsurance Company plc. Richard is a Chartered Accountant.

Alison Burns
Independent Non-Executive Director

Re R

Appointed:
12 July 2016

Experience: Alison has held Executive and Non-Executive roles within Aviva plc, including the position of Chief Executive Officer of Aviva Ireland. Alison has extensive financial services experience, gained in senior roles with Santander, Bupa, Lloyds TSB and AXA UK, and brings strong leadership and executive management experience.

Thomas Colraine
Senior Independent Director

A N Re

Appointed:
3 September 2015

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

Ian Cormack
Independent Non-Executive Director

A N

Appointed:
3 September 2015

Experience: Ian spent 30 years at Citibank where he was appointed head of UK and Co-Head of the Global Financial Institutions business before becoming Chief Executive Officer of AIG's European business from 2000 until 2002. He currently serves as a Non-Executive on the boards of JRP Group plc, Phoenix Group Holdings plc, and National Angels Limited, and is Chairman of Temporis Capital LLP and Maven Income & Growth VCT4 plc.

Edward Fitzmaurice
Non-Executive Director

Re

Appointed:
3 September 2015

Experience: Edward joined the Group in April 2008 as Chief Executive Officer of Hastings and Equity Direct and was formerly the Chief Executive Officer and subsequently Non-Executive Chairman of Hastings Insurance Services Limited, and Group Chief Executive Officer prior to the appointment of Gary Hoffman. He was part of the MBO of the Hastings Direct business which completed in February 2009 and previously worked at Homeserve plc, Dixons plc and Anglo America.

Maintaining effective governance continued

Pierre Lefevre
Independent Non-Executive Director
A R

Appointed:
3 September 2015

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

Malcolm Le May
Independent Non-Executive Director
R Re

Appointed:
3 September 2015

Experience: Malcolm has extensive experience within the UK insurance industry from his previous role as a Non-Executive Director at RSA plc. He is a Chartered Accountant and currently Senior Independent Director on the board of Provident Financial plc and IG Group plc and a Partner at Opus Corporate Finance. He is also a Co-Founder of Juno Capital.

Sumit Rajpal
Non-Executive Director
N Re

Appointed:
3 September 2015

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

Teresa Robson-Capps
Independent Non-Executive Director
A R

Appointed:
1 July 2016

Experience: Teresa is currently a Non-Executive Director for Clydesdale and Yorkshire Bank Group plc and Yorkshire Water. Teresa was previously a Non-Executive Director for National Australia Bank; Europe/Clydesdale Bank. Teresa brings significant experience with international blue chip companies including HSBC, Accenture and Cable & Wireless, and experience of the insurance industry.

Michele Titi-Cappelli
Non-Executive Director
R

Appointed:
3 September 2015

Experience: Michele was appointed as Non-Executive Director for the Group as part of the investment made by Goldman Sachs in the Group in 2014. Michele is a Managing Director in MBD in London, where he is responsible for sourcing, executing and managing corporate investments in Southern Europe and in financial institutions. He first joined Goldman Sachs in 1999 as an analyst in the Investment Banking Division in London and rejoined the firm in 2004 as an associate in MBD in London. Michele became an Executive Director in 2007 and worked in the New York office in 2010. He was named Managing Director in 2012.

Key
- Committee Chairman
- A Audit Committee
- N Nomination Committee
- Re Remuneration Committee
- R Risk Committee

Directors' report

The Directors present their Annual Report and the Financial Statements for the year ended 31 December 2016.

Statutory information contained elsewhere in this Annual Report

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

- Results and dividend in the Chairman's statement on pages 6 to 7 and the Chief Financial Officer's statement on pages 25 to 33.
- Corporate governance, the Group's financial risk management and internal control objectives and policies in the corporate governance statement on pages 55 to 74 and Managing Our Risks on pages 38 to 45.
- Details of the salaries, bonuses, benefits and share interests of Directors in the Directors' remuneration report on pages 75 to 85.
- Directors' responsibility statement on page 53.

Management report

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

Directors and Directors' interests

The names of the Directors of the Company and changes to directorships during the reporting period and the biographical details of the current Directors of the Company are shown on pages 46 to 48. Details of Directors' interests in the shares of the Company are shown on page 81. This information is incorporated into this Report by reference.

Directors' indemnities and insurance

The Company has made qualifying third party indemnity provisions for the benefit of its Directors which remain in force at the date of this report. In certain circumstances, the Company can indemnify Directors, in accordance with its Articles of Association, against costs incurred in the defence of legal proceedings brought against them by virtue of their office. Directors' and officers' liability insurance cover remains in place to protect all Directors and senior managers. Directors' interests in the share capital of the Company are set out in the Remuneration Report on pages 75 to 85.

Articles of Association

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

Substantial shareholders

As at 1 March 2017 the Company was aware of substantial interests in the Company's shares or had been notified of interests in voting rights under Chapter 5 of the DTR, as follows:

Shareholder	Shareholding	% of issued share capital	Holding
Main Street 1353 Proprietary Limited	196,508,074	29.9	Direct
Hastings Investco Limited	177,691,496	27.0	Direct
Mr Neil Utley	30,000,000	4.6	Direct

Share capital structure, issue and buying back and shareholder rights

The number of Ordinary Shares of 2 pence each issued and fully paid at 31 December 2016 was 657,217,641. All Ordinary Shares have equal rights to dividends and capital and to vote at general meetings of the Company, as set out in the Company's Articles of Association.

Resolutions to provide authorities to Directors to allot shares, to disapply certain pre-emption rights and to make market purchases of the Company's own shares, all subject to appropriate limits, will be put to the Annual General Meeting ('AGM'). There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

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

Directors' report continued

Shareholders Hastings A, L.P., Hastings B, L.P., Goldman, Sachs & Co. and the Founder Shareholders (collectively 'Significant Shareholders') continue to have significant direct and indirect investment in the Company via Hastings Investco Limited. Pursuant to a Relationship Agreement ('Agreement') entered into by the Company, Hastings A, L.P., Hastings B, L.P. and Goldman, Sachs & Co. and the Founder Shareholders (collectively) are each able to appoint two of the Directors to the Board while they (or persons connected to them) continue to hold a direct or indirect interest in 20% or more of the Company's shares and one Director while they (or persons connected to them) continue to hold a direct or indirect interest in at least 5% but less than 20%. of the Company's shares. The appointees are Sumit Rajpal and Michele Titi-Cappelli (for Hastings A, L.P., Hastings B, L.P. and Goldman, Sachs & Co.) and Richard Brewster and Edward Fitzmaurice (for the Founder Shareholders). The appointment and replacement of Directors is governed by the Articles of Association, the UK Corporate Governance Code ('the Code'), the Companies Act 2006 and related legislation. In accordance with principle B.7.1 of the Code, all Directors will be subject to annual election by shareholders. The Company confirms that Hastings Investco Limited is a controlling shareholder as defined by Listing Rule 6.1.2A R, being a shareholder who exercises or controls at least 30 per cent of the voting rights in the Company.

In accordance with Listing Rule 9.8.4(14)(c) the Company confirms it has complied with the independence provisions included in the Agreement; that as far as the Company is aware independence provisions included in the Agreement have been complied with during the period under review by Hastings Investco Limited and the significant Shareholders; and the procurement obligations included in the Agreement have been complied with during the period under review by Hastings Investco Limited and the Significant Shareholders.

The Company confirms that during the financial year ended, no shares in the Company were purchased by the Company or acquired by it by forfeiture or surrender in lieu of forfeiture; or were acquired by a Company nominee, or by another with the Company's financial assistance, the Company having a beneficial interest; or were made subject to a lien or other charge taken by the Company.

Change of control – significant contracts

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

Branches

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

Greenhouse gas emissions

Tonnes CO_2e	**2016**	2015
Scope 1	277	369
Scope 2	1,064	1,201
Total Footprint	1,341	1,570
Full time employee ('FTE')	2,001	1,994
CO_2e per FTE	0.67	0.78

Scope 1 – Direct emissions resulting from natural gas and gasoil consumption and refrigerant gas release.

Scope 2 – Energy indirect emissions from purchased grid electricity.

All emission sources have reported on as required under the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended. The reporting boundary used for collation of the above data is consistent with that used for consolidation purposes in the Financial Statements.

Greenhouse gas emissions primarily arise from the Group's electricity, gas, gasoil and refrigerant gas consumption through the operation of its offices. Only offices which are solely occupied by the Group have been included in the reporting scope and therefore exclude the leased offices in London, Leicester and Hyperion House, Newmarket for which energy data is not available or accurate.

The Company does not own any vehicles and business travel through private vehicles is limited – the data is not available or accurate. Transport emissions have therefore been excluded from the reporting scope.

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

Political contributions

There were no political contributions during the year (2015: £nil).

Directors' statements

As required under the Companies Act 2006, the Code and the DTRs, various statements have been made by the Board as set out on page 53 and are incorporated into this Report by reference.

Auditor

KPMG LLP were appointed as the Company's auditor in December 2015 for the financial year ended 31 December 2015 and their appointment was approved by shareholders at the AGM in 2016 for the current financial year. KPMG have confirmed that they are willing to be reappointed as auditor for the financial year ending 31 December 2017. In accordance with Section 489 of the Companies Act 2006, a resolution proposing the appointment of a statutory auditor will be proposed at the AGM.

The Audit Committee report on pages 62 to 66 provides details on the length of tenure and re-appointment of the auditor, and when the tender was last conducted.

Directors' statement of responsibility for disclosure of information to auditor

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

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

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

Our colleagues

We consider our most important asset to be our colleagues who are the cornerstone of our business. The ability to deliver refreshingly straightforward insurance comes from a high performing, dedicated and customer focused team. We invest in our colleagues and provide them with an environment in which they feel included, valued, empowered and able to reach their full potential. Every colleague is expected to contribute to the success of the business. Accordingly, we recognise the hard work and dedication of our team by linking remuneration to personal performance in a way which does not compromise the impact on customer outcomes – we do not remunerate colleagues based on sales incentives. We actively encourage personal development by offering a range of training options to build the capabilities of our teams for the future and encourage the behaviours needed to deliver our business strategy.

We foster a culture of freedom to contribute and make things happen, aiming to be a progressive insurance industry innovator. We promote communication and collaboration to harness the talent of our colleagues and reward and recognise both individual and team success.

Directors' report continued

The Group is committed to providing equal opportunities and ensuring that colleagues are able to work without discrimination. Full and fair consideration is given to employment applications from all candidates with a disability. If a colleague were to become disabled whilst in employment, the Group would make every effort to enable the colleague to continue in employment and would make arrangements for additional equipment, support and training as appropriate.

The Group is also committed to providing a professional and safe working environment for all our colleagues, which is achieved through the application of our policies throughout the organisation.

The Group comprises colleagues with a broad range of backgrounds and has not adopted a quota system, preferring to appoint the best candidate for any position. Our approach to recruitment is to elicit candidates from as many different backgrounds as possible.

As at 31 December 2016, the Company's Board had 13 Directors of whom 11 were male and two female. Of the Group's 2,680 colleagues, 1,351 were male and 1,329 were female.

The Board composition of the Group's trading subsidiaries, Hastings Insurance Services Limited and Advantage Insurance Company Limited, at the end of the year was:

	Male	Female
Hastings Insurance Services Limited	4	3
Advantage Insurance Company Limited	6	0

The Group has a responsibility to conduct its business in an ethical and transparent way. Accordingly, we adhere to a set of business principles including a commitment to human rights principles. The Group has policies in place to support these principles which include non-discrimination, health and safety, anti-bribery, human slavery and trafficking and environmental issues. We maintain a zero tolerance approach to bribery and corruption and a programme of internal training is in place to ensure that all colleagues are aware of the Group's policies.

Further information on colleague engagement can be found in Investing in Our Colleagues on pages 8 to 9 and the Corporate Social Responsibility Statement on pages 34 to 37.

Contractual arrangements

The Group considers its co-insurance and reinsurance contracts as well as contracts with PCWs to be essential to the running of the Group's business. No other contractual arrangements are considered to be essential.

Financial instruments

The objectives and policies for managing risks in relation to financial instruments held by the Group are set out in Note 26 to the Consolidated Financial Statements.

Going concern

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

The Strategic Report and the Directors' Report were approved by the Board on 1 March 2017 and are signed on its behalf by:

Anthony S Leppard
Company Secretary

1 March 2017

Statement of Directors' responsibilities

in respect of the Annual Report and the Financial Statements

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

Company law requires the Directors to prepare Group and Parent Company Financial Statements for each financial year. Under that law, they are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU and applicable law and have elected to prepare the Parent Company Financial Statements on the same basis.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

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

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

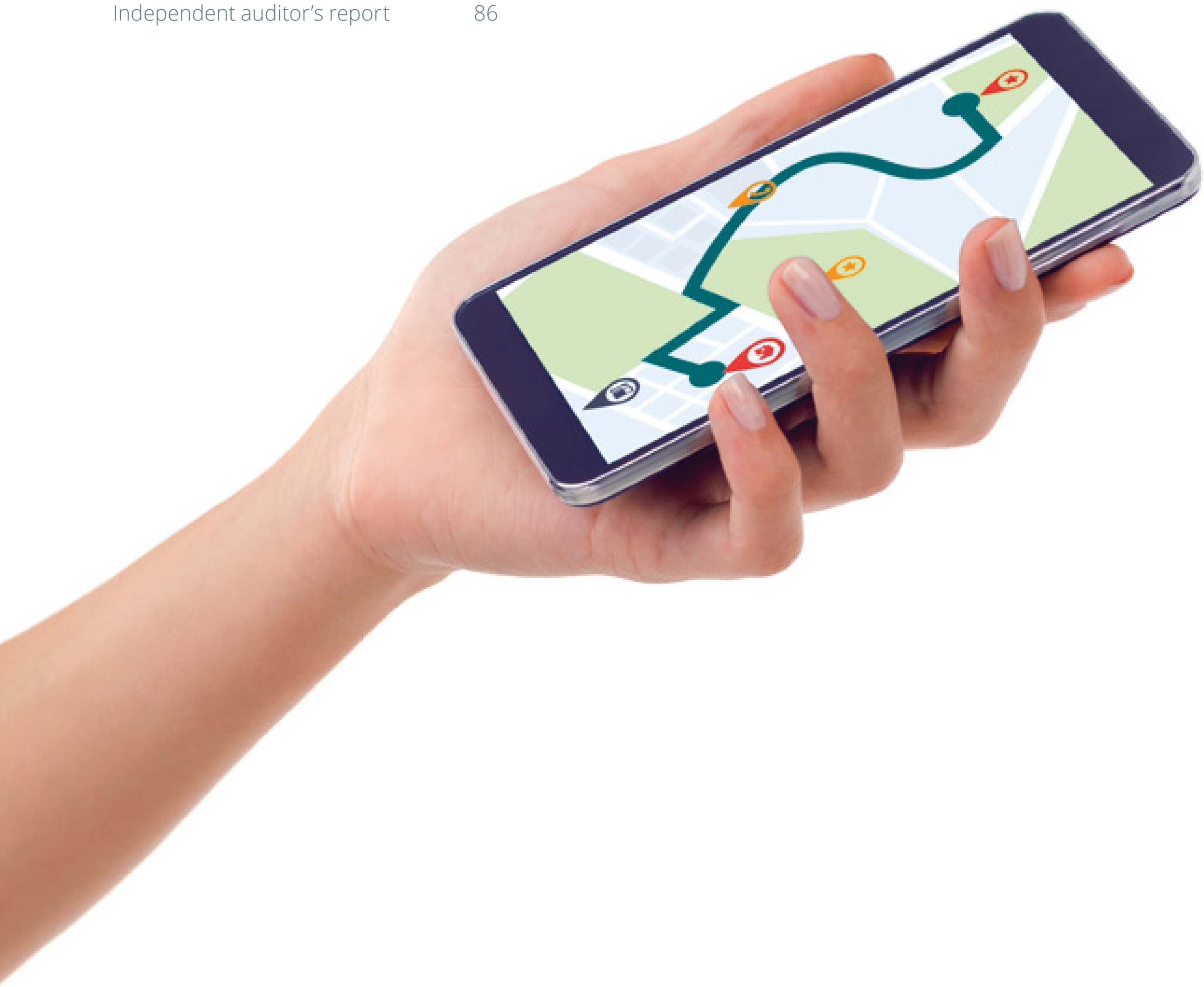
- the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report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

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

Anthony S Leppard
Company Secretary

1 March 2017

Corporate governance



Letter from the Chairman

Mike Fairey
Chairman

Dear Shareholders

The Board is committed to conducting business responsibly and to achieving a high standard of corporate governance.

This is essential to our reputation and to the continuing support of our shareholders, clients, colleagues and other stakeholders. The Company is subject to the provisions and principles of the UK Corporate Governance Code 2016 ('the Code') and the Board believes that the Company has complied with the principles and spirit of the Code during the year. The Board has established Committees with Terms of Reference in line with the Code and provide robust challenge and oversight on matters within their remit.

Upon listing last year the Board recognised that there were two principles with which the Company had not yet fully complied. In my Chairman's statement earlier in this Annual Report, I noted that the composition of the Board is now fully compliant with the Code requirement in that at least half of the Directors, excluding the Chairman, are independent of the Group. The Board is also pleased that during the year it is well on its way to being representative of its workforce as well as the world within which the Group operates in terms of gender diversity with the appointment of Alison Burns and Teresa Robson-Capps to the Board as Independent Non-Executive Directors. The Board is also aware that it is not Code compliant in terms of the composition of the Remuneration Committee and this is subject to ongoing review. However, the Board believes that the independence of this Committee is not compromised as it has an Independent Chairman and a majority of Independent Non-Executive Directors. As such, it is consistent with the principles of the Code and contributes towards good corporate governance. The Board intends to become fully compliant with the Code by the end of 2017.

The Board has a depth and breadth of experience, skills and knowledge, not only within the industry that the Group operates, but also within complementary industries. All Directors, especially Non-Executive Directors, provide constructive challenge and insight enabling the Board to operate effectively in the long term interests of all stakeholders. I am confident that the Board has the experience, skills and knowledge to respond to business and market challenges that the Company and/or the Group may face for the foreseeable future.

All Directors devote sufficient time to the Company to ensure that they discharge their responsibilities effectively. No one Director or group of Directors have unfettered powers of decision or dominate Board decision taking. The appointment of the Independent Non-Executive Directors (those not appointed under shareholder relationship agreements) is undertaken under formal and rigorous procedures. All Directors are provided with a full and thorough induction programme prior to, and after, taking office and are provided with opportunities to update and refresh their skills and knowledge throughout the year. All Directors, Independent and Non-Independent, are subject to election and annual re-election at every Annual General Meeting by separate resolutions. Board and Committee materials of appropriate quality and detail are provided in a timely manner to all Directors via a secure online portal. Directors routinely avail themselves of the chance to interact with senior management outside Board and Committee meetings. To ensure that the Board, its Committees and Directors operate and function as effectively as possible, they are subject to a formal and rigorous annual evaluation of their performance. Matters for improvement arising from the evaluation are agreed and monitored by the Board.

This Letter, the following Corporate Governance Statement and the Committee reports on pages 56 to 74 explain how the Board and its Committees operate and how the Company has complied with the Code during the year ended 31 December 2016.

Mike Fairey
Chairman

1 March 2017

Corporate governance report

The role of the Board

The Board is the main decision making body of the Company. It provides leadership within a framework of prudent and effective controls enabling risk to be assessed and managed. It also carries ultimate responsibility for the effective direction and control of the Group and is accountable to shareholders for financial and operational performance.

The Board's activities during the year included: monitoring financial performance against strategic initiatives and financial targets set at the beginning of the year; monitoring the effectiveness of internal control, internal audit and risk management systems; monitoring the statutory audit of the Annual Report and Financial Statements; and reviewing and monitoring the independence of the external Auditor and the level of non-audit work performed by the Auditor.

During the year under review the Board formally met 12 times to review Group operational and financial performance and to approve the Annual Results for 2015, Trading Statements, Long-term Incentive Plan ('LTIP') awards and Director appointments. A formal schedule of matters reserved for Board decision is subject to annual review and approval. Matters include the formulation and development of strategy, major acquisitions or disposals, significant bank borrowings, Board level appointments, the approval of financial reports and price sensitive statements and overall business risk assessment.

Clear responsibilities are allocated to the Non-Executive Chairman, the Chief Executive Officer and the Senior Independent Director. These responsibilities are set out in writing and are available from the Company Secretary or at www.hastingsplc.com/company-information/corporate-governance.

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

Board activity during 2016

At each meeting the Board received updates from the Chief Executive Officer, the Chief Financial Officer and from the respective Chairmen following meetings of Board Committees. These updates included the financial and operational performance of the Group and business and market developments of which the Board should be aware.

During the year the Board:

- reviewed the operational and financial performance of the Group;
- received updates from the main trading subsidiaries;
- was provided with in depth reviews of various Group operations;
- received updates on the implementation of the new Guidewire Broker and Claims platform;
- reviewed and approved governance procedures and compliance with the UK Corporate Governance Code and the Market Abuse Regulation;
- reviewed the output of the formal Board Evaluation and agreed an appropriate action plan;
- received updates from its Committees;
- approved documentation for the AGM;
- approved the grant of LTIP awards;
- received updates on Investor Relations;
- approved Group policies;
- approved the appointment of new Directors;
- approved the Schedule of Matters Reserved for the Board and the Terms of Reference of its Committees;
- approved the 2016 Annual Report;
- approved Trading Statements; and
- approved the Group's strategy.

Board Committees

The Board delegates certain matters to various Committees, each with their own Board approved Terms of Reference which are reviewed annually. The Board has four Committees, Audit, Nomination, Remuneration and Risk; all of their Terms of Reference were reviewed by the relevant Committee and approved by the Board. The principal activities of each Committee are set out in their respective reports on pages 62 to 74. Board and Committee meetings are structured to allow sufficient time for consideration of all items and each Chairman encourages constructive debate and challenge. Committees are authorised to obtain outside legal or other independent professional advice if required. The Chairman of each Committee reports to the Board on matters considered by each Committee at the subsequent Board meeting as appropriate. All Directors have access to the minutes of each Committee.

The membership of Committees is a matter for the full Board upon recommendation of the Nomination Committee. Each of the Board Committees comprises solely Non-Executive Directors, with the exception of the Nomination Committee, of which the Chief Executive Officer is a member. Each Committee is chaired by an Independent Non-Executive Director; the Nomination Committee is chaired by the Chairman of the Board. The current membership of each Board Committee can be found on pages 46 to 48. Executive Directors, members of management and professional advisers also attend meetings of the Committees when required to do so by the chair of the relevant Committee.

The Terms of Reference for the Committees can be found at www.hastingsplc.com/company-information/corporate-governance.

Board and Committee meeting attendance

Details of the number of meetings of the Company's Board and Committees held during the year and the attendance of each Director (in office between 1 January 2016 and 31 December 2016) at those meetings set out below. Information on the role and responsibility of each Committee are provided in their respective reports on pages 62 to 74.

		Committee			
	Board	Audit	Nom	Rem	Risk
Total meetings held	12	7	3	5	4
Mike Fairey	12	–	3	4	–
Gary Hoffman	12	–	3	–	–
Richard Hoskins	12	–	–	–	–
Alison Burns[1]	6	–	–	3	3
Teresa Robson-Capps[1]	6	4	–	–	2
Thomas Colraine	12	7	3	5	–
Ian Cormack	10	6	3	–	1[2]
Malcolm Le May	12	2[3]	–	5	4
Pierre Lefevre	12	7	–	–	4
Richard Brewster	10	–	3	–	–
Edward Fitzmaurice	12	–	–	5	–
Sumit Rajpal	11	–	3	5	–
Michele Titi-Cappelli	12	–	–	–	4

1 Alison Burns and Teresa Robson-Capps were appointed to the Board in July 2016; their attendance record reflects the number of meetings attended since their appointment.

2 Upon the appointment of Alison Burns to the Risk Committee, Ian Cormack stepped down as Committee member in July 2016.

3 Upon the appointment of Teresa Robson-Capps to the Audit Committee, Malcolm Le May stepped down as Committee member in July 2016.

The Non-Executives met twice during the year without the presence of the Chairman and/or Executive Directors.

Corporate governance report continued

Compliance with the UK Corporate Governance Code

The Company is subject to the UK Corporate Governance Code 2016 ('the Code') and the assessment of its compliance with the Code is set out below.

A. Leadership

A.1 The role of the Board

The Board's role is to provide leadership to the Group within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets the Group's strategic aims and ensures that the necessary resources are in place to achieve those aims. There is a clear schedule of matters reserved for the Board, together with delegated authorities. The Board met 12 times during the year; a summary of the matters considered by the Board during 2016 is shown on page 56. The biographies of the members of the Board are provided on pages 46 to 48 where the Chairman, Senior Independent Director and Committee members are identified. The Company maintains appropriate insurance cover in respect of legal action against its Directors.

A.2 Division of responsibilities

The roles of the Chairman, Chief Executive Officer and Senior Independent Non-Executive Director are clearly defined. The roles of Chairman and Chief Executive Officer are not to be exercised by the same individual. The division of responsibilities between the Chairman, Chief Executive Officer and Senior Independent Non-Executive Director are set out in writing and approved by the Board.

The Chairman, Mike Fairey, is responsible for the leadership and effectiveness of the Board. The Chief Executive Officer, Gary Hoffman, is responsible for leading the day to day management of the Group in line with the strategy set by the Board. The Senior Independent Non-Executive Director, Thomas Colraine, is available to shareholders if they have concerns and will attend sufficient meetings with, and listen to the views of, major shareholders to help to develop a balanced understanding of the issues and concerns of major shareholders; he also acts as a sounding board for the Chairman.

A.3 The role of the Chairman

The Chairman sets the agendas for the Board meetings in conjunction with the Company Secretary and promotes open and constructive debate between Directors and Non-Executive Directors during meetings.

The Chairman met the independence criteria as set out in B.1 below upon his appointment.

A.4 The role of Non-Executive Directors

The Chairman actively invites the Non-Executive Directors' views. They provide constructive challenge to management and help develop proposals on strategy.

The Board has appointed Thomas Colraine as Senior Independent Non-Executive Director. He is available to shareholders, to attend sufficient meetings to listen to the views of major shareholders and to help to develop a balanced understanding of the issues and concerns.

The Chairman held meetings with the Non-Executive Directors without the Executive Directors present during the year. The Senior Independent Non-Executive Director also met with Non-Executive Directors without the Chairman present to appraise the Chairman's performance and on such other occasions as were deemed appropriate.

Minutes of every Board and Committee meeting are taken by the Company Secretary and are approved as a true and accurate account by the respective Board or Committee at the subsequent meeting.

B. Effectiveness

B.1 The composition of the Board

When making appointments to the Board, the Board and the Nomination Committee consider the wide range of skills, knowledge and experience required to maintain an effective Board. The Board believes that it and its Committees have the appropriate balance of skills, experience, independence and knowledge of the Company and the industry within which it operates to enable them to discharge their respective duties and responsibilities effectively.

The Board has an appropriate combination of Executive and Non-Executive Directors. In particular it has an appropriate number of Independent Non-Executive Directors such that no individual or small group of individuals can dominate the Board's decision taking. At the beginning of the year the Company did not fully comply with the provisions of the Code in that half of the Board, excluding the Chairman, was not composed of Independent Non-Executive Directors. During the year the Board appointed two further Independent Non-Executive Directors in July and is now fully compliant with the Code in that respect.

Those members of the Board who the Company deems to be independent are identified on pages 46 to 48.

B.2 Board appointments
The Board is responsible for the appointment of all Directors. The appointment of Non-Executive Directors is led by the Nomination Committee. The work of the Nomination Committee during the year is provided on page 67 to 68. Non-Executive Directors are appointed for specified terms subject to re-election and to statutory provisions relating to the removal of a Director. Any term beyond six years for a Non-Executive Director will be subject to a particularly rigorous review taking into account the need for progressive refreshing of the Board.

The Board recognises it should be representative of its workforce as well as the world within which the Group operates. The Board appreciates the benefits of diversity and will continue to seek appropriate, well qualified candidates irrespective of race, gender, disability, religion or belief, sexual orientation or age.

Shareholders Hastings A, L.P., Hastings B, L.P., Goldman, Sachs & Co. ('Goldman Sachs') and the Founder Shareholders ('Founders') continue to have significant direct and indirect (via Hastings Investco Limited) investment in the Company. Pursuant to a Relationship Agreement, Goldman Sachs and the Founders are each able to appoint two Directors to the Board while they (or persons connected to them) continue to hold a direct or indirect interest in 20% or more of the Company's shares and one Director while they (or persons connected to them) continue to hold a direct or indirect interest in at least 5% but less than 20% of the Company's shares. These appointees are Sumit Rajpal and Michele Titi-Cappelli (Goldman Sachs) and Richard Brewster and Edward Fitzmaurice (Founders).

Shareholder Rand Merchant Investment Holdings Limited and its wholly owned subsidiary, Main Street 1353 Proprietary Limited (together 'RMI'), now have a direct or indirect investment in the Company. Pursuant to a Relationship Agreement, RMI will be able to appoint one Director and one observer to the Board while they (or persons connected to them) continue to hold a direct or indirect interest of between 15 per cent and 29.9 per cent in the issued Ordinary Share capital of the Company.

B.3 Commitment
When appointed, Directors are informed of the time commitment expected from them and this is stipulated in their contract of employment or letter of appointment as appropriate. The terms and conditions of appointment of Non-Executive Directors are made available for inspection at the Group's Head Office.

Neither of the Executive Directors holds any Non-Executive Directorship in a FTSE 100 company nor the chairmanship of such a company.

B.4 Development
All Directors have full unfettered access to senior management. Newly appointed Board members are provided with a full induction programme. Following this induction, meetings are arranged with senior managers to provide ongoing education and information about the business throughout the year.

An annual effectiveness evaluation was undertaken by the Board in the year under review; the outcome was an agreed action plan for the Board and its Committees for the year ahead. The training and development needs of each Director will be assessed and appropriate support provided.

B.5 Information and support
The Chairman, in conjunction with the Company Secretary, ensures that all Board members receive accurate and timely information. The Company Secretary is responsible for advising the Board through the Chairman on all governance matters. All Directors have access to independent professional advice at Company expense to assist in discharging their responsibilities as Directors.

B.6 Board evaluation
The Board, its Committees and Directors undertook an evaluation of their performance during the year. The evaluation was led by the Company Secretary utilising an external, web based appraisal system to provide a confidential assessment. The Board, its Committees and peer reviews of the Company Secretary, Executive Directors and Non-Executive Directors were also conducted. A scoring mechanism was used to provide recipients with context for the results. Anonymised responses were provided where appropriate. The Board reviewed the evaluation in the Board meeting held in November this year and has agreed actions to enhance Board and Committee operations, Director professional development and training as well as stakeholder engagement.

Corporate governance report continued

It is expected that the review to be undertaken in 2018, being the third year to be evaluated, will be externally facilitated.

B.7 Re-election of Directors
All Directors are subject to election by shareholders at the first AGM after their appointment. All Directors are subject to annual re-election thereafter.

C. Accountability
C.1 Financial and business reporting
The Board is responsible for preparing fair, balanced and understandable financial information and is assisted by the Audit Committee to ensure this is achieved. The Strategic Report is set out on pages 1 to 52 inclusive and this provides information about the performance of the Group, the business model, the strategy and the risks and uncertainties relating to the Group's business.

C.2 Risk management and internal control systems
The Board assesses the nature and extent of the significant risks the Company faces and maintains sound risk management and internal control systems. The Board Risk Committee and Audit Committee met at least four times in the year under review. Further information on risk management and internal control systems is set out in the Company's Viability Statement on page 38, the Risk Committee report on pages 69 to 70 and the Audit Committee report on pages 62 to 66.

The Board has reviewed the effectiveness of the Company's risk management and internal controls during 2016, including financial, operational and compliance controls. The Board confirms there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, which has been in place throughout the year.

C.3 The role of the Audit Committee
The Audit Committee assists the Board with its responsibilities for: ensuring fair, balanced and understandable financial information is prepared; risk management; internal control; and its relationship with the Auditors. Its activities are set out in the Audit Committee report on pages 62 to 66. That report also provides details on the length of tenure and re-appointment of the Auditors, and when a tender was last conducted.

The Audit Committee report on pages 62 to 66 provides details on the length of tenure and re-appointment of the Auditors, when the tender was last conducted as well as advance notice of the Company's re-tendering plans.

D. Remuneration
D.1 Setting levels of remuneration
The Remuneration Committee sets levels of remuneration to attract, retain and motivate the Board but also structures executive remuneration so as to link rewards to corporate and individual performance.

No Non-Executive Director has been awarded share options or other performance related incentives during the period.

Executive Director notice periods are set at one year or less.

D.2 Development of executive remuneration policy and packages
The Board acknowledges that the Group does not fully comply with the requirements of the Code in that not all members of the Remuneration Committee are Independent Non-Executive Directors. However, it believes that the independence of the Remuneration Committee is not compromised as it has an Independent Chairman and a majority of Independent Non-Executive Directors. As such it is consistent with the principles of the Code and contributes towards good corporate governance.

The activities and composition of the Remuneration Committee and its approach to setting the remuneration policy can be found in the Directors' Remuneration Report set out on pages 75 to 85.

E. Relations with shareholders
E.1 Shareholder contact
The Board values opportunities to meet with shareholders and is kept informed of shareholder views.

The Board exercises due care and diligence to ensure that information, including that which is potentially price sensitive or inside information is released to all shareholders at the same time in accordance with applicable legal and regulatory requirements.

E.2 Annual General Meeting ('AGM')
The Board welcomes the opportunity to meet with shareholders at the AGM.

Independence of Non-Executive Directors

The Board considers all the Independent Non-Executive Directors to be independent and although most of them hold shares in the Company, these shareholdings are not considered sufficiently material to impact their independence.

Directors' conflict of interest

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

Whistle blowing

A whistle blowing policy is in force across the Group to enable colleagues to bring to the attention of any Director serious matters of misconduct which they believe would damage the performance or reputation of the Group.

Annual General Meeting ('AGM')

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

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

The AGM for 2017 will be held at 11am on Thursday 25 May 2017. The Company confirms that it will send the Notice of AGM and related documentation to shareholders at least 20 working days before the meeting, either by post, to those shareholders who prefer a paper copy, or by email to those shareholders who have agreed that the Company can communicate with them electronically. The Notice of AGM and the Proxy form are available from the Investors section on the Company's website **www.hastingsplc.com/investor-information/agm-shareholder-meetings**.

Company website

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

Audit Committee

Thomas Colraine
Chairman of the Audit Committee

Dear Shareholders

I am pleased to present the report of the Audit Committee ('the Committee') for the financial year ended 31 December 2016.

The Committee supports the Board by reviewing the integrity of the financial information, robustness of internal controls, the consistency of, and any changes to, accounting policies and standards, the effectiveness of external and internal audit and providing clear, complete, fair, balanced and understandable financial reports to shareholders. The Committee is required to report its findings to the Board, making any necessary recommendations for action or improvements. The Committee's Terms of Reference can be found on the Company's website **www.hastingsplc.com/company-information/corporate-governance**.

Composition of the Audit Committee

The Audit Committee during the year comprised the following Independent Non-Executive Directors meeting the requirements of the UK Corporate Governance Code ('the Code') in that all Committee members are Independent Non-Executive Directors with relevant sector and financial experience and the Committee as a whole shall have competence relevant to the sector in which the Company operates:

Chairman	Members
Thomas Colraine	Teresa Robson-Capps
	Ian Cormack
	Pierre Lefevre
	Malcolm Le May[1]

1 Malcolm Le May stepped down as a Committee member upon the appointment of Teresa Robson-Capps in July 2016.

During the year, following the appointment of Teresa Robson-Capps as a Director, the Committee approved her membership of the Audit Committee; at the same time Malcolm Le May agreed to step down as a Committee member. Each member of the Committee has significant experience working with listed entities on matters relating to financial probity and internal control. Biographies of the Directors are set out on pages 46 to 48. The Company Secretary acts as Secretary to the Committee and takes the minutes of all meetings.

Although not Committee members, the external Auditor, KPMG LLP ('KPMG'), the internal Auditor, Grant Thornton UK LLP ('Grant Thornton'), the Chief Executive Officer and the Chief Financial Officer are notified of all meetings and may attend by invitation. At each meeting, the Committee has the opportunity to talk to the external and internal Auditors without the Chief Executive Officer or the Chief Financial Officer being present.

As part of the Board effectiveness evaluation conducted in October this year, the Audit Committee was also subject to an appraisal by its members. The evaluation considered the effectiveness of processes and procedures established by the Committee to fulfil its duties, the effectiveness of the systems of internal control and financial and regulatory risk management systems as well as monitoring the effectiveness and objectivity of the internal and external Auditors. The performance of Committee members and the Committee Chairman were also reviewed. The Committee has agreed a number of actions for the coming year in relation to the aforementioned areas.

Meetings

The Committee met seven times during the year, during which it:

- reviewed and recommended the Financial Statements for the year ended 31 December 2015;
- reviewed and recommended the Interim Results for the six month period ended 30 June 2016;
- reviewed and recommended the trading statements for the three month period ended 31 March 2016 and the nine month period ended 30 September 2016;
- reviewed the reserving position relating to the Group's underwriting operations;
- reviewed the assumptions underlying the Viability Statement and going concern considerations;
- reviewed the impact assessment of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers;
- approved the external audit strategy and the fee of the external Auditor;
- reviewed and recommended the policy on Provision of Audit and Non-Audit Services for Board approval;
- reviewed the effectiveness of the external Auditor and was satisfied that the services provided by the external Auditor remained effective, objective and fit for purpose;
- concluded that the internal audit function was performing well and was sufficiently resourced;
- held regular meetings with the internal Auditor, reviewing reports on completed audits and progress against the Internal Audit Plan to ensure adequacy of the systems of control;
- approved the Internal Audit Plan for 2017; and
- conducted an annual review of Committee effectiveness.

It is proposed that the Committee will meet at least four times a year and at other times as required.

How the Committee addresses issues with Financial Statements and matters communicated to the Committee by the Auditor

Financial Reporting and Significant Financial Judgements

Provision for outstanding claims

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

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

Having been approved by Underwriting at both the Reserving Committee and Board, detailed papers were provided to the Audit Committee explaining the methodology used, how the Reserving Policy has been applied and the judgements applied in the actuarial calculations that support the provisions made, including the impact of estimating the claims liabilities at the revised personal injury discount rate (the 'Ogden rate') of minus 0.75% following the announcement by the Lord Chancellor on 27 February 2017. These papers included reports and calculations provided by the external actuary. The Committee met with management and considered explanations from both the internal and the external actuaries to deliberate the methodology applied, the best estimate calculations and the external actuary's independent report. Extensive information on reserving levels was provided to support these discussions and to enable the Committee to assess the adequacy of the reserves and level of prudence, and any variances between the internal and external best estimates were debated and understood.

Audit Committee continued

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

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

Reinsurance assets

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

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

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

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

Significant issues related to the Financial Statements

Other than the areas of significant judgement described above, there were no other significant issues related to the Financial Statements considered by the Committee and discussed with the external Auditor during the year and in relation to the 31 December 2016 year end.

Interaction with the FRC Corporate Reporting Review team

In November 2016, the Company Chairman, Chairman of the Audit Committee and the Chief Financial Officer received a letter from the Financial Reporting Council's ('FRC') Corporate Reporting Review team in relation to the Annual Report and Accounts for the period ended 31 December 2015. This letter highlighted two areas on which the FRC recommended improvements or requested further clarification. Those areas related to alternative performance measures and the Relationship Agreement between the Company and controlling shareholders. The Company reviewed the recommendations and provided further clarity to the FRC on both matters. The Company welcomed the FRC's interaction and agreed to review its disclosures in relation to these matters and has made further improvements to its corporate financial reporting. The FRC was satisfied with the responses provided by the Company and no further action was required.

External audit

The Committee has primary responsibility for overseeing the relationship with, and performance of, the external Auditor. At the start of the audit cycle, the Committee received a detailed audit plan from KPMG identifying the audit scope, planning materiality and its assessment of key risks. The Committee considered the content and scope of the audit work and the audit fees proposed by KPMG and discussed the key audit risks, new developments within the Group and changes in accounting policies which might impact on financial reporting.

The Committee is also responsible for recommending the appointment, reappointment or removal of the external Auditor. KPMG was appointed as Auditor to the Company in November 2015, having been Auditor of Hastings Insurance Group Limited and Hastings Insurance Group (Holdings) plc, the previous Parent Companies of the Group, since June 2011 and August 2013 respectively. In accordance with audit partner rotation requirements, Tim Butchart stepped down as lead audit director during the year and Salim Tharani was appointed as lead audit partner for the year ended 31 December 2016, and has therefore served one year. The reappointment of KPMG is proposed at the forthcoming AGM in May 2017.

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

Under the provisions of the UK Corporate Governance Code the Committee, as representative of the shareholders, is required to oversee the relationship with the Auditor and keep the nature and extent of non-audit services under review. The Committee must satisfy itself that the independence and objectivity of the Auditor are not compromised. The Committee reviewed and recommended to the Board a fully Code compliant Group Policy on the Provision of Audit and Non-Audit Services; which was approved by the Board.

In the Committee's assessment of the effectiveness of the external audit process KPMG was asked to articulate the steps that it has taken to ensure objectivity and independence. The Committee monitors the Auditors' performance, behaviour and effectiveness during the exercise of their duties, which informs the Audit Committee's decision whether to recommend reappointment on an annual basis. The total amount paid for non-audit work during the year was £0.4m and was for assurance services connected to KPMG's role as statutory Auditor including the review of the Interim Results and review of grant monitoring forms for a local authority.

Internal audit

The internal audit function is managed and resourced via a third party relationship with Grant Thornton. It brings a systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management control and governance processes. Internal audit provides insight and recommendations based on the assessment of data and business processes.

The independence of the internal audit function helps to ensure that accurate reports are provided to the Board, Audit and Risk Committees without undue management influence on the audit and its processes. The internal audit function service provider was chosen through a tender process involving reputable audit firms and the independence of that firm is regularly reviewed. Internal audit also reviews the effectiveness of the Group risk functions.

Where deficiencies are identified, the Committee receives an update at each meeting from the internal Auditor on the progress towards remediation. No significant deficiencies in the system of internal controls were identified in internal audit reviews during 2016.

Priorities for 2017

In the coming year the Audit Committee will focus on:

- continued review of the Group's reserving process;
- oversight of the implementation by the Group of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers;
- assessment of the impact on the Group of IFRS 16 Leases and ensuring the Group is prepared to comply with the standard; and
- ensuring the Group's internal audit function continues its systematic and disciplined approach.

Audit Committee continued

Fair, balanced and understandable

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

Discharge of responsibilities

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

On behalf of the Audit Committee

Thomas Colraine
Chairman of the Audit Committee

1 March 2017

Nomination Committee

Mike Fairey
Chairman of the Nomination Committee

Dear Shareholders

I am pleased to present the report on the work of the Nomination Committee for the year ended 31 December 2016. The Nomination Committee met three times in the period under review.

It is proposed that the Committee will meet at least twice a year and at other times as required.

The Committee is a formal sub-Committee of the Board with its own defined Terms of Reference. The principal purpose of the Nomination Committee is to review the composition and evaluate the balance of skills, knowledge and experience of the Board. It also leads the process for the appointment of new Executive and Independent Non-Executive Directors to the Board and makes appropriate recommendations to the Board on such matters as skill mix and diversity. It oversees the succession planning process for Executive Directors and Senior Executives.

Composition of the Nomination Committee

The Nomination Committee comprised the following Directors during the year:

Chairman	Members
Mike Fairey	Richard Brewster
	Thomas Colraine
	Ian Cormack
	Gary Hoffman
	Sumit Rajpal

Biographies of the Committee members are set out on pages 46 to 48. The Terms of Reference for the Committee have been agreed by the Board and are available online at **www.hastingsplc.com/company-information/corporate-governance**.

Meetings

The Committee met three times during the year during which it:

- considered the composition of the Board and necessary steps to achieve compliance with the independence provisions of the UK Corporate Governance Code ('the Code');
- agreed to appoint two further Independent Non-Executive Directors to achieve Code compliance and sought to focus on both appointments being female to also address diversity imbalance;
- oversaw the process for recruitment of two female Independent Non-Executive Directors and endorsed appointment of recommended candidates;
- approved changes of membership to Board Committees in light of new appointments;
- oversaw the process for appointment of new Independent Non-Executive Directors to the Group's subsidiary, Hastings Insurance Services Limited;
- oversaw the process for appointment of a successor to the Managing Director of Advantage Insurance Company Limited who stepped down due to retirement;
- considered and endorsed succession plans for Executive Directors and other Senior Executives;
- endorsed recommendations for new appointments and changes to the Senior Executive team, as recommended by the Chief Executive Officer; and
- conducted an annual review of Committee effectiveness.

Nomination Committee continued

A Relationship Agreement exists between the Company and certain shareholders whereby these shareholders can appoint up to four Directors to the Board as long as they maintain a certain shareholding in the Company. A Relationship Agreement also exists between the Company and other shareholders whereby these shareholders can appoint one Director to the Board as long as they maintain a certain shareholding in the Company. Further information about these agreements can be found on page 59.

The Committee is aware that the size of the Board as a whole should also be considered when considering the Board's composition so as not be so large as to be unwieldy. The Board at the start of the year was not Code compliant and comprised of 11 Directors, two Executive Directors, four Non-Independent Non-Executive Directors, four Independent Non-Executive Directors and the Non-Executive Chairman. The Committee reviewed the composition of the Board during the year and it proposed that two further appointments of Independent Non-Executive Directors be considered.

The Remuneration Committee is not fully Code compliant in that the Committee is not wholly comprised of Independent Non-Executive Directors. The Committee reviewed the composition of the Remuneration Committee during the year and recommended to the Board that the independence of the Remuneration Committee is not compromised as it has an Independent Chairman and a majority of Independent Non-Executive Directors. Hastings is intent on becoming fully compliant in terms of the composition of the Remuneration Committee by the end of 2017.

Role and responsibilities of the Committee

As stated, the Board was aware that at the beginning of the year it was not fully compliant with the Code in that less than half of the Board, excluding the Chairman, was comprised Independent Non-Executive Directors. The Board agreed that the appointment of two Independent Non-Executive Directors should be made to ensure the Company fully complied with the Code.

When proposing appointments of Non-Executive Directors, the Committee considers the independence, skills, knowledge and experience that a candidate possesses compared to the skill sets and experience of the Board as it currently stands. Selection of candidates also takes into consideration the breadth of knowledge that the Board has and that it is required to provide a well balanced environment which encourages scrutiny and appropriate challenge. The Committee is also committed to ensure that the Board is representative in terms of diversity and candidates from a wide range of disciplines and experience were considered. The Committee abides by the Company's policy to ensure that the best candidate is selected to join the Board and the Board does not intend to adopt a quota system with prescriptive, quantitative targets.

A long list of candidates was created in conjunction with an external executive search consultancy – Russell Reynolds – who were able to validate and verify independence and capability. The Committee selected a shortlist of candidates for interview and made two recommendations for appointment to the Board. Taking into consideration the views of the Committee and independent referencing, the Board appointed Teresa Robson-Capps and Alison Burns as Independent Non-Executive Directors in July 2016. Following these appointments, the Board has an appropriate number of Independent Non-Executive Directors such that no individual or small group of individuals can dominate the Board's decision taking.

As per its Terms of Reference, the Committee can obtain information from independent executive search consultants to support succession planning activity. During the period under review, the Committee engaged executive search agents, Russell Reynolds, to carry out a review of sector specific external senior capability. Russell Reynolds does not have any other relationship with the Company.

As part of the Board effectiveness evaluation conducted in October this year, the Nomination Committee was also subject to an appraisal by its members. The evaluation considered how it discharged its responsibilities in maintaining a formal, rigorous and transparent procedure for the appointment of new Directors to the Board and its Committees, as well as the performance of the Committee members and the Committee Chairman.

Priorities for 2017

In the coming year the Nomination Committee will focus on Board composition and succession planning for Directors and Senior Executive management within the Company and the Group's trading entities.

On behalf of the Nomination Committee

Mike Fairey
Chairman

1 March 2017

Risk Committee

Pierre Lefevre
Chairman of the Risk Committee

Dear Shareholders

I am pleased to present the report of the Risk Committee for the financial year ended 31 December 2016.

The Board has ultimate responsibility for the Group's risk management framework and delegates the oversight of this to the Risk Committee. The Committee is a formal sub-Committee of the Board with its own specific Terms of Reference. The principal purpose of the Risk Committee is to advise the Board on risk management matters, recommend the Group framework of risk limits and risk appetite to the Board for approval, and oversee the risk management arrangements of the Company and its regulated trading subsidiaries.

The Committee meets at least four times a year as a minimum and at other times as required.

Composition of the Risk Committee

The Risk Committee comprised the following Directors during the year:

Chairman	Members
Pierre Lefevre	Alison Burns
	Teresa Robson-Capps
	Ian Cormack[1]
	Michele Titi-Cappelli
	Malcolm Le May

1 Ian Cormack stepped down as a Committee member upon the appointment of Alison Burns and Teresa Robson-Capps in July 2016.

During the year, following the appointment of Teresa Robson-Capps and Alison Burns as Company Directors, the Board approved the revised membership of the Risk Committee; at the same time Ian Cormack stood down as a Committee member. Biographies of the Committee members are set out on pages 46 to 48. The Company Secretary acts as Secretary to the Committee and takes the minutes of meetings. The Terms of Reference for the Committee have been agreed by the Board and are available online at www.hastingsplc.com/company-information/corporate-governance.

Meetings

The Committee met four times during the year, during which it:

- reviewed, assessed and approved the Risk Management Framework;
- reviewed, assessed and approved the Risk Management Policy;
- reviewed, assessed and approved the Risk Appetite Statements;
- defined and assessed all Group risks and examined a number of critical risks in detail;
- reviewed and challenged the Group and the regulated subsidiaries Risk Reports;
- reviewed and approved the statements in the Annual Report related to Risk Management;
- examined in detail critical risks and risk events; and
- conducted an annual review of Committee effectiveness.

Risk Committee continued

Role and responsibilities of the Committee

The Risk Committee ensures that the Group's material risks have been identified and that appropriate arrangements are in place to assess, mitigate, monitor and report on those risks effectively. The Committee also ensures these practices are consistently applied in each of the regulated trading subsidiaries as delegated to the respective company Boards. The Risk Committees within these trading entities are composed of Independent Non-Executive Directors and executive management who oversee and report on the effectiveness of the Risk Management Framework for their respective entities. Conduct risk in the Group's UK regulated subsidiary, and regulatory compliance and customer outcome matters are separately considered by Retail's Customer and Financial Conduct Committee. All Committee Chairs report formally to the respective entity Boards and regularly meet with the Chairman of the Group Risk Committee who is also chair of Underwriting's Risk Committee.

This cohesive and integrated approach to Risk Management leverages the Risk Committees at subsidiary level and provides effective assessment of the Group's enterprise wide risk profile.

As part of an evaluation of Board effectiveness conducted in October 2016, the Risk Committee was also subject to an appraisal by its members. The evaluation considered how it discharged its responsibilities for: recommending the Group's framework of risk limits and risk appetite on behalf of the Board, overseeing the risk management arrangements of the Company and Group generally; ensuring that the Group's material risks have been identified; that appropriate arrangements are in place to manage and mitigate those risks effectively; and ensuring that responsibility for managing and monitoring risk in each of the regulated subsidiaries has been effectively delegated to the respective Boards of Directors. The performance of the Committee members and the Committee Chairman was also reviewed. The Committee has agreed a number of actions for the coming year.

As Chairman of the Risk Committee I supervised the appointment of a Group Chief Risk Officer which was completed in December this year. This role will provide dedicated support as the Committee defines its longer term vision and strategy for enterprise wide risk and compliance management, along with the shorter term priorities of the Group.

Internal control and risk management

The description of the Group's internal control and risk management is covered in the Managing Our Risks report on pages 38 to 45.

Priorities for 2017

In the coming year the Risk Committee will focus on:

- continued development of Group Risk strategies, in particular related to Capital Adequacy, Conduct Risk, Information and Cyber Security, Data Protection, Health and Safety and Resilience and Recovery Capabilities;
- increasing assurance in the implementation of the Group wide Risk Management and Compliance strategies;
- further embedding Risk Management and Compliance to support the Group strategic and commercial priorities; and
- developing pre-emptive actions in relation to forthcoming regulatory obligations of the Group.

On behalf of the Risk Committee

Pierre Lefevre
Chairman

1 March 2017

Remuneration Committee

Malcolm Le May
Chairman of the Remuneration Committee

Dear Shareholders

I am pleased to present the report of the Remuneration Committee for the financial year ended 31 December 2016.

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

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

As part of the Board effectiveness evaluation conducted in October this year, the Remuneration Committee was also subject to an appraisal by its members. The evaluation considered how it discharged its responsibilities as well as the performance of the Committee members. The Committee has agreed a number of actions for the coming year.

Composition of the Remuneration Committee

The Remuneration Committee comprised the following Non-Executive Directors during the year:

Chairman	Members
Malcolm Le May	Alison Burns
	Thomas Colraine
	Mike Fairey
	Edward Fitzmaurice
	Sumit Rajpal

The Board, and the Committee itself, recognise that the composition of the Committee does not fully comply with the UK Corporate Governance Code in that not all members of the Committee are Independent Non-Executive Directors; however, it believes that the independence of the Committee is not compromised as it has an Independent Chairman and a majority of Independent Non-Executive Directors. Biographies of the Committee members are set out on pages 46 to 48. The Company Secretary acts as Secretary to the Committee. The Terms of Reference for the Committee have been agreed by the Board and are available online at www.hastingsplc.com/company-information/corporate-governance.

The Chief Executive Officer may be invited, from time to time, to attend meetings of the Committee. No individuals are involved in decisions relating to their own remuneration. The Committee met formally four times during the year under review. The Terms of Reference for the Committee can be viewed on the Company's website.

Following appointment, Deloitte LLP advised the Committee on a number of executive remuneration matters including a review of the executive remuneration framework, developments in market practice and share incentive plans.

Remuneration Committee continued

Meetings

The Committee met five times during the year, during which it:

- agreed performance targets (EPS and TSR) for the Group's LTIP;
- approved 2016 awards under the Group's LTIP;
- confirmed the threshold for Committee remit for the approval of Senior Executive remuneration, in addition to that of the Executive Directors and Company Secretary;
- approved bonus awards under the short term management bonus plan for the performance year ended 31 December 2015;
- approved minor amendments to the rules of the Group all employee Share Incentive Plan;
- approved the Directors' Remuneration Report for the year ended 31 December 2015;
- reviewed the Company's approach to remuneration reporting post publication of the Group's Annual Report for the year ended 31 December 2015;
- reviewed new reporting requirements and best practice, including gender pay reporting requirements;
- agreed the process for review and approval for annual salary bonus awards for Executive Directors and other Senior Executives;
- approved changes to remuneration of certain Senior Executives in context of appointments and role changes endorsed by the Nomination Committee;
- considered market and other benchmark data for Executive Director remuneration and that of other Senior Executives as well as the Board Chairman;
- discussed and approved the terms for the recruitment and departure of certain Senior Executives in accordance with its Terms of Reference;
- considered a proposed approach to short term management bonus awards for the performance year ending 31 December 2016; and
- conducted an annual review of Committee effectiveness.

Remuneration Report and Policy

The Director's Remuneration Report and Remuneration Policy follows this Committee report. The Remuneration Policy ('Policy') was approved by shareholders at last year's AGM and no changes to the Policy are proposed at this time. In accordance with the Large and Medium sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, the Policy is expected to remain in effect for the next two years and will be placed before shareholders at the AGM in 2019 for approval. If any changes to the Policy are proposed before this date, a revised Policy will be put forward for shareholder approval at the next available AGM or specially convened general meeting. Where such changes to the Policy are proposed, the Company intends to consult with major shareholders beforehand.

The Committee is conscious of the importance of remuneration strategy and practice and the considerable attention it is attracting from institutional shareholders, governments and other stakeholders. The Committee will continue to follow developments and where appropriate recommendations from evolving market practice and, as permitted under its Terms of Reference, use its discretion to ensure we set remuneration policy which is in the best interests of the Company.

Priorities for 2017

In the coming year the Remuneration Committee will focus on:

- in relation to the Chief Executive Officer, Chief Financial Officer and Senior Executive management within the Group's trading entities:
  - assessment of Group performance against 2016 budget and approval of bonus awards for 2016;
  - approval of bonus performance measures and targets for 2017;
- review of any issues raised by shareholders in relation to remuneration and the remuneration policy;
- assessment of the ongoing appropriateness of remuneration arrangements and remuneration trends and market practice;
- recommendation for approval by the Board awards and performance conditions under the Company's Long-Term Incentive Plan for 2017; and
- analysis of performance conditions under the Company's Long-Term Incentive Plan at the year end.

For and on behalf of the Remuneration Committee

Malcolm Le May
Chairman

1 March 2017

Annual statement from the Remuneration Committee Chairman

Dear Shareholders

On behalf of the Board, I am pleased to present our Directors' Remuneration Report ('DRR') for the year ended 31 December 2016.

Last year we presented our first DRR following our IPO in October 2015. We received a vote of 99.98% for both our Annual Report on Remuneration ('Report') and Remuneration Policy ('Policy') by our shareholders at our Annual General Meeting ('AGM') in 2016. This year, we are not proposing to make any changes to our Policy. In the interests of succinct reporting, we have not reproduced the full Policy but have included, at the end of this Report, an extract for ease of reference. A summary table, setting out an overview of remuneration elements and how these will be implemented in 2017, is also included at the start of the Report. The full Policy, as approved by shareholders, can be found in the 2015 Annual Report (www.hastingsplc.com/investors/results-centre/annual-reports).

As required by regulation, our Report will be subject to an advisory vote at our AGM in May this year. As no changes are proposed, no resolution is proposed on our Policy at this year's AGM.

Remuneration in context

The Company has had a successful first full year as a listed company. This can be seen in the Company's strong top and bottom line growth, including gross written premiums up 25%, growth in adjusted operating profit, prior to the impact of the Ogden rate change as well as a substantial uplift in the Company's share price since the start of last year, significantly outperforming our peers. There has been a one off strengthening of reserves to allow for the reduction in the Ogden rate. As this is one off, it has not impacted the final dividend and is not expected to have a material impact on the outlook going forward. The Group is on track to meet the targets set out at the IPO last year. Last year also saw the implementation of several key strategic initiatives and the embedding of Solvency II, providing us with strong foundations to continue our growth into future years.

The achievement of these results, including adjusted operating profit (pre-Ogden) up 21% to £152.1m and progress towards the long term goals of the Company are underpinned by our Policy. Our strategy is set out in the Strategic Report and is focused on creating long term value for our shareholders by delivering sustainable growth. The Committee determines the Company's Policy to ensure alignment with the strategic plan and the interests of our shareholders through the design and delivery of meaningful and tailored incentives with stretching performance targets for our executive team.

Remuneration decisions in respect of 2016

As described in the Strategic Report, the Company achieved a strong financial performance during the year. The sustained growth continues to be profitable and cash generative, with adjusted operating profit up 21% to £152.1m before the impact of the Ogden rate change (5% after allowing for the impact of the reduction in the Ogden rate) and a 47% increase in share price.

Annual bonus awards are determined taking into account this adjusted operating profit growth achievement against pre-determined targets, as well as overall corporate and individual performance within our 4Cs framework including objectives aligned to Colleagues, Customers, Company and Community. This ensures a balanced overall assessment of performance, in line with best practice. Further information on the 4Cs is provided in the Corporate Social Responsibility report on pages 34 to 37.

In line with the approach taken as a private company prior to IPO, the Company continues to set stretching adjusted operating profit performance targets under the annual bonus scheme, which apply to all colleagues. For 2016, the target range, set at the start of the year was for annual growth of between 21% and 28% year on year on a like for like basis. In assessing performance against these targets, the Committee considered adjusted operating profit prior to the impact of the one off strengthening of reserves as a result of the reduction in the Ogden rate, reflecting the approach taken for the final dividend. The 2016 year end achievement represented a 21% uplift on prior year, before the £20m impact of the Ogden rate change. In addition there was strong achievement against the pre-determined 4Cs objectives.

Annual statement from the Remuneration Committee Chairman continued

Upon careful consideration and in recognition of the significant value created for shareholders in the year, the Committee determined a bonus of £237,500 be made to the Chief Executive Officer, representing 50% of salary, and £157,500 be made to the Chief Financial Officer, representing 50% of salary. 25% of these bonuses will be deferred into shares for three years. The Remuneration Committee also determined that additional bonus funding be provided for the benefit of the Company's more junior level colleagues, ensuring that our front line staff share meaningfully in the Company's success in the year.

For this year's DRR a key area of focus for the Remuneration Committee has been to provide comprehensive disclosure for shareholders of bonus outcomes for the first full year following the IPO. Details on the achievement of bonus targets and the outturn of awards is provided on pages 77 to 78.

Remuneration changes for 2017

The first awards to Executive Directors under the Long-Term Incentive Plan ('LTIP') will be made at the start of 2017 and will vest in 2020 subject to the achievement of Total Shareholder Return ('TSR') and Earnings Per Share ('EPS') performance targets. The Committee currently considers that these measures remain the most appropriate to assess the underlying performance of the business while creating alignment with shareholders and rewarding long term value creation. Further details on the 2017 LTIP performance targets are provided on page 79.

The salaries of Executive Directors have not been increased since the company listed on the Stock Exchange in 2015. The Committee is not proposing to increase the salaries in 2017 but will keep this position under ongoing review and anticipates that there may be a need to make adjustments in the future.

Conclusion

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

We value the views of our shareholders and we actively welcome any feedback on our Remuneration Policy and its implementation. We hope you find this report helpful and informative and we hope to receive your support for the DRR at our AGM in May 2017.

Malcolm Le May
Chairman
Remuneration Committee

1 March 2017

Annual report on remuneration

This section sets out how the Policy of the Company has been applied during the year and details how the Committee intends to apply the Policy going forward. An advisory shareholder resolution to approve this report will be proposed at the AGM in May 2017.

Compliance statement

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

Overview of executive directors policy and approach for 2017

An overview of the key remuneration elements in place for Executive Directors and details of the implementation of the Policy for 2017 are set out below. There are no significant changes from 2016.

Key element	Summary of Policy	Details of approach for 2017
Base salary	Salaries are normally reviewed annually, with any increase usually taking effect from January.	No changes are proposed to salaries for 2017. Salaries for 2017 are: • Gary Hoffman: £475,000 • Richard Hoskins: £315,000
Pension	The Company operates a defined contribution scheme. The maximum annual contribution is 10% of salary.	Executive Directors will receive a contribution of 10% of salary and both will receive cash in lieu of pension.
Benefits	Benefits include a car allowance of £8,000pa, private medical cover for the Executive and family, life assurance, long term disability insurance and costs associated with rental property.	
Share Incentive Plan ('SIP')	Executive Directors may participate in the SIP on the same terms as other employees.	
Annual bonus	Awards are based on financial, operational and individual goals during the year. At least 50% of the award will be assessed against the Company's financial performance. The remainder of the award will be based on personal performance against individual objectives. 50% of salary awarded for on target performance with an absolute maximum opportunity of 100% of salary. A proportion earned is deferred into Company shares, which vest over three years.	For 2017, the level of the award will be based primarily on adjusted operating profit. In determining individual payouts, the Committee will also consider performance against pre-determined 4Cs objectives, aligned to our strategy. This includes financial and non-financial metrics relating to Colleagues, Customers, Company and Community, in line with our bonus approach across the organisation. The details of the performance targets for 2017 are commercially sensitive and will therefore be disclosed in next year's report. 25% of any award made will be deferred into shares for three years.

Remuneration report continued

Key element	Summary of Policy	Details of approach for 2017
Long-Term Incentive Plan ('LTIP')	Awards granted under the LTIP vest subject to the achievement of performance conditions measured over a three year period. The normal maximum level of awards that may be made in respect of any financial year is 225% of salary. In exceptional circumstances the Committee may grant awards of up to 300% of salary.	Executive Directors will be eligible to participate in the LTIP for the first time in 2017. Awards of 225% of salary will be made to each Executive Director, with vesting determined on the basis of: • 50% on Total Shareholder Return ('TSR') relative to FTSE 250, with 25% of this element vesting for achievement of median performance, rising to 100% for upper quartile performance; • 50% on Earnings Per Share ('EPS'), with 25% of this element vesting for achievement of cumulative adjusted EPS of 63.8p per share, rising to 100% for 73.9p per share.
Shareholding guidelines	The Executive Directors are expected to build up and maintain a value holding equivalent to twice their base salary.	

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

The following table sets out the audited total remuneration for the Executive Directors. For 2016, this represents the full year period from 1 January 2016 to 31 December 2016. 2015 data is provided for the period from 3 September 2015 to 31 December 2015, representing the period from which the Executive Directors commenced duties for the Company. As the Remuneration Committee did not apportion the Executive Directors' bonus between the period pre and post 3 September 2015, the full year award has been shown for 2015.

	Gary Hoffman		Richard Hoskins	
	2016 (1 January 2016 – 31 December 2016)	2015 (3 September 2015 – 31 December 2015)	**2016 (1 January 2016 – 31 December 2016)**	2015 (3 September 2015 – 31 December 2015)
Salary	**£475,000**	£136,391	**£315,000**	£95,798
Benefits	**£38,368**	£30,447	**£12,324**	£3,236
Retirement benefits	**£47,500**	£13,639	**£31,500**	£9,580
Annual bonus	**£237,500**	£150,000	**£157,500**	£90,000
LTIP	–	–	–	–
Admission awards (vesting in 2017 and 2018)	–	£1,500,000	–	£1,000,000
Total	**£798,368**	**£1,830,477**	**£516,324**	**£1,198,614**

Additional notes to the table

Benefits

The benefits consist of private medical insurance (for the Executive Directors and their families), long term sickness cover, health screening, life assurance and a car allowance. The Company meets the cost of a rental property in the Bexhill area and the cost of travel to and from the Bexhill, Leicester and Newmarket offices and any consequent tax liability for the Chief Executive Officer. The cost of these benefits is included based on the latest completed returns to HMRC for the year ended 5 April 2016. The costs incurred since that return are not believed to be substantially different to those reported.

Retirement benefits

The amount set out in the table represents the Company contribution to the Directors' retirement planning at a rate of 10% of base salary. Gary Hoffman and Richard Hoskins receive cash in lieu of pension.

Annual bonus

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

2016 Annual bonus outturn

Performance against adjusted operating profit targets

The Committee set a stretching underlying adjusted operating profit range for the Company's first full year trading as a public listed company. These targets were set by the Committee measuring performance on a like for like basis and therefore have been assessed by reference to underlying trading adjusted operating profit before the impact of the Ogden rate change This is in line with the approach for the final dividend which has not been reduced for the one off provision.

As described below, the bonus funding outcome for achieving 21% annual growth required to meet the entry level adjusted operating profit target was set at 37.5% of maximum in order to reflect the stretch of the profit growth targets compared to those typically seen in the listed market.

	Performance range				
	Entry	Stretch	Maximum	Actual	Outcome
Adjusted operating profit (pre-Ogden)	£152m	£157m	£162m	£152.1m	37.5%
Growth on 2015 achievement on a like for like basis	+21%	+25%	+28%	+21%	

Assessment of corporate performance against 4Cs objectives

Our 4Cs	Corporate performance achievements
Colleagues Ensuring colleagues are engaged and that Hastings actively promotes a culture where colleagues can contribute and thrive.	In a year where headcount has increased significantly, the Company has met the majority of its targets relating to colleagues: • met target 'Your Voice' score on employee engagement; • management 'in touch' rating improved by 2% on prior year, showing colleagues believe management have increased awareness of issues impacting them; • successful development of long term plans for all operating locations, including Bexhill, Leicester, Newmarket and Gibraltar; • successfully filled talent gaps as identified in the three year plan; • colleague attrition continues to be an area of focus, with rates currently above the desired level.
Customers Differentiating us from our competitors through great value pricing and products and the way our customers buy insurance.	2016 has seen significant progress for Hastings in terms of transforming our service approach and operating model. Hastings' ability to continue to perform against customer metrics during this time of significant change has been a notable achievement for the Company: • effective complaint handling matched industry peers, as measured by Financial Ombudsman Service overturn rate; • some excellent progress on Net Promoter Score; • strong progress towards becoming known for being great at digital and technology; • continued focus on customer services and claims process under the new operating model.
Company Enabling us to grow profitably and sustainably.	2016 has seen strong financial performance for the Company, including: • number of Live Customer Policies in line with target and up 15% year on year; • calendar year loss ratio within the target range; • significant momentum on home insurance, including significant growth in live customer policies up 25% on prior year; • Guidewire Claims platform delivered with Broker live on four price comparison websites; • Guidewire benefits realisation plans embedded in budget and three year plan; • reduction of net debt leverage multiple, exceeding target level.
Community Taking an active part in serving the Community, but being a good neighbour, nurturing home grown talent and being an ethical member of the financial services community.	Hastings continues to make a positive impact in the Community. Key achievements this year include: • impact of the Hastings 'Be the Change' community programme for schools in local areas; • maintenance of a positive relationship with external stakeholders, including regulatory bodies; • embedding of Solvency II, including meeting reporting timelines and quality.

Remuneration report continued

Individual performance against objectives

Chief Executive Officer

Our Chief Executive Officer has very successfully led the business across all dimensions through the first full year following IPO. His connection with our colleagues is evident through the feedback from our employee engagement survey 'Your Voice' and through his very personal approach to setting out progress and future direction in Colleague Roadshows. He is well respected and embodies the Hastings' expectations of a leader including through his clear commitment to customers.

Implementing and embedding Guidewire is the key initiative that is making a difference for customers and the successful implementation in Claims has made a tangible improvement in customer experience. Our Chief Executive Officer is very supportive of our community programmes which drive a strong sense of pride across Hastings.

The share price growth and delivery of other key Company metrics, including the promises made at IPO, is impressive. It is also worth noting he has led the Executive team in delivering in excess of 20% year on year growth in adjusted operating profit, before the impact of the Ogden rate change (5% after allowing for the one off impact of the reduction in Ogden rate).

Overall, therefore, our Chief Executive Officer has demonstrated strong delivery and leadership throughout 2016.

Chief Financial Officer

Our Chief Financial Officer has had a very strong year. He has provided effective leadership of the Finance function and driven many of our initiatives to ensure Hastings has transitioned smoothly following IPO.

Key achievements in the year include a successful roll out of a new finance operating model, providing greater support to the business, improvements in internal and external financial reporting, significant contribution towards our Investor Relations programme and achievement of all capital management objectives.

Bonus outcomes for Executive Directors

2016 has been a strong year, with continued delivery of our enviable track record of strong profitable growth. This, combined with the performance achievements as described above, and the Company's strong share price performance of 47% growth in the year from £1.67 to £2.46, the Committee determined that the Chief Executive Officer should receive a bonus of £237,500 (50% of salary and maximum) and the Chief Financial Officer receive £157,500 (50% of salary and maximum). 25% of these bonus awards will be deferred into shares for three years.

Long Term Incentives

No Long-Term Incentive Plan awards were due to vest in respect of 2016.

Legacy arrangements

Admission Awards

As disclosed in the DRR for 2015, Executive Directors were granted conditional share awards at the time of the Company's admission to the London Stock Exchange ('Admission Awards'). For 2015, as required, the values shown in the Single Figure table represented the face value of the awards at Admission, which are subject to the Executive Directors continued employment with the Company. The individuals have not yet received any value from these awards.

The awards were expressed in cash terms and will be delivered in shares at the end of 2017 and 2018 based on the market price of shares at that time. The award for Gary Hoffman will be £750,000 payable at the end of 2017 and £750,000 payable at the end of 2018. The award for Richard Hoskins will be £500,000 payable at the end of 2017 and £500,000 payable at the end of 2018. In the event that the Board determines that the market price of shares has fallen materially since the grant of the Admission awards, the Board may reduce the value of the Admission awards at the time they become payable. No further Admission awards will be made.

Management incentive plan

As disclosed in the DRR for 2015, a Management Incentive Plan ('MIP') was established at the time of the Goldman Sachs investment in the business in January 2014. The interests still held by Directors are set out in the Directors' Shareholding and Scheme Interests table on page 81. Details of the vesting conditions of the interests are provided in the 2015 Directors' Remuneration Report.

As at 31 December 2016, assuming all vesting conditions are met, the total MIP interests for Gary Hoffman and Richard Hoskins would have a value equivalent to 5,945,454 and 1,660,106 Company ordinary shares respectively. Gary Hoffman also holds legacy interests in the parent entity of Hastings Investco Limited, which he originally acquired at the time of the Goldman Sachs investment in the business in January 2014. These interests may be satisfied in cash or, in certain circumstances, as ordinary shares in the Company.

Scheme interests awarded to Executive Directors in the year

No awards under the LTIP have yet been granted to Executive Directors. Gary Hoffman and Richard Hoskins will be considered for awards at the next three year performance cycle which will run from January 2017.

LTIP awards were granted to other selected Senior Executives within the Company in 2016. These awards may vest in 2019 conditional on performance over a three year period to 31 December 2018. Whilst there is no requirement to disclose the performance conditions attached to these awards, in the interests of transparent reporting, the Committee considered it appropriate to provide details on the performance conditions attached to these awards.

The Committee considered the key long term objectives over the performance period and determined that the awards should be linked to the value created for shareholders over the period. As a consequence the awards are equally weighted against relative TSR and adjusted EPS performance targets. The EPS target is a cumulative pence per share target over each of the three years. The targets for the LTIP granted in 2016 are summarised below;

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

EPS performance	Proportion vesting	TSR performance	Proportion vesting
Below Threshold	0%	Below median	0%
Threshold (54.6p per share)	25%	Median	25%
Stretch (63.8p per share)	100%	Upper quartile	100%
Straight line vesting between threshold and stretch		Straight line vesting between median and upper quartile	

For the LTIP grant in 2017, Executive Directors will be eligible to participate in the LTIP for the first time.

Awards made in 2017 will vest on the basis of:

- 50% on relative TSR, with targets and vesting schedule unchanged from those that applied to the 2016 awards as set out in the table above;
- 50% on cumulative adjusted EPS, with threshold target set at 63.8p per share and stretch at 73.9p per share.

External appointments

Executive Directors may hold external directorships if the Chairman determines that such appointments do not cause any conflict of interest. Where such appointments are approved and held, it is a matter for the Chairman to agree whether fees paid in respect of the appointment are retained by the individual or paid to the Company.

Gary Hoffman currently holds three external appointments, with Visa Inc, Visa Europe and as Chairman of The Football Foundation. He received £190,064 in respect of his roles at Visa Inc and Visa Europe. The appointment with The Football Foundation is unpaid.

Service Agreements

Director	Date of appointment	Notice period	Unexpired term
Gary Hoffman	15/06/2015	6 months	6 months
Richard Hoskins	03/09/2015	6 months	6 months

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

Remuneration report continued

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

The following table sets out the audited total remuneration for the Non-Executive Directors. For 2016, this represents the full year period from 1 January 2016 to 31 December 2016. 2015 data is provided for the period from 3 September 2015 to 31 December 2015, representing the period from which the Non-Executive Directors commenced duties for Hastings Group Holdings plc.

	2016 (1 January 2016 – 31 December 2016) Fees	2015 (3 September 2015 – 31 December 2015) Fees
Michael Fairey	£157,917	£48,864
Thomas Colraine	£80,000	£26,061
Malcolm Le May	£65,762	£21,174
Ian Cormack	£50,000	£16,288
Pierre Lefevre	£46,955	£14,659
Richard Brewster	–	–
Edward Fitzmaurice	–	–
Sumit Rajpal	–	–
Michele Titi-Cappelli	–	–
Alison Burns (joined July 2016)	£22,131	–
Teresa Robson-Capps (joined July 2016)	£22,293	–

Notes to the table

Fees

Non-Executive Directors receive fees only; none participate in any form of incentive schemes.

The fees shown include additional fees for chairing Board committees where appropriate. In 2015 and 2016, Richard Brewster, Edward Fitzmaurice, Sumit Rajpal and Michele Titi-Cappelli waived their fees for their roles as Non-Executive Directors.

Non-Executive Director fees

Non-Executive Director fees are set out below. The fees for the Chairman and Non-Executive Directors will be reviewed in 2017.

Role	Fee per annum
Chairman basic fee	£150,000
Non-Executive Director basic fee	£50,000
Additional fees	
Chairman of the Nomination Committee	£10,000
Senior Independent Director	£15,000
Chairman of the Audit Committee	£15,000
Chairman of the Risk Committee	£10,000
Chairman of the Remuneration Committee	£15,000

It is noted that Pierre Lefevre is entitled to receive a total annual fee of £90,000, comprising £45,000 for his duties as a Non-Executive Director and chairman of the Risk Committee of Advantage Insurance Company Limited and £45,000 for his role as Independent Non-Executive Director, and Chairman of the Risk Committee, of the Company.

Letters of Appointment

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

Director	Date of Letter of Appointment	Notice period	Unexpired term
Mike Fairey	01/06/2015	3 months	17 months
Richard Brewster	28/09/2015	3 months	21 months
Alison Burns	12/07/2016	3 months	30 months
Tom Colraine	01/08/2015	3 months	19 months
Ian Cormack	01/08/2015	3 months	19 months
Edward Fitzmaurice	28/09/2015	3 months	21 months
Pierre Lefevre	03/09/2015	3 months	20 months
Malcolm le May	01/08/2015	3 months	19 months
Sumit Rajpal	28/09/2015	3 months	21 months
Teresa Robson-Capps	12/07/2016	3 months	30 months
Michelle Titi-Cappelli	28/09/2015	3 months	21 months

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

The table below sets out the Directors' shareholdings in the Company as at 31 December 2016.

The Executive Directors are expected to build up and maintain a holding equivalent to twice their base salary. Gary Hoffman has met this target and Richard Hoskins is expected to meet the target as share based awards vest. Admission Awards made in 2015 will be delivered in shares at the prevailing share price at the point of vesting. No LTIP awards have yet been granted to Executive Directors as of the date of this report.

		Scheme interests[2,3]	
	Number of shares owned	MIP interests subject to time based conditions	MIP interests subject to performance conditions
Gary Hoffman	2,771,785	5,828,637	5,828,637
Richard Hoskins	–	1,627,477	1,627,477
Michael Fairey	29,411	–	–
Thomas Colraine	76,470	–	–
Richard Brewster	18,133,222	–	–
Ian Cormack	35,294	–	–
Edward Fitzmaurice	12,500,000[1]	–	–
Pierre Lefevre	82,169	–	–
Malcolm Le May	17,647	–	–
Sumit Rajpal	–	–	–
Michele Titi-Cappelli	–	–	–
Teresa Robson-Capps	–	–	–
Alison Burns	–	–	–

1 Edward Fitzmaurice is one of the Founder Shareholders and also has an indirect interest in the Company through his underlying interest in Hastings Investco Limited.
2 Excluding Admission Awards granted at the time of Admission. Further details of these awards can be found on page 78 of this report.
3 These scheme interests reflect interests under the legacy MIP held in Hastings Holdco Limited, the parent of Hastings Investco Limited. The MIP was established at the time of the Goldman Sachs investment in the business in January 2014. In accordance with the terms of the MIP implemented prior to the IPO, unallocated interests related to the MIP will be apportioned to MIP participants. This will take place in 2017 and allocations to Executive Directors will be made on a pro-rata basis.

There were no additional changes in the Directors' direct beneficial interests in shares between 31 December 2016 and 28 February 2017 (being the latest practicable date prior to the publication of this report). No Director has a non-beneficial interest in the shares of the Company.

Other information

Payments to former Directors

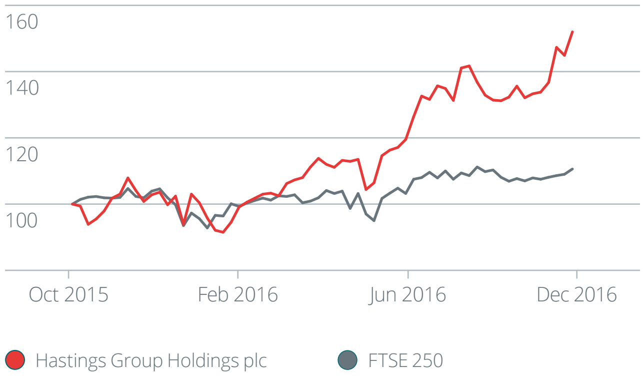
There were no payments to former Directors made in the year.

Payments for loss of office

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

TSR chart

The graph below shows the TSR of the Company and the UK FTSE 250 Index from the Company's Admission in October 2015 to 31 December 2016. The FTSE 250 Index was selected on the basis that the Company is a member of the FTSE 250.



Historical Chief Executive Officer pay

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

	2016 (1 January 2016 – 31 December 2016)	2015 (3 September 2015 – 31 December 2015)
Single figure of remuneration	£798,368	£1,830,477
Annual bonus payout (as a % of maximum opportunity)	50%	44%
Long-term incentive payout (as a % of maximum opportunity)	N/A[1]	N/A

1 As noted above, no Long-Term Incentive awards under the LTIP have yet been granted to Executive Directors in respect of the financial year ending 31 December 2016.

Remuneration report continued

Percentage change in Chief Executive Officer remuneration

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

	Change in remuneration from 31 December 2015 to 31 December 2016		
	Change in base salary	Change in benefits	Change in bonus
Chief Executive Officer	0.0%	-10.4%	58.3%
Employee comparator group	5.9%	10.3%	23.0%

Relative importance of spend on pay

The following table illustrates total remuneration for all Company colleagues compared to distributions to shareholders since Admission to 31 December 2016.

	2016 (1 January 2016 – 31 December 2016)	2015 (3 September 2015 – 31 December 2015)
Shareholder distributions (dividends and share buy backs)	£65.1m	£14.5m
Total Company colleague remuneration	£76.7m	£56.3m

Advice and support provided to the Remuneration Committee

As permitted by its Terms of Reference, the Committee has engaged the advice and support of Deloitte LLP ('Deloitte') as independent remuneration consultants at the expense of the Company. Total fees in 2016 for advice and support provided to the Remuneration Committee were £111,700. Deloitte has voluntarily signed up to the Remuneration Consultants' Code of Conduct in relation to executive remuneration consultancy during the year. The Committee is comfortable that the Deloitte engagement partner and team that provides remuneration advice to the Committee do not have connections with the Company that may impair their independence. During the year, Deloitte also provided unrelated tax, share schemes and consultancy services to the Group. The Chief Executive Officer, HR Director and Head of Reward attended Committee meetings by invitation in order to support the discussion of the agenda items as appropriate. No individual participates in discussions regarding their own remuneration.

Shareholder context

The table below shows the results of the binding vote on the Policy and the advisory vote on the 2015 Directors' Annual Report on Remuneration cast at the 2016 AGM. It is the Committee's policy to consult with major shareholders prior to any major changes to the Policy, and to maintain an ongoing dialogue on executive remuneration matters.

	For	Against	Abstentions
2015 Annual Report on Remuneration	528,822,754 100%	5,463 0%	386,242 0%
2015 Remuneration Policy	529,122,180 99.98%	90,504 0.02%	1,775 0%

for and on behalf of the Remuneration Committee

Malcolm Le May
Chairman

1 March 2017

Directors' Remuneration Policy – Policy table extract

This section sets out an extract of the Policy, approved by Shareholders at the Company's AGM in May 2016 and applies from that date. A full copy of the Policy, binding for three years from May 2016, is included in the 2015 Annual Report, which can be found on our website, at **www.hastingsplc.com/investors/results-centre/annual-reports**. The Policy was approved by 99.98% of shareholders.

No changes are proposed to the Policy this year.

Remuneration Policy table

Executive Directors

Element and link to strategy	Operation	Maximum opportunity	Performance measures
Base salary Fixed remuneration that is appropriate for the role and to secure and retain the talent required by the Company.	The Committee takes into account a number of factors when setting and reviewing salaries, including: • scope and responsibility of the role; • any changes to the scope or size of the role; • the skills and experience of the individual; • salary levels for similar roles within appropriate comparators; and • value of the remuneration package as a whole.	There is no set maximum to salary levels or salary increases. Account will be taken of increases applied to colleagues as a whole when determining salary increases for the Executive Directors, however the Committee retains the discretion to award higher increases where it considers it appropriate. Salaries are normally reviewed annually, with any increase usually taking effect from January.	None
Pension Fixed remuneration that assists in providing income in retirement.	The Company operates defined contribution group personal pension schemes. Executive Directors may elect to opt out of the pension scheme and receive the equivalent Company contribution as a cash allowance.	The maximum annual Company contribution is currently 10% of salary. The Committee retains the discretion to increase the Company contribution in line with levels in the wider market.	None
Benefits Fixed remuneration that provides protection for the individual which is market competitive.	Benefits include, but are not limited to, a car allowance, private medical cover for the Executive and family, life assurance, long term disability insurance and costs associated with rental property. Where an Executive Director is required to relocate, benefits may be provided to support the relocation, including relocation assistance, housing or a housing allowance and reimbursement of travel costs where appropriate and any tax arising as a consequence.	The current car allowance is a fixed amount of £8,000 per annum. The Committee retains the discretion to review this in line with levels in the wider market. The cost of other benefits is dependent on the terms of the relevant provider.	None
Share Incentive Plan ('SIP') Aligns colleagues and shareholder interests.	Executive Directors may participate in the SIP on the same terms as all other colleagues. The SIP commenced in April 2016.	Participation in any HMRC approved all colleagues share plan is subject to the maximum permitted by the relevant tax legislation.	None

Remuneration report continued

Executive Directors

Element and link to strategy	Operation	Maximum opportunity	Performance measures
Annual bonus Variable remuneration that rewards the achievement of annual financial, operational and individual objectives integral to Company strategy over a one year period.	Objectives are set annually based on the achievement of strategic goals. At the end of the year, the Committee meets to review individual and corporate performance against objectives and determines payout levels. From the performance year 2016 onwards, a portion of bonus normally will be deferred into an award of shares under the Deferred Bonus Plan ('DBP'). Normally, not less than 25% of any bonus will be deferred for a period of three years. Accrued dividends can be paid in cash or shares, to the extent that awards vest. The Committee may adjust and amend awards in accordance with the DBP rules. The Committee may reduce the size of unvested awards if (a) there is a material misstatement of audited results or an error in the calculation of the bonus; (b) the Executive Director commits gross misconduct; or (c) events or the Executive Director's behaviour has a significant detrimental impact on Hastings' reputation and the Committee determines the Executive Director is responsible or directly accountable for that damage during a period beginning at the start of the bonus year and ending three years after the bonus was determined. Where appropriate, the Committee may also require the participant to repay some or all of the value of the shares received under an award in the circumstances referred to in (a) or (b) during the same period.	50% of salary for on target performance with an absolute maximum opportunity of 100% salary.	Awards are based on financial, operational and individual goals during the year. At least 50% of the award will be assessed against the Company's financial performance. The remainder of the award will be based on personal performance against individual objectives. The split between these performance measures will be determined annually by the Committee.
Long-Term Incentive Plan ('LTIP') Variable remuneration designed to incentivise and reward the achievement of long term targets aligned with shareholder interests. The LTIP also assists in the retention of Executive Directors.	Awards granted under the LTIP vest subject to the achievement of performance conditions measured over a three year period. LTIPs are made as conditional share awards, however may be made in other forms (e.g. nil cost options) if it is considered appropriate. Accrued dividends may be paid in cash or shares, to the extent that awards vest. The Committee may adjust and amend awards in accordance with the LTIP rules. The Committee may reduce the size of unvested awards if (a) there is a material misstatement of audited results or an error in the assessment of the performance conditions applicable to an award; (b) the Executive Director commits gross misconduct; or (c) events or the Executive Director's behaviour has a significant detrimental impact on Hastings' reputation and the Committee determines the Executive Director is responsible or directly accountable for that damage during a period beginning at the start of the performance period and ending on the sixth anniversary of the grant date. After vesting but before the sixth anniversary of the grant date, the Committee may also require the participant to repay some or all of the value of the shares received under an award in the circumstances referred to in (a) or (b).	The normal maximum level of awards that may be made in respect of a financial year is 225% of salary. In exceptional circumstances the Committee may grant awards of up to 300% of salary.	LTIP performance conditions will be reviewed annually. Conditions and targets will be selected to align with the Company's long term strategy. The current intention is that Executive Directors will not participate in the LTIP during 2016 but will be eligible in 2017. Performance measures for awards going forward are yet to be determined, however the current intention is that they will be linked to a measure based on shareholder returns and a measure based on earnings performance. At threshold performance, no more than 25% of the award will vest, rising to 100% for maximum performance.

Non-Executive Directors

Approach to fees and link to strategy	Operation	Performance measures
Fixed payment to remunerate Non-Executive Directors. Set at an appropriate level to attract Non-Executive Directors of the required calibre and to reflect the time commitment and responsibility of the position.	The Chairman's fee is determined by the Committee. The Non-Executive Directors' fees are determined by the Board. (No Director is involved in setting his own remuneration). Fee levels are determined by assessing the skills and experience required along with the likely time commitment and market indicators. Fees may be paid in cash or company shares. Non-Executive Directors receive a basic fee and an additional fee for specific Board responsibilities, including membership and chairmanship of committees or acting as the Senior Independent Director. Expenses incurred in the performance of Non-Executive Director duties for the Company are reimbursed or paid for directly by the Company, as appropriate along with any commensurate tax liability. Non-Executive Director fees are subject to a maximum cap of £1,500,000 as stated in the Company's Articles of Association. Any changes in this would be subject to shareholder approval.	None

Independent auditor's report

to the members of Hastings Group Holdings plc only

KPMG

Opinions and conclusions arising from our audit

1. Our opinion on the Financial Statements is unmodified

We have audited the Financial Statements of Hastings Group Holdings plc for the year ended 31 December 2016 set out on pages 91 to 143. In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- the Consolidated Financial Statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRSs as adopted by the EU');
- the Parent Company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

Overview

Materiality:	£5.4m (2015:£4.7m)	
Group Financial Statements as a whole	1% of Group net revenue (2015: 1%)	
Coverage	100 % (2015: 100%) of total Group revenue	
Risks of material misstatement vs 2015		
Recurring risks	Outstanding claims liabilities	◀▶
	Reinsurance assets	▲

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the Financial Statements the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were as follows:

Outstanding claims liabilities (£901.9m; 2015: £591.7m), Refer to page 63 (Audit Committee report), Note 2 (Accounting policies) and pages 115 and 124 to 126 (financial disclosures).

The risk – Reserving for outstanding claims liabilities is the area requiring the most significant judgement in the Financial Statements. The Group maintains reserves to cover the estimated cost of settling all expected future claims with respect to losses or injuries, whether or not those losses or injuries have been reported to the Group. Estimating the reserves required for claims incurred but not reported ('IBNR') to the Group involves significant judgement and the use of actuarial and statistical projections. This includes whether any of the larger bodily injury claims will result in any Periodic Payment Order ('PPOs') which are payments made periodically over several years or even the lifetime of a policyholder. PPOs and potential PPOs increase the complexity and uncertainty of the estimation of reserves due to the increased range of assumptions required. There is a risk of misstatement of IBNR liabilities due to the claims data, a key input to the reserving process, being incomplete or inaccurate.

Our response

Our procedures included:

- assessment of governance process: including whether the Group had followed their documented reserving policy in setting claims reserves;
- assessment of data: We tested controls over the completeness and accuracy of claims data underlying the actuarial projections used by the internal and external actuaries to set the IBNR reserves;

- Assessment of internal and external actuaries' findings: Using our actuarial specialists to support us, we considered the findings, set out in the reports of the Group's internal actuary and Willis Towers Watson, the independent actuary. Through critical assessment of these actuarial reports and supporting documentation, and through discussion with both actuaries, we analysed and challenged the differences in reserving methodology applied by both actuaries as well as the key assumptions being used. We assessed their assumptions for reasonableness through the use of diagnostic procedures, an assessment of claims development trends and benchmarking to market data;
- Assessment of prior period development: We considered the results of the outturn of claims reserves determined from prior periods to assess whether the Group has historically set adequate reserves. We assessed the margin held in excess of the actuarial best estimate reserves against the reserving methodology, prior periods for consistency and any potential uncertainties that have been reserved for within the margin;
- Deep Dive analysis: We conducted further detailed analysis into areas of most significant uncertainty using diagnostics based on standard actuarial techniques. This included an assessment of:
  - Large personal injury claims: challenging the Group's estimate of the effect of the change in the 'Ogden' discount rate applied to personal injury claims and whether the frequency assumption, sensitivity and development patterns are comparable to our actuarial benchmark and market data;
  - Small and mid sized personal injury claims reserves: both the frequency and severity assumptions, in addition to the increasing development velocity;
- Disclosures: We considered the adequacy of the Group's disclosures regarding the degree of estimation uncertainty and the sensitivity of recognised amounts to changes in assumptions, including the impact of the change in the discount rate for personal injury claims.

Reinsurance assets (£822.0m, 2015: £547.5m), Refer to page 64 (Audit Committee report), Note 2 (Accounting policies) and pages 115 and 124 to 126 (financial disclosures).

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

The amount of reinsurance asset to recognise against the IBNR claims reserves is particularly judgmental as this is inherently linked to the judgements and estimates involved in the reserving process. The risk of default by a reinsurer is a significant inherent risk. If any reinsurer fails to pay the Group, or fails to pay on a timely basis, the Group could experience significant losses or liquidity difficulties. As the Group spreads its reinsurance cover across a panel of different reinsurers, the Group bears credit risk to each counterparty especially to longer term assets arising as a result of recoveries from IBNR and PPO claims reserves.

We increased our assessment of risk associated with reinsurance assets in response to an increase in the proportion of reinsurance assets to total assets of the Group.

Our response

Our procedures included:

- Process and controls testing: We tested the process and controls over the approval of new reinsurance contracts in order to support the recognition of a reinsurance asset;
- Assessment of reinsurer's share of claims outstanding: We used our actuarial specialists to assess the accuracy and recoverability of the reinsurance assets over IBNR claims reserves estimated at the year end by considering the historical reinsurance recovery ratios whilst taking into consideration changes in the underlying reinsurance programs. Our actuaries assessed the methodology for establishing reinsurers' share of IBNR claims reserves against current market practices and for consistency with prior periods;
- Assessment of reinsurer credit status: We tested credit controls over new and existing reinsurance contracts and the monitoring controls over the credit ratings of the panel of reinsurers to assess the risk of default. We assessed the credit ratings of the panel of reinsurers against rating agencies. We assessed the reasonableness of the reinsurance bad debt assumptions and checked the post period end receipts of reinsurance receivables to provide evidence over the recoverability of the year end reinsurance assets.

Independent auditor's report continued

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

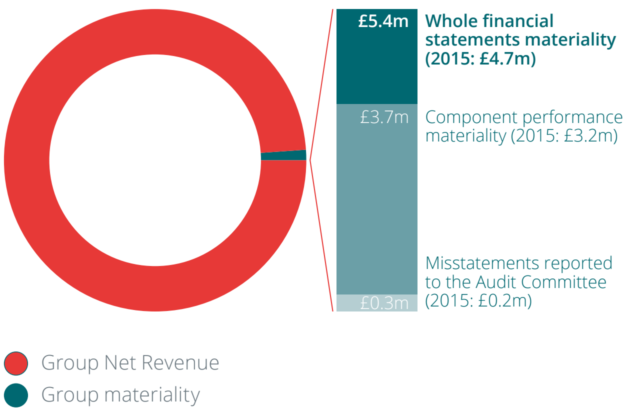
The materiality for the Consolidated Financial Statements as a whole was set at £5.4m (2015: £4.7m), determined with reference to a benchmark of Group net revenue, of which it represents 1% (2015: 1%). We consider net revenue to be the most appropriate benchmark as it provides a more stable measure year on year than group profit before tax. We reported to the Audit Committee that there were no corrected or uncorrected misstatements exceeding £0.3m (2015: £0.2m), in addition to other identified misstatements that warranted reporting on qualitative grounds. All 10 reporting components of the Group were subjected to audits for group reporting purposes and covered 100% of total Group revenue 92015: 100%), 100% of Group profit before tax (2015: 100%) and 100% of total Group assets (2015: 100%). These audits were undertaken by the Group audit team with the exception of Advantage Insurance Company Limited ('AICL') where the audit was undertaken by overseas component auditors who reported back to the Group audit team.

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

The Group team visited KPMG Gibraltar during 2016 and 2017 to discuss the significant audit risks and areas of focus, agree the AICL component performance materiality of £3.7m (2015: £3.2m), which was also applied by all components for the audit for group reporting purposes and discuss audit findings and conclusions. Telephone conference meetings were also held with KPMG Gibraltar throughout the year. At these visits and through the various meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

Group net revenue £595m (2015: £481m)

Materiality £5.4m (2015: £4.7m)



4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- The part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- The information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

Based solely on the work required to be undertaken in the course of the audit of the Financial Statements and from reading the Strategic Report and the Directors' Report:

- We have not identified material misstatements in those reports; and
- In our opinion, those reports have been prepared in accordance with the Companies Act 2006.

5. We have nothing to report on the disclosures of principal risks

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

- the Directors' Viability Statement on page 38, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the three years to 2019; or
- the disclosures in Note 1 of the Financial Statements concerning the use of the going concern basis of accounting.

Independent auditor's report continued

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

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the Financial Statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

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

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

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

Under the Listing Rules we are required to review:

- the Directors' Statement, set out on page 52 in relation to going concern; and longer term viability; and
- the part of the Corporate Governance Statement on pages 58 to 60 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

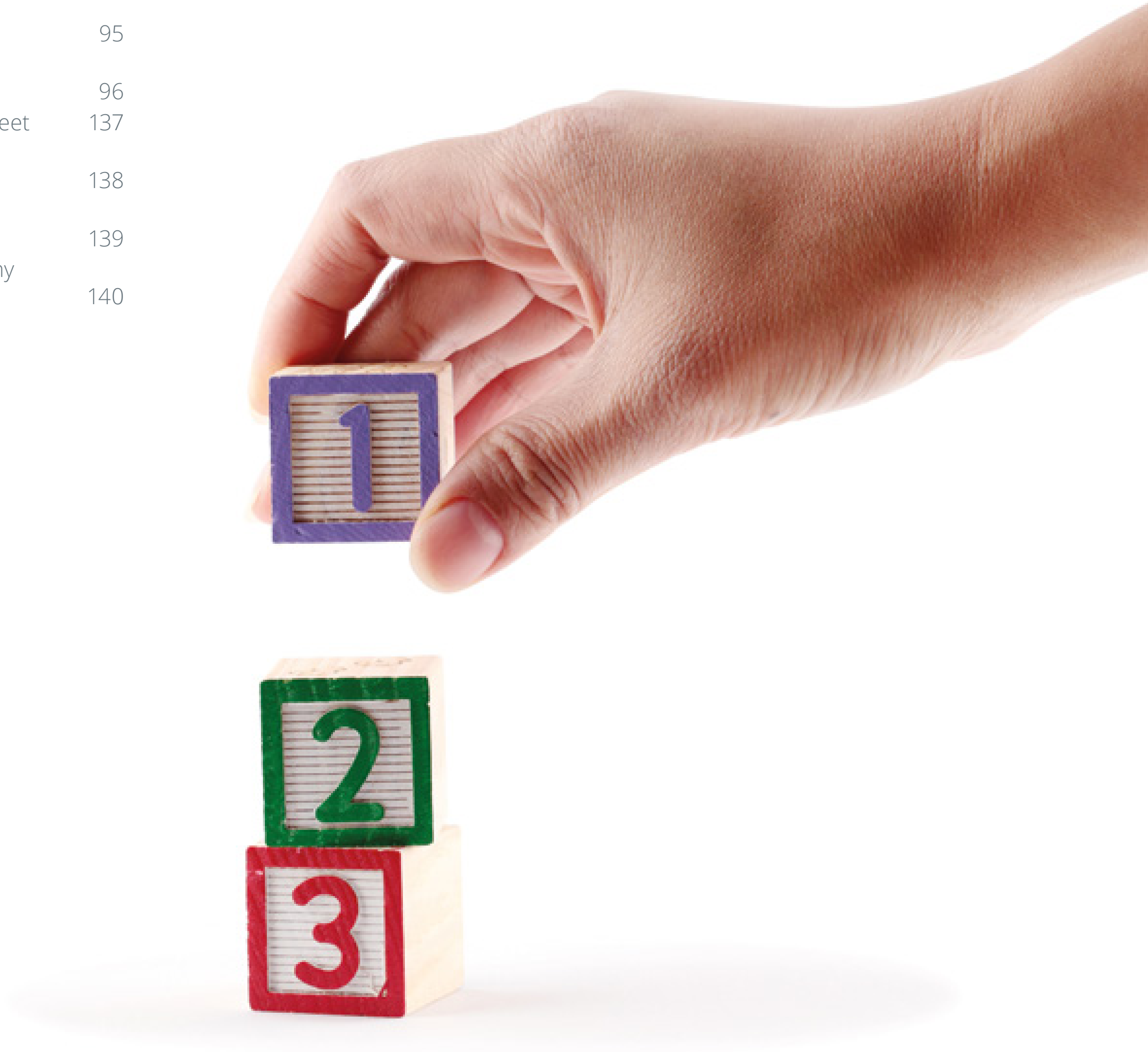
As explained more fully in the Directors' Responsibilities Statement set out on page 53, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of Financial Statements is provided on the Financial Reporting Council's website at **www.frc.org.uk/auditscopeukprivate**. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at **www.kpmg.com/uk/auditscopeukco2014a**, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Salim Tharani
Senior Statutory Auditor

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL

1 March 2017

Financial statements



Consolidated statement of profit or loss

for the year ended 31 December 2016

	Note	31 December 2016 Underlying trading pre-Ogden rate change £m	31 December 2016 Ogden rate change impact[1] £m	31 December 2016 Underlying trading £m	31 December 2016 Non-trading items[2] £m	31 December 2016 Total £m	31 December 2015 Underlying trading £m	31 December 2015 Non-trading items[2] £m	31 December 2015 Total £m
Gross written premiums	6	769.0	–	769.0	–	769.0	614.9	–	614.9
Gross earned premiums	6	691.8	–	691.8	–	691.8	543.3	–	543.3
Earned premiums ceded to reinsurers	6	(357.0)	–	(357.0)	–	(357.0)	(287.4)	–	(287.4)
Net earned premiums	6	334.8	–	334.8	–	334.8	255.9	–	255.9
Other revenue	7	254.9	(6.6)	248.3	–	248.3	219.8	–	219.8
Investment and interest income	8	7.2	–	7.2	–	7.2	5.3	–	5.3
Net revenue		596.9	(6.6)	590.3	–	590.3	481.0	–	481.0
Claims incurred	9	(551.7)	(160.1)	(711.8)	–	(711.8)	(460.1)	–	(460.1)
Reinsurers' share of claims incurred	9	305.0	146.7	451.7	–	451.7	267.2	–	267.2
Net claims incurred	9	(246.7)	(13.4)	(260.1)	–	(260.1)	(192.9)	–	(192.9)
Acquisition costs		(51.9)	–	(51.9)	–	(51.9)	(44.3)	–	(44.3)
Other expenses	10	(146.2)	–	(146.2)	–	(146.2)	(117.7)	(2.4)	(120.1)
Adjusted operating profit[3]		152.1	(20.0)	132.1			126.1		
Amortisation and depreciation	10	(5.6)	–	(5.6)	(22.0)	(27.6)	(4.6)	(23.0)	(27.6)
Finance costs	15	(9.6)	–	(9.6)	(0.6)	(10.2)	(30.2)	(60.9)	(91.1)
Profit before tax		136.9	(20.0)	116.9	(22.6)	94.3	91.3	(86.3)	5.0
Taxation expense	16	(22.0)	2.0	(20.0)	4.1	(15.9)	(15.1)	12.4	(2.7)
Total profit attributable to the equity holders of the parent		114.9	(18.0)	96.9	(18.5)	78.4	76.2	(73.9)	2.3
Earnings per share attributable to the equity holders of the parent (expressed in pence per share)									
Basic earnings per share	17					11.9p			0.5p
Diluted earnings per share	17					11.9p			0.5p

All results arose from continuing operations.

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

1 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 has 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, which is further disclosed within Note 11.

2 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, preference share dividends and the impact of accounting for business combinations, as described in Note 12.

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 2016

	Note	Year ended 31 December 2016 £m	31 December 2015 £m
Total profit attributable to the equity holders of the parent		78.4	2.3
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Fair value gain/(loss) on available for sale investments	26	5.7	(1.3)
Total items that may be subsequently reclassified to profit or loss		5.7	(1.3)
Items that may not be subsequently reclassified to profit or loss			
Revaluation of property		0.1	0.7
Deferred tax charge on revaluation of property		–	(0.1)
Total items that may not be subsequently reclassified to profit or loss		0.1	0.6
Total other comprehensive gain/(loss)		5.8	(0.7)
Total comprehensive income attributable to the equity holders of the parent		84.2	1.6

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

Consolidated balance sheet

as at 31 December 2016

	Note	31 December 2016 £m	31 December 2015 £m
Assets			
Goodwill	18	470.0	470.0
Intangible assets	19	97.2	102.8
Property and equipment	20	12.7	13.7
Deferred income tax assets	21	4.5	3.4
Reinsurance assets	22	822.0	547.5
Deferred acquisition costs	23	24.2	19.9
Prepayments		4.0	2.2
Insurance and other receivables	24, 26	356.5	261.6
Financial assets at fair value	26	403.6	316.5
Cash and cash equivalents	25, 26	168.0	152.2
Total assets		2,362.7	1,889.8
Liabilities			
Loans and borrowings	26, 27	286.6	295.7
Insurance contract liabilities	22	1,299.5	912.1
Insurance and other payables	26, 28	198.1	156.2
Deferred income tax liabilities	21	18.5	20.6
Current tax liabilities		6.4	2.0
Total liabilities		1,809.1	1,386.6
Equity			
Share capital	30	13.1	13.1
Share premium		172.6	172.6
Merger reserve	30	(756.0)	(756.0)
Other reserves	30	4.9	(0.7)
Retained earnings		1,119.0	1,074.2
Total equity		553.6	503.2
Total equity and liabilities		2,362.7	1,889.8

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

These Consolidated Financial Statements were approved by the Board of Directors on 1 March 2017 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 2016

	Note	Share capital £m	Share premium £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
As at 1 January 2015		7.6	749.4	(756.0)	–	(14.9)	(13.9)
Total profit attributable to the equity holders of the parent		–	–	–	–	2.3	2.3
Total other comprehensive loss		–	–	–	(0.7)	–	(0.7)
Total comprehensive profit/(loss) for the year		–	–	–	(0.7)	2.3	1.6
Transactions with equity holders of the parent							
Share based payments	29	–	–	–	–	0.5	0.5
Conversion of preference shares		3.4	339.6	–	–	–	343.0
Issue of shares		2.1	172.6	–	–	(2.7)	172.0
Capital reduction		–	(1,089.0)	–	–	1,089.0	–
Total transactions with equity holders of the parent		5.5	(576.8)	–	–	1,086.8	515.5
As at 31 December 2015 and 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	29	–	–	–	–	2.4	2.4
Tax on share based payments		–	–	–	–	0.1	0.1
Acquisition of own shares		–	–	–	(0.2)	–	(0.2)
Dividends paid	35	–	–	–	–	(36.1)	(36.1)
Total transactions with equity holders of the parent		–	–	–	(0.2)	(33.6)	(33.8)
As at 31 December 2016		13.1	172.6	(756.0)	4.9	1,119.0	553.6

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

Consolidated statement of cash flows

for the year ended 31 December 2016

	Note	31 December 2016 £m	31 December 2015 £m
Profit after tax		78.4	2.3
Adjustments for:			
Reorganisation and transaction costs		–	2.4
Depreciation of property and equipment		2.7	2.3
Amortisation of intangible assets		24.9	25.3
Net fair value gains on financial assets at fair value through profit or loss		(1.1)	(0.8)
Other interest income		(6.1)	(4.5)
Loss on disposal of property and equipment		–	0.1
Finance costs		10.2	91.1
Taxation expense		15.9	2.7
Share based payments		2.4	0.5
Change in insurance and other receivables and prepayments		(91.1)	(48.9)
Change in insurance and other payables		42.5	12.3
Change in reinsurance assets		(274.5)	(121.0)
Change in deferred acquisition costs		(4.3)	(4.2)
Change in insurance contract liabilities		387.4	207.4
Taxation paid		(14.8)	(11.4)
Net cash flows from operating activities		172.5	155.6
Purchase of property and equipment		(1.6)	(5.2)
Acquisition of intangible assets		(19.3)	(24.8)
Interest received		0.5	0.5
Outlays for acquisition of financial assets at fair value		(162.2)	(189.4)
Proceeds from disposal of financial assets at fair value		81.9	100.1
Net cash flows from investing activities		(100.7)	(118.8)
Purchase of own shares		(0.2)	–
Proceeds from issue of ordinary share capital		–	182.2
Proceeds from new loans and borrowings		–	300.0
Repayment of loans and borrowings		(10.0)	(416.5)
Interest paid on loans and borrowings		(9.7)	(32.4)
Other interest paid		–	(1.0)
Non-trading costs paid		–	(40.3)
Dividends paid		(36.1)	–
Net cash flows from financing activities		(56.0)	(8.0)
Net increase in cash and cash equivalents		15.8	28.8
Cash and cash equivalents at beginning of year		152.2	123.4
Cash and cash equivalents inflow for the year		15.8	28.8
Cash and cash equivalents at end of year	25	168.0	152.2

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

Notes to the consolidated financial statements

1. Basis of preparation

Hastings Group Holdings plc (the 'Company', 'Hastings', 'HGH') was incorporated on 11 June 2015. The Company's 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 principal activities of the Group are the broking and underwriting of UK private car, van, bike and home insurance.

The Consolidated Financial Statements comprise the consolidated results of the Company and its subsidiaries (together referred to as the 'Group') for the year ended 31 December 2016 and comparative figures for the year ended 31 December 2015.

The Consolidated Financial Statements have been prepared and approved by the Directors in accordance with IFRS as adopted by the EU ('IFRS') that are in effect at 31 December 2016. IFRS comprise standards and interpretations approved by the International Accounting Standards Board ('IASB') and the International Financial Reporting Interpretations Committee.

Reorganisation

On 12 August 2015, the Company acquired the entire issued share capital of Hastings Insurance Group (Holdings) plc ('HIG(H)'), the ultimate parent company of Advantage Insurance Company Limited ('AICL') and Hastings Insurance Services Limited ('HISL'), in a series of transactions referred to as the 'reorganisation'. Both the Company and HIG(H) were under common control before and after the reorganisation and, as a consequence, the Consolidated Financial Statements have been prepared under the principles of predecessor accounting. No acquirer was therefore required to be identified and all entities are included in the Consolidated Financial Statements at their pre-combination carrying amounts and including their pre-acquisition results within the comparatives. Differences on consolidation arising between consideration paid and the book value of the underlying net assets acquired was included within equity as a merger reserve.

Going concern

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

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

Basis of measurement

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

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

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

1. Basis of preparation continued

Adoption of new IFRS

On 1 January 2016, the Group adopted the amendments to IFRS which were issued and endorsed by the European Union ('EU') and effective for annual periods beginning on or after 1 January 2016:

IFRS	Detail
IFRS 10, IFRS 12 and IAS 28	Amendment: Investment Entities – Applying the Consolidation Exception
IAS 27	Amendment: Equity Method in Separate Financial Statements
IAS 1	Amendment: Disclosure initiative
IAS 16 and IAS 38	Amendment: Clarification of acceptable methods of depreciation and amortisation
IAS 16 and IAS 41	Amendment: Bearer Plants
Annual improvements to IFRS	2012-2014 cycle (issued on 25 September 2014)
IFRS 11	Amendment: Accounting for Acquisitions of Interests in Joint Operations

There was no material impact on the results reported within the Consolidated Financial Statements on adoption of these amended IFRS. Adjusted operating profit is a non-IFRS measure used by the Group to assess performance of the business. This measure was previously referred to as 'Group operating profit' but was renamed to 'adjusted operating profit' following the amendments to IAS 1 in order to provide greater clarity to the users of the accounts. There has been no change to the underlying definition of the measure.

The following accounting standards have been issued by the IASB but are not yet effective in the EU:

IFRS	EU Status
IFRS 9 Financial Instruments	Endorsed by the EU on 22 November 2016 and effective from 1 January 2018
IFRS 15 Revenue from Contracts with Customers	Endorsed by the EU on 29 October 2016 and effective from 1 January 2018
IFRS 16 Leases	Not yet endorsed by the EU

IFRS 9 Financial instruments

IFRS 9 sets out comprehensive requirements relating to the classification and measurement of financial instruments. In 2016, the IASB amended IFRS 4, the existing Insurance Contracts standard, to allow entities that issue insurance contracts to defer application of IFRS 9 until accounting periods beginning on or after 1 January 2021. This is intended to align with the expected effective date of IFRS 17, the forthcoming Insurance Contracts standard. This option is subject to meeting criteria relating to the predominance of insurance activity.

The Group does not anticipate that the initial application of IFRS 9 will have a material impact upon the Consolidated Financial Statements. The Group expects to be eligible to apply the deferral amendments to IFRS 4, and currently intends to do so.

IFRS 15 Revenue from contracts with customers

IFRS 15 provides a five step framework for the recognition of revenue from contracts with customers and increased levels of quantitative and qualitative disclosures. Management do not expect that the adoption of IFRS 15 will have a significant impact on the Consolidated Financial Statements.

IFRS 16 Leases

IFRS 16 implements a single, comprehensive lease accounting model whereby lessees will be required to recognise leases on balance sheet. Management are in the process of evaluating the impact of IFRS 16 on the Consolidated Financial Statements. The undiscounted value of the Group's operating lease obligations are disclosed in Note 31.

Notes to the consolidated financial statements continued

1. Basis of preparation continued

Basis of consolidation

The Consolidated Financial Statements incorporate the financial statements of the Company and all of its subsidiary undertakings for the years ended 31 December 2016 and 31 December 2015.

Accounting policies have been consistently applied throughout the Group.

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

Intercompany balances and transactions are eliminated in the Consolidated Financial Statements.

2. Accounting policies

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.

2. Accounting policies continued

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 periodic payment orders ('PPOs'), as described below.

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.

From time to time, PPOs are awarded as a result of 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.

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, as well as 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 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.

Notes to the consolidated financial statements continued

2. Accounting policies continued

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.

Employee benefits

Pension contributions

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

Share based payments

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

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

2. Accounting policies continued

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 on 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 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 judgment 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.

Finance costs

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

Taxation

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

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

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

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

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

Goodwill

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

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

Notes to the consolidated financial statements continued

2. Accounting policies continued

Intangible assets

Software

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

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

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

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

Expected useful economic lives and residual values are reviewed at each period end and, where necessary, changes are accounted for prospectively. The expected useful economic lives are up to seven years for all of the Group's software.

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

Brands and customer relationships

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

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

The expected useful economic life and residual value are reviewed at each period end and, where necessary, changes are accounted for prospectively. The expected useful economic lives are as follows:

- Brands 8 years
- Customer relationships 5 years

Work in progress

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

Property and equipment

The Group has chosen to value property using the revaluation model. Properties are initially recognised at cost and subsequent to initial recognition, properties are carried at their revalued amount, which is the fair value at the date of revaluation less subsequent depreciation and impairment losses.

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

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

2. Accounting policies continued

Property and equipment continued

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

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

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

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

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

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

Impairment

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

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

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

Where an asset's or a group of assets' recoverable amount is exceeded by its carrying amount, the difference is recognised as an impairment loss in profit or loss.

Leased assets

Payments made under operating leases are charged in profit or loss on a straight line basis over the lease term. Any incentives provided by the lessor are recognised in profit or loss on a straight line basis over the full lease term.

Financial assets

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

Financial assets at fair value through profit or loss

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

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

Notes to the consolidated financial statements continued

2. Accounting policies continued

Financial assets at fair value through profit or loss continued

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

Available for sale financial assets

Financial assets are classified as available for sale when they are not classified as loans and receivables, are acquired with neither the intention to sell in the near term, nor with the intention to hold until maturity, and the Group does not make purchase and sale decisions based on fair value.

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

Loans and receivables

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

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

Derecognition of financial assets

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

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

Impairment of financial assets

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

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

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

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

2. Accounting policies continued

Impairment of financial assets continued

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

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

Financial liabilities

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

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

Offsetting financial assets and liabilities

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

Cash and cash equivalents

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

Insurance intermediary assets and liabilities

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

Share capital

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

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

Dividends

Dividends are recognised directly in equity when approved and payable.

Notes to the consolidated financial statements continued

2. Accounting policies continued

Fair values

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

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

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

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

3. 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:

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.

3. Critical accounting estimates and judgements in applying accounting policies continued

Claims liabilities continued

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 assess that a claim will be settled through a lump sum payment, the liability is calculated with reference to the Ogden discount rate which is used by the courts when calculating lump sum settlements. The rate, as announced by the Lord Chancellor on 27 February 2017 and with effect from 20 March 2017, is minus 0.75%, which has been used to calculate the Group's claims liabilities which are likely to be settled at the revised rate.

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 22. 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% worsening in the loss ratio used for each accident year for which material amounts remain outstanding.

	31 December 2011	31 December 2012	31 December 2013	31 December 2014	31 December 2015	31 December 2016	Total
Impact of 1% change (£m)	2.1	2.8	3.2	3.7	4.7	6.0	22.5

Notes to the consolidated financial statements continued

3. Critical accounting estimates and judgements in applying accounting policies continued

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.

Goodwill and intangibles

Management determines the estimated useful lives and residual values of intangible assets. The estimated useful lives and residual values are reviewed annually and, where necessary, the amortisation charge is revised prospectively.

Changes in the circumstances or expectations of future performance of an individual asset may be an indicator that the asset is impaired. The asset's recoverable amount, being the higher of its fair value less costs to sell or value in use, is assessed and where this is below its carrying amount, the asset is deemed to be impaired. Fair value is the amount that would be expected to be received in an arm's length transaction between knowledgeable market participants. Value in use is the present value of expected future cash flows.

The Group reviews each cash generating unit ('CGU') with allocated goodwill for impairment on an annual basis. Where a CGU is impaired, an impairment charge is made against the carrying amount of any goodwill allocated to the CGU, before other non-financial assets of the CGU are impaired on a pro-rata basis.

Estimating the recoverable amount of an asset requires a high degree of judgement and requires estimation of the Group's future cash flows and judgement of a market discount rate that applies as well as the amount that would be expected to be received in any transaction for the sale of assets.

4. Insurance contracts risk management

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

A fundamental part of the Group's overall risk management strategy is the effective governance and management of risks that impact the amount, timing and uncertainty of cash flows arising from insurance contracts.

Risk management objectives and policies for mitigating insurance risk

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

4. Insurance contracts risk management continued

Risk management objectives and policies for mitigating insurance risk continued

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 responsiveness 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 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 perform 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.

Additionally, the Group has a 50% quota share arrangement in place, applicable on all new 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 (2015: £0.3m), capped at £9.3m liability per event (2015: £15.0m).

The use of reinsurance contracts does not discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim, the Group remains liable for the payment to the policyholder. As part of reinsurance contract risk management, the creditworthiness of reinsurers to control exposure to reinsurance counterparty default 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 26.

Notes to the consolidated financial statements continued

4. Insurance contracts risk management continued

Risk management objectives and policies for mitigating insurance risk continued

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.

Terms and conditions of insurance contracts

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

Concentrations of insurance risk

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

5. Segmental reporting

Segments

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

Underwriting

The Underwriting segment comprises the Underwriting business which is based in Gibraltar. It includes AICL and its investment in Conquest House Limited. The principal activity of AICL is the underwriting of general insurance, predominantly private car insurance in the UK. Since 1 January 2015, AICL has also underwritten UK home policies under a co-insurance arrangement. Conquest House Limited owns property which is utilised by the Group.

Retail

The principal activity of the Retail segment is the provision of insurance broking services to the private car, van, bike and home markets in the UK through the UK trading subsidiary HISL, much of which is underwritten by the Underwriting segment. Broking services are also provided on behalf of a panel of external third party insurers.

Corporate

The Corporate segment comprises the consolidated 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 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, non-trading costs and the effects of accounting for business combinations.

5. Segmental reporting continued

Segment performance

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

Year ended 31 December 2016	Underwriting £m	Retail £m	Corporate £m	Consolidation adjustments £m	Group £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

The adjusted operating profit for the Underwriting segment was £50.3m before allowing for the £20.0m impact of reducing the Ogden rate to minus 0.75%.

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.

Year ended 31 December 2015	Underwriting £m	Retail £m	Corporate £m	Consolidation adjustments £m	Group £m
Net earned premiums	273.6	–	–	(17.7)	255.9
Other revenue	29.0	243.4	–	(52.6)	219.8
Investment and interest income	5.0	0.2	0.1	–	5.3
Net revenue	307.6	243.6	0.1	(70.3)	481.0
Net claims incurred	(192.9)	–	–	–	(192.9)
Other expenses	(76.8)	(153.7)	(2.2)	70.7	(162.0)
Adjusted operating profit	37.9	89.9	(2.1)	0.4	126.1
Reorganisation and transaction costs					(2.4)
Amortisation and depreciation					(27.6)
Finance costs					(91.1)
Profit before tax					5.0

Included within other revenue recognised by the Retail segment is £75.9m arising from transactions with the Underwriting segment. Other revenue recognised by the Underwriting segment includes £0.4m arising from transactions with the Retail segment.

Notes to the consolidated financial statements continued

5. Segmental reporting continued

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 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

Strategic report
Corporate governance
Financial statements
Other information

5. Segmental reporting continued

Segment assets and liabilities continued

As at 31 December 2015	Underwriting £m	Retail £m	Corporate £m	Consolidation adjustments £m	Group £m
Goodwill	–	1.9	–	468.1	470.0
Intangible assets	–	32.2	–	70.6	102.8
Investments in subsidiaries	–	–	1,269.3	(1,269.3)	–
Investments	4.2	–	–	(4.2)	–
Property and equipment	1.7	8.1	–	3.9	13.7
Deferred income tax assets	–	0.8	–	2.6	3.4
Reinsurance assets	547.8	–	–	(0.3)	547.5
Deferred acquisition costs	23.6	–	–	(3.7)	19.9
Prepayments	0.2	2.0	–	–	2.2
Insurance and other receivables	246.3	213.0	21.2	(218.9)	261.6
Financial assets at fair value	316.5	–	–	–	316.5
Cash and cash equivalents	89.2	51.8	11.2	–	152.2
Total assets	1,229.5	309.8	1,301.7	(951.2)	1,889.8
Loans and borrowings	–	–	295.7	–	295.7
Insurance contract liabilities	926.4	–	–	(14.3)	912.1
Insurance and other payables	111.0	265.8	4.9	(225.5)	156.2
Deferred income tax liabilities	0.1	–	–	20.5	20.6
Current tax liabilities	0.4	1.7	(0.1)	–	2.0
Total liabilities	1,037.9	267.5	300.5	(219.3)	1,386.6
Total equity	191.6	42.3	1,001.2	(731.9)	503.2

Underwriting's investments comprise a property, Conquest House, which is leased to another Group company. This is classified as property and equipment on a Group basis.

6. Insurance premiums

	Year ended 31 December 2016			Year ended 31 December 2015		
	Gross £m	Reinsurers' share £m	Net £m	Gross £m	Reinsurers' share £m	Net £m
Written premiums	769.0	(394.5)	374.5	614.9	(320.9)	294.0
Unearned premiums reserve brought forward at start of the year	320.4	(166.8)	153.6	248.8	(133.3)	115.5
Unearned premiums reserve carried forward at end of the year	(397.6)	204.3	(193.3)	(320.4)	166.8	(153.6)
Total earned premiums	691.8	(357.0)	334.8	543.3	(287.4)	255.9

Notes to the consolidated financial statements continued

7. Other revenue

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Fees and commission	88.5	73.5
Ancillary product income	48.4	45.0
Premium finance interest	78.2	61.3
Reinsurance commissions	16.4	28.6
Other retail income	16.8	11.4
Total other revenue	248.3	219.8

8. Investment and interest income

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Net fair value gains on financial assets at fair value	1.1	0.8
Other interest income	6.1	4.5
Total investment and interest income	7.2	5.3

9. Claims incurred

	Year ended 31 December 2016			Year ended 31 December 2015		
	Gross £m	Reinsurers' share £m	Net £m	Gross £m	Reinsurers' share £m	Net £m
Current period	(644.8)	388.4	(256.4)	(451.6)	251.1	(200.5)
Prior periods	(67.0)	63.3	(3.7)	(8.5)	16.1	7.6
Total claims incurred	(711.8)	451.7	(260.1)	(460.1)	267.2	(192.9)

Current period claims relate to claim events that occurred in the current year. Prior period claims primarily relates to the reassessment of claim events that occurred in previous years and the related recoveries.

10. Expenses

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Profit before taxation is stated after charging:		
Building operating lease rentals	0.8	0.5
Employee benefits	76.7	56.3
Reorganisation and transaction costs	–	2.4
Other administration and distribution costs	68.7	60.9
Other expenses	146.2	120.1
Amortisation of intangible assets (Note 19)	24.9	25.3
Depreciation of property and equipment (Note 20)	2.7	2.3
Amortisation and depreciation	27.6	27.6

11. Ogden discount rate impact

The personal injury discount rate (or 'Ogden rate') is a rate set by the UK Government's Lord Chancellor that is used by the Courts to calculate lump sum personal injury compensation payments. The rate was set at 2.5% in 2001 and on 7 December 2016, the Ministry of Justice announced that it was undertaking a review of the Ogden rate. The review concluded on 27 February 2017 with the announcement that the Ogden rate will reduce from 2.5% to minus 0.75% with effect from 20 March 2017. This will increase the value of lump sum settlements awarded. The Group has reflected the rate change to minus 0.75% in estimating the claims liabilities at 31 December 2016, and the full impact of this change on the Consolidated Statement of Profit or Loss, which is considered to warrant separate disclosure given its significance, is shown in the table below:

	31 December 2016				
	Underlying trading pre-Ogden rate change £m	Ogden discount rate impact £m	Underlying trading £m	Non-trading items £m	Total £m
Net earned premiums	334.8	–	334.8	–	334.8
Other revenue	254.9	(6.6)	248.3	–	248.3
Investment and interest income	7.2	–	7.2	–	7.2
Net revenue	596.9	(6.6)	590.3	–	590.3
Claims incurred	(551.7)	(160.1)	(711.8)	–	(711.8)
Reinsurers' share of claims incurred	305.0	146.7	451.7	–	451.7
Net claims incurred	(246.7)	(13.4)	(260.1)	–	(260.1)
Acquisition costs	(51.9)	–	(51.9)	–	(51.9)
Other expenses	(146.2)	–	(146.2)	–	(146.2)
Adjusted operating profit	152.1	(20.0)	132.1		
Amortisation and depreciation	(5.6)	–	(5.6)	(22.0)	(27.6)
Finance costs	(9.6)	–	(9.6)	(0.6)	(10.2)
Profit before tax	136.9	(20.0)	116.9	(22.6)	94.3
Taxation expense	(22.0)	2.0	(20.0)	4.1	(15.9)
Total profit attributable to the equity holders of the parent	114.9	(18.0)	96.9	(18.5)	78.4

Estimating the claims liabilities required at 31 December 2016 using an Ogden rate of minus 0.75%, announced on 27 February 2017, increased claims incurred by £160.1m as a result of the anticipated increase in the value of expected settlements of large personal injury claims. Of the gross amount, £146.7m is expected to be recovered from our reinsurance partners and has therefore increased the reinsurers' share of claims incurred and reinsurance assets. Net claims incurred increased by £13.4m and this subsequently reduced profit commission by £6.6m, resulting in a net reduction in adjusted operating profit and profit before tax of £20.0m.

Notes to the consolidated financial statements continued

12. Non-trading items

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Reorganisation and transaction expenses	–	2.4
Non-trading other expenses	–	2.4
Non-operational amortisation of intangibles recognised on acquisition	22.0	23.0
Non-trading amortisation	22.0	23.0
Senior Secured Notes early repayment and transaction costs	–	36.5
Preference share dividends	–	23.7
Non-cash unwind of fair value adjustments arising on business combination	0.6	0.7
Non-trading finance costs	0.6	60.9
Tax effect of the above non-trading items	(4.1)	(12.4)
Total non-trading items	18.5	73.9

Non-trading items are defined as expenses or earnings, together with the related tax impacts, that are not representative of the underlying activities of the Group. These include Group reorganisation and transaction expenses, and the impact of the Goldman Sachs investment on 8 January 2014.

The reorganisation and transaction expenses of £2.4m in 2015 are those costs incurred on listing on the London Stock Exchange in October 2015.

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 £22.0m (2015: £23.0m) and unwind of discounting in finance costs of £0.6m (2015: £0.7m) are the result of these fair value adjustments.

The early repayment charges of £36.5m in 2015 are the early redemption charges, and write off of applicable discounts and directly attributable transaction costs, on redeeming the Senior Secured Notes. These were repaid in full in 2015 as part of a Group refinancing.

Preference Share dividends of £23.7m in 2015 were accrued on Preference Shares issued as part of a Group restructure on 8 January 2014. On 12 August 2015 all Preference Shares, including dividends and interest accrued thereon were converted into Ordinary Shares.

13. Auditor remuneration

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Fees for audit services		
Group	0.1	0.1
Subsidiaries	0.2	0.2
Total fees for audit services	0.3	0.3
Fees for non-audit services		
Audit-related assurance services	0.1	–
Corporate finance transactions	–	1.3
Other non-audit services	–	0.1
Total fees for non-audit services	0.1	1.4

14. Employee benefits

Included in other operating expenses were the following employee benefits:

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Salaries	66.4	50.1
Social security charges	6.5	4.6
Defined contribution pension plan costs	1.4	1.1
Share based payment charge	2.4	0.5
Total employee benefits	76.7	56.3

Staff numbers (including Directors)

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

	Year ended 31 December 2016	Year ended 31 December 2015
Operational staff	2,177	1,747
Support staff	190	163
Total staff	2,367	1,910

Key management personnel compensation

Key management personnel compensation comprised the following:

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Short term employee benefits	4.9	4.0
Post employment benefits	0.2	0.2
Share based payments	1.7	0.3
Total key management personnel compensation	6.8	4.5

Directors' emoluments

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

15. Finance costs

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Interest on Senior Secured Notes	–	27.1
Interest on Term Loan	8.6	1.1
Non-cash amortisation of loans and borrowings	0.9	1.8
Preference share dividends	–	23.7
Other interest expense	0.7	0.9
Total interest expense	10.2	54.6
Refinancing costs	–	36.5
Total finance costs	10.2	91.1

Notes to the consolidated financial statements continued

15. Finance costs continued

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

Refinancing costs incurred in the year ended 31 December 2015 related to the early redemption of the Senior Secured Notes in 2015, which were settled in full in November 2015.

On 12 August 2015, as part of the reorganisation, the preference shares and accrued dividends thereon were converted into Ordinary Shares.

16. Taxation expense

	Year ended	
	31 December 2016 £m	31 December 2015 £m
Current tax		
Corporation tax on profits for the year	19.5	7.0
Adjustments for prior years	(0.3)	–
Current taxation expense	19.2	7.0
Deferred tax		
Deferred taxation movement relating to temporary differences	(3.1)	(3.6)
Impact of change in the UK Corporation tax rate	(0.1)	(0.8)
Adjustments for prior years	(0.1)	0.1
Deferred taxation expense	(3.3)	(4.3)
Total taxation expense	15.9	2.7

Factors affecting total taxation expense are:

	Year ended	
	31 December 2016 £m	31 December 2015 £m
Profit before tax	94.3	5.0
Applicable tax charge at the statutory tax rate of 20.00% (2015: 20.25%):	18.9	1.0
Impact of different tax rates in foreign jurisdictions	(2.1)	(1.7)
Non-taxable income	(0.7)	(0.7)
Expenses and provisions not deductible for tax purposes	0.3	4.9
Impact of change in the UK Corporation tax rate	(0.1)	(0.8)
Adjustment relating to prior periods	(0.4)	0.1
Deferred income tax not recognised in profit or loss	–	(0.1)
Total taxation expense	15.9	2.7

For the year ended 31 December 2016 the UK Corporation tax rate applicable to the Company was 20.00% (2015: 20.25%).

Factors that may impact future tax charges

Effective from 1 April 2015, the UK Corporation tax rate reduced from 21% to 20%, and will reduce to 19% from 1 April 2017 and to 17% from 1 April 2020. The Gibraltar rate of tax has remained at 10% and is expected to remain constant for the foreseeable future. The Group's legal entities are subject to routine review and enquiries by tax authorities in the UK and Gibraltar. The Group provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities. The final amounts paid may differ from the amounts provided depending on the ultimate resolution of such matters.

16. Taxation expense continued

Unrecognised deferred income tax assets

Deferred income tax assets of £1.2m have not been recognised by the Group as at 31 December 2016 in respect of tax losses (2015: £1.3m).

These tax losses do not expire under current tax legislation and deferred income tax assets have not been recognised because it is not probable that future taxable profit will be available against which the Group can utilise these tax losses.

17. 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, preference share dividends and the impact of accounting for business combinations as identified in Note 12, and the related tax effect. The Directors believe this figure provides a better indication of the Group's trading performance.

	Year ended	
	31 December 2016	31 December 2015
Profit attributable to the equity holders of the parent (£m)	78.4	2.3
Basic weighted average number of Ordinary Shares in issue (million)	657.2	468.1
Basic earnings per share	11.9p	0.5p

	Year ended	
	31 December 2016	31 December 2015
Profit attributable to the equity holders of the parent (£m)	78.4	2.3
Adjusted for (£m):		
Non-trading items (note 12)	22.6	86.3
Tax effect of non-trading items	(4.1)	(12.4)
Net income (£m)	96.9	76.2
Basic weighted average number of Ordinary Shares in issue (million)	657.2	468.1
Adjusted earnings per share	14.7p	16.3p

Diluted earnings per share and adjusted diluted earnings per share are calculated respectively by dividing the profit attributable to the owners 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 described in Note 29.

Notes to the consolidated financial statements continued

17. Earnings per share continued

	Year ended 31 December 2016	Year ended 31 December 2015
Profit attributable to the equity holders of the parent (£m)	78.4	2.3
Net income (£m)	96.9	76.2
Basic weighted average number of Ordinary Shares in issue (m)	657.2	468.1
Potential ordinary shares and contingently issuable shares (m)	1.8	0.9
Weighted average number of shares adjusted for dilutive potential Ordinary Shares	659.0	469.0
Diluted earnings per share	11.9p	0.5p
Adjusted diluted earnings per share	14.7p	16.2p

18. Goodwill

Goodwill at the period end was allocated as follows:

Cost	CGU Underwriting £m	CGU Retail £m	Total £m
As at 1 January 2015, 31 December 2015 and 31 December 2016	374.8	95.2	470.0

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

The recoverable amount of the two CGUs has been determined based on value in use calculations. These calculations use pre-tax cash flow projections based on the most recent three year financial plans approved by the Directors, discounted by the Group's pre-tax discount rate of 8.0% (2015: 8.2%). The Directors determine financial budgets based on past performance and their expectations of market and business development.

Cash flows beyond the three year plan period are extrapolated using growth rates declining to a terminal rate of 2%, representing the long term average growth rate for the insurance industry. As the recoverable amount of each CGU is significantly higher than the cumulative total of allocated goodwill and the carrying value of the CGU's assets, the allocated goodwill is not deemed to be impaired.

19. Intangible assets

	Customer relationships £m	Brands £m	Software £m	Work in progress £m	Total £m
Cost					
As at 1 January 2015	64.0	13.0	47.2	6.6	130.8
Additions	–	–	0.4	23.4	23.8
Transfers	–	–	9.8	(9.8)	–
As at 31 December 2015	64.0	13.0	57.4	20.2	154.6
Accumulated amortisation					
As at 1 January 2015	12.6	1.6	12.3	–	26.5
Amortisation for the year	12.8	1.6	10.9	–	25.3
As at 31 December 2015	25.4	3.2	23.2	–	51.8
Net book value as at 31 December 2015	38.6	9.8	34.2	20.2	102.8
Cost					
As at 1 January 2016	64.0	13.0	57.4	20.2	154.6
Additions	–	–	0.1	19.2	19.3
Transfers	–	–	0.2	(0.2)	–
As at 31 December 2016	64.0	13.0	57.7	39.2	173.9
Accumulated amortisation					
As at 1 January 2016	25.4	3.2	23.2	–	51.8
Amortisation for the year	12.8	1.6	10.5	–	24.9
As at 31 December 2016	38.2	4.8	33.7	–	76.7
Net book value as at 31 December 2016	25.8	8.2	24.0	39.2	97.2

Work in progress consists of costs of development of software that has not yet reached a state where it is ready for its intended use.

Software held as at 31 December 2016 includes internally generated software carried at £7.4m (2015: £8.8m).

Software held as at 31 December 2016 has a remaining amortisation period of up to 7 years (2015: up to 7 years).

Notes to the consolidated financial statements continued

20. Property and equipment

	Property £m	Property and leasehold improvements £m	Computer equipment £m	Fixtures, fittings and equipment £m	Work in progress £m	Total £m
Cost or valuation						
As at 1 January 2015	5.3	2.1	2.9	1.1	0.1	11.5
Revaluations	0.6	–	–	–	–	0.6
Additions	–	0.6	1.0	0.5	3.2	5.3
Transfers	–	0.8	2.3	0.2	(3.3)	–
Disposals	–	–	(0.2)	(0.2)	–	(0.4)
As at 31 December 2015	5.9	3.5	6.0	1.6	–	17.0
Accumulated depreciation						
As at 1 January 2015	0.1	0.2	0.8	0.3	–	1.4
Charge for the year	–	0.3	1.5	0.5	–	2.3
Revaluations	(0.1)	–	–	–	–	(0.1)
Disposals	–	–	(0.2)	(0.1)	–	(0.3)
As at 31 December 2015	–	0.5	2.1	0.7	–	3.3
Net book value as at 31 December 2015	5.9	3.0	3.9	0.9	–	13.7
Cost or valuation						
As at 1 January 2016	5.9	3.5	6.0	1.6	–	17.0
Revaluations	0.1	–	–	–	–	0.1
Additions	–	0.6	0.6	0.3	0.1	1.6
Transfers	–	–	0.1	–	(0.1)	–
As at 31 December 2016	6.0	4.1	6.7	1.9	–	18.7
Accumulated depreciation						
As at 1 January 2016	–	0.5	2.1	0.7	–	3.3
Charge for the year	0.1	0.5	1.7	0.4	–	2.7
As at 31 December 2016	0.1	1.0	3.8	1.1	–	6.0
Net book value as at 31 December 2016	5.9	3.1	2.9	0.8	–	12.7

The Group's property comprises the freehold buildings at The Old Bank, Cannon Lane, Gibraltar and Conquest House, Bexhill-on-Sea, UK. Property is revalued annually using Level 3 inputs as defined in Note 2. Valuations are performed by independent valuation experts every three years.

The Old Bank was valued by an independent valuation expert according to the market value that would be attributed to it if it were to be sold to a willing buyer on an arms length basis. This resulted in an upward revaluation of The Old Bank by £0.1m during the year ended 31 December 2016 (2015: £nil).

Conquest House was valued by an independent valuation expert during 2015 with reference to the value of leasing a building of a similar size and with comparable facilities given the lack of similar buildings within the local area from which to determine a potential sale value. This resulted in the upward revaluation of Conquest House by £0.7m during the year ended 31 December 2015.

It is not considered that the current total value of property is materially different from these valuations. If carried at cost, property would be held at £5.2m (2015: £5.2m).

21. Deferred income tax

Deferred income tax assets

	As at 31 December 2016 £m	31 December 2015 £m
Brought forward at start of year	3.4	5.6
Movement in year	1.1	(2.2)
Carried forward at end of year	4.5	3.4
Depreciation in excess of capital allowances	0.8	0.7
Insurance provisions	0.1	0.2
Deferred acquisition costs	2.9	2.4
Share based payments	0.7	0.1
Deferred income tax assets at end of year	4.5	3.4

Deferred income tax liabilities

	As at 31 December 2016 £m	31 December 2015 £m
Brought forward at start of year	20.6	27.0
Movement in year	(2.1)	(6.4)
Carried forward at end of year	18.5	20.6
Intangible assets	8.7	12.8
Deferred acquisition costs	4.6	3.7
Insurance provisions	5.1	4.0
Revaluation of property	0.1	0.1
Deferred income tax liabilities at end of year	18.5	20.6

Movement in deferred income tax assets and liabilities during the year

	As at 1 January 2015 £m	Recognised in other comprehensive income £m	Recognised in profit or loss £m	As at 31 December 2015 £m
Deferred income tax assets				
Depreciation in excess of capital allowances	0.8	–	(0.1)	0.7
Insurance provisions	0.5	–	(0.3)	0.2
Deferred acquisition costs	4.3	–	(1.9)	2.4
Share based payments	–	–	0.1	0.1
Total deferred income tax assets	5.6	–	(2.2)	3.4
Deferred income tax liabilities				
Intangible assets	17.6	–	(4.8)	12.8
Deferred acquisition costs	5.8	–	(2.1)	3.7
Insurance provisions	3.6	–	0.4	4.0
Revaluation of property	–	0.1	–	0.1
Total deferred income tax liabilities	27.0	0.1	(6.5)	20.6

Notes to the consolidated financial statements continued

21. Deferred income tax

Movement in deferred income tax assets and liabilities during the year continued

	As at 1 January 2016 £m	Recognised in retained earnings £m	Recognised in profit or loss £m	As at 31 December 2016 £m
Deferred income tax assets				
Depreciation in excess of capital allowances	0.7	–	0.1	0.8
Insurance provisions	0.2	–	(0.1)	0.1
Deferred acquisition costs	2.4	–	0.5	2.9
Share based payments	0.1	0.1	0.5	0.7
Total deferred income tax assets	3.4	0.1	1.0	4.5
Deferred income tax liabilities				
Intangible assets	12.8	–	(4.1)	8.7
Deferred acquisition costs	3.7	–	0.9	4.6
Insurance provisions	4.0	–	1.1	5.1
Revaluation of property	0.1	–	–	0.1
Total deferred income tax liabilities	20.6	–	(2.1)	18.5

22. Reinsurance assets and insurance contract liabilities

	As at 31 December 2016			As at 31 December 2015		
	Gross £m	Reinsurers' share £m	Net £m	Gross £m	Reinsurers' share £m	Net £m
Claims reported and adjustments to claims reported	587.2	(360.0)	227.2	430.6	(254.9)	175.7
Claims incurred but not reported	314.7	(257.7)	57.0	161.1	(125.8)	35.3
Outstanding claims liabilities	901.9	(617.7)	284.2	591.7	(380.7)	211.0
Unearned premiums reserve	397.6	(204.3)	193.3	320.4	(166.8)	153.6
Total insurance contract liabilities	1,299.5	(822.0)	477.5	912.1	(547.5)	364.6

	As at 31 December 2016			As at 31 December 2015		
	Gross £m	Reinsurers' share £m	Net £m	Gross £m	Reinsurers' share £m	Net £m
Outstanding claims liabilities brought forward at start of year	591.7	(380.7)	211.0	455.9	(293.2)	162.7
Claims paid	(445.1)	226.9	(218.2)	(336.1)	177.8	(158.3)
Movement in liabilities	755.3	(463.9)	291.4	471.9	(265.3)	206.6
Outstanding claims liabilities carried forward	901.9	(617.7)	284.2	591.7	(380.7)	211.0
Unearned premiums reserve brought forward at start of year	320.4	(166.8)	153.6	248.8	(133.3)	115.5
Deferral in period	769.0	(394.5)	374.5	614.9	(320.9)	294.0
Release in period	(691.8)	357.0	(334.8)	(543.3)	287.4	(255.9)
Unearned premiums reserve carried forward	397.6	(204.3)	193.3	320.4	(166.8)	153.6
Total insurance contracts liabilities	1,299.5	(822.0)	477.5	912.1	(547.5)	364.6

22. Reinsurance assets and insurance contract liabilities continued

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

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

The expected timing of the settlements for the net and gross claims liabilities are shown in Note 26.

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 six accident periods and all historic periods prior to these from incorporation of the Group's underwriter in 2002 (i.e. including accident periods prior to the creation of the Group), as estimated at each reporting date. The development for the years ended 31 December 2015 and earlier has been restated to include the effect of rebates receivable on the net claim cost to align to Solvency II disclosures. The table also shows a reconciliation of the gross outstanding claims liabilities, net of salvage and subrogation recoveries, to the gross outstanding claims liabilities on the Consolidated Balance Sheet as at 31 December 2016.

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 12).

The reduction in the Ogden rate has had a £160.1m impact on gross claims liabilities and a £13.4m impact on net claims liabilities at the end of the current year.

	Year ended							
	Prior periods £m	31 December 2011 £m	31 December 2012 £m	31 December 2013 £m	31 December 2014 £m	31 December 2015 £m	31 December 2016 £m	Total £m
Development								
At end of current period	761.8	163.0	252.6	326.4	384.3	491.1	644.8	3,024.0
One period earlier	765.2	170.6	243.2	312.0	369.4	451.7	–	2,312.1
Two periods earlier	762.8	168.5	247.6	304.5	368.5	–	–	1,851.9
Three periods earlier	753.4	177.1	254.0	306.4	–	–	–	1,490.9
Four periods earlier	750.6	174.4	240.4	–	–	–	–	1,165.4
Five periods earlier	740.3	167.2	–	–	–	–	–	907.5
Payments to date	(731.0)	(156.5)	(209.5)	(249.5)	(290.3)	(307.5)	(222.0)	(2,166.3)
Gross outstanding claims liabilities, net of salvage and subrogation recoveries	30.8	6.5	43.1	76.9	94.0	183.6	422.8	857.7
Reconciliation to gross outstanding claims liabilities								
Anticipated salvage and subrogation recoveries								46.7
Fair value acquisition adjustment								(2.5)
Gross outstanding claims liabilities								901.9

Notes to the consolidated financial statements continued

22. Reinsurance assets and insurance contract liabilities continued

Claims development continued

The following table shows the development of the outstanding claims liabilities net of both reinsurance assets and salvage and subrogation recoveries, together with a reconciliation of these to the gross outstanding claims liabilities on the Consolidated Balance Sheet as at 31 December 2016.

	Year ended							
	Prior periods £m	31 December 2011 £m	31 December 2012 £m	31 December 2013 £m	31 December 2014 £m	31 December 2015 £m	31 December 2016 £m	Total £m
Development								
At end of current period	638.7	93.5	105.4	125.3	169.1	203.4	256.4	1,591.8
One period earlier	641.1	94.4	104.9	125.2	165.5	200.6	–	1,331.7
Two periods earlier	640.9	95.0	108.8	130.8	163.4	–	–	1,138.9
Three periods earlier	637.8	97.4	114.6	136.4	–	–	–	986.2
Four periods earlier	642.3	98.4	117.1	–	–	–	–	857.8
Five periods earlier	644.4	97.4	–	–	–	–	–	741.8
Payments to date	(634.8)	(92.0)	(99.8)	(110.7)	(139.3)	(149.1)	(104.6)	(1,330.3)
Net outstanding claims liabilities, net of salvage and subrogation recoveries	3.9	1.5	5.6	14.6	29.8	54.3	151.8	261.5
Reconciliation to net outstanding claims liabilities								
Anticipated salvage and subrogation recoveries								46.7
Reinsurers' share of salvage and subrogation recoveries								(23.0)
Fair value acquisition adjustment								(1.0)
Net outstanding claims liabilities								284.2
Reinsurers' share of outstanding claims liabilities								617.7
Gross outstanding claims liabilities								901.9

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 may not necessarily be derived from the information presented in the tables above.

23. Deferred acquisition costs

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Deferred acquisition costs brought forward at start of year	19.9	15.7
Additions	50.5	41.4
Recognition of acquisition costs in profit or loss	(46.2)	(37.2)
Deferred acquisition costs carried forward at end of year	24.2	19.9

24. Insurance and other receivables

	As at 31 December 2016 £m	As at 31 December 2015 £m
Insurance receivables	255.7	206.6
Salvage and subrogation recoveries	46.7	21.1
Reinsurance receivables	29.7	11.1
Interest receivable	5.8	4.6
Other receivables	18.6	18.2
Total insurance and other receivables	356.5	261.6

The table below analyses insurance and other receivables between current and overdue as well as an analysis of 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 2016			
Current	357.2	(0.8)	356.4
Overdue	5.1	(5.0)	0.1
Total	362.3	(5.8)	356.5
As at 31 December 2015			
Current	262.5	(0.9)	261.6
Overdue	3.5	(3.5)	–
Total	266.0	(4.4)	261.6

Movements on the Group's provision for impairment are as follows:

	As at 31 December 2016 £m	As at 31 December 2015 £m
Provision for impairment brought forward at start of year	4.4	3.7
Utilised during the year	(2.6)	(2.4)
Impairments recognised during the year	4.0	3.1
Total provision for impairment carried forward at end of year	5.8	4.4

Notes to the consolidated financial statements continued

25. Cash and cash equivalents

	As at 31 December 2016 £m	As at 31 December 2015 £m
Cash at bank and in hand	30.9	42.5
Money market funds	119.7	104.7
Short term deposits	17.4	5.0
Total cash and cash equivalents	168.0	152.2

Cash and cash equivalents include balances of £9.2m (2015: £6.8m) relating to cash and cash equivalents held on an agency basis on behalf of other insurers.

26. Financial instruments, capital management and related disclosures

Financial assets and liabilities

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

At amortised cost

The table below analyses financial instruments carried at amortised cost, by balance sheet classification.

	As at 31 December 2016 £m	As at 31 December 2015 £m
Financial assets		
Insurance and other receivables (excluding salvage and subrogation assets)	309.8	240.5
Total financial assets at amortised cost	309.8	240.5
Financial liabilities		
Term Loan	286.6	295.7
Insurance and other payables (excluding salvage and subrogation payables and deferred income)	165.5	137.2
Total financial liabilities at amortised cost	452.1	432.9

The carrying value of all financial instruments carried at amortised cost at 31 December 2016 and 31 December 2015 is considered to be an approximation of fair value.

26. Financial instruments, capital management and related disclosures continued

At fair value

The table below analyses financial assets carried at fair value by level within the fair value hierarchy set out in Note 2. Debt securities 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. Investment funds relate to investments in a portfolio of assets that are valued in line with the valuation policies of the fund manager. These comprise both level 1 and level 2 financial assets, and are therefore classified at level 2.

	As at 31 December 2016			As at 31 December 2015		
	Level 1 £m	Level 2 £m	Total £m	Level 1 £m	Level 2 £m	Total £m
Fair value through profit or loss						
Investment funds	–	48.5	48.5	–	51.9	51.9
Total financial assets at fair value through profit or loss	–	48.5	48.5	–	51.9	51.9
Available for sale						
Debt securities	–	355.1	355.1	–	264.6	264.6
Total available for sale financial assets	–	355.1	355.1	–	264.6	264.6
Total financial assets at fair value	–	403.6	403.6	–	316.5	316.5

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

Year ended 31 December 2016	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	48.5	355.1	403.6

Year ended 31 December 2015	Investment funds £m	Debt securities £m	Total £m
As at 1 January 2015	63.0	161.9	224.9
Net increases/(decreases) to the fair value of assets held recognised in profit or loss	1.0	(0.2)	0.8
Net decreases to the fair value of assets held recognised in other comprehensive income	–	(1.3)	(1.3)
Net (disposals)/additions to assets held	(12.1)	104.2	92.1
As at 31 December 2015	51.9	264.6	316.5

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.

Objectives, policies and procedures for managing financial risks

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

Notes to the consolidated financial statements continued

26. Financial instruments, capital management and related disclosures continued

Credit risk

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

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

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

The Standard & Poor's or equivalent 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 £m	Investment funds £m	Cash and cash equivalents £m	Total £m
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 or unrated	–	9.6	–	9.6
Total	355.1	48.5	168.0	571.6
As at 31 December 2015				
AAA	64.1	4.1	104.7	172.9
AA	68.3	8.6	24.3	101.2
A	42.3	33.1	23.2	98.6
BBB	89.9	(1.2)	–	88.7
Less than BBB or unrated	–	7.3	–	7.3
Total	264.6	51.9	152.2	468.7

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

	As at	
	31 December 2016 £m	31 December 2015 £m
AA	512.6	337.2
A	308.5	210.3
BBB	0.9	–
Total reinsurance assets	822.0	547.5

The Group has investment guidelines that restrict the amount of the investment portfolio that can be placed with a single counterparty.

The Group's maximum exposure to credit risk at 31 December 2016 is £1,750.1m (2015: £1,277.8m), 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 insurance receivables are an aggregation of small receivables and the Group uses multiple reinsurance providers to ensure that there are no significant concentrations of credit risk. Since other assets such as cash and cash equivalents and financial assets at fair value are well diversified, the Directors believe that the Group does not hold any significant concentrations of risk.

26. Financial instruments, capital management and related disclosures continued

Market risk

The only significant market risk the Group is exposed to is interest rate risk.

Interest rate risk is defined by the Group as the impact of unfavourable movements in market interest rates which consequently could adversely affect the values of financial assets and liabilities, or reduce future cash flows arising from them.

Cash and cash equivalents are held in current accounts or in short term money market instruments. These are generally less than 60 days in duration, considerably reducing sensitivity to significant movements in interest rates compared to longer duration assets. The Directors consider that the exposure to interest rate risk of cash and cash equivalents balances is immaterial for the purposes of sensitivity analysis.

The carrying value of the Group's financial assets at fair value are more susceptible to movements in interest rates. Loans and borrowings are also exposed to movements in interest rates, incurring interest at rates pegged to LIBOR.

A 1% increase in interest rates would have reduced profit after tax and equity as follows:

	As at	
	31 December 2016 £m	31 December 2015 £m
Equity	(9.1)	(6.8)
Profit after tax	(1.8)	(1.0)

The Group does not use derivatives or similar instruments to mitigate exposure therefore a change in interest rates at the end of the reporting period would not further affect profit or loss.

Liquidity risk

Liquidity risk is the risk that cash may not be available to meet obligations as they fall due. The Group maintains significant holdings in liquid funds to mitigate this risk. The Group makes use of regular forecasts to monitor and control its cash flow and working capital requirements.

Financial liabilities are settled in line with agreed payment terms and managed in accordance with cash availability and inflow expectations. All financial liabilities except loans and borrowings and an amount due to a reinsurer within insurance and other payables (see Note 28) are due within 12 months. Loans and borrowings are secured for a five year term and are due for repayment in 2020.

The assets backing insurance contract and other short-term liabilities held by the Group are considered to be more liquid than the related liabilities, and the Group is in a net current asset position.

The following table indicates the expected timing of net cash outflows resulting from insurance contract liabilities and reinsurance assets at the year end:

	0-1 year £m	1-2 years £m	Over 2 years £m	Total £m
As at 31 December 2016				
Gross claims liabilities	545.4	293.3	368.1	1,206.8
Less reinsurance assets	(344.8)	(197.1)	(243.4)	(785.3)
Net cash outflows	200.6	96.2	124.7	421.5
As at 31 December 2015				
Gross claims liabilities	296.6	166.8	448.7	912.1
Less reinsurance assets	(145.7)	(83.1)	(318.7)	(547.5)
Net cash outflows	150.9	83.7	130.0	364.6

Notes to the consolidated financial statements continued

26. Financial instruments, capital management and related disclosures continued

Liquidity risk continued

The expected contractual undiscounted cash flows of loans and borrowings, including interest payments, assuming LIBOR stays constant, fall due as follows:

	0-1 year £m	1-2 years £m	2-5 years £m	Total £m
As at 31 December 2016				
Term Loan	17.1	16.9	282.4	316.4
Total	17.1	16.9	282.4	316.4
As at 31 December 2015				
Term Loan	20.7	20.2	308.6	349.5
Total	20.7	20.2	308.6	349.5

Actual cash flows of loans and borrowings will vary to the extent that LIBOR increases and decreases in these time periods.

Objectives, policies and procedures for managing capital

The Group's capital is primarily made up of total equity (see Note 30) and loans and borrowings (see Note 27).

The Group's subsidiary AICL, as an insurance company, is subject to the provisions of the solvency regulations set by the European Insurance and Occupational Pensions Authority and implemented by the Financial Services Commission in Gibraltar. From 1 January 2016, the previous solvency framework, Solvency I was replaced by Solvency II ('SII'), which introduced new capital and reporting requirements. AICL has exceeded the minimum capital requirements under SII at all times throughout the year.

The Group's subsidiary HISL, as an insurance intermediary in the UK, is also subject to a minimum capital requirement under Financial Conduct Authority rules; it exceeded that minimum capital requirement at all times during the year.

27. Loans and borrowings

	As at 31 December 2016 £m	31 December 2015 £m
Term Loan	286.6	295.7
Total loans and borrowings	286.6	295.7
Current	8.9	9.1
Non-current	277.7	286.6
Total loans and borrowings	286.6	295.7

The Term Loan is repayable in full in five years from 15 October 2015, with instalment repayments due up to the amount of any dividend paid limited to £10.0m per annum. The Term Loan is unsecured and the Group is subject to certain financial covenants.

28. Insurance and other payables

	As at 31 December 2016 £m	As at 31 December 2015 £m
Amounts owed to reinsurers	89.3	72.2
Reinsurers' share of salvage and subrogation recoveries	23.0	10.3
Insurance premium tax	20.5	13.8
Accrued interest	–	1.1
Accrued expenses	38.4	31.4
Deferred income	9.6	8.7
Other payables	17.3	18.7
Total insurance and other payables	198.1	156.2
Current	196.5	148.1
Non-current	1.6	8.1
Total insurance and other payables	198.1	156.2

29. Share based payments

The total charge for the share based payments recognised in the profit and loss during 2016 was £2.4m (2015: £0.5m) and there was no impact on the balance sheet (2015: £nil).

Admission awards

On 28 September 2015, certain management personnel were granted share awards conditional upon the Company listing on the London Stock Exchange. The awards are for a fixed value of £5.9m, payable in Ordinary Shares in two tranches, at, or shortly before, 31 December 2017 and 31 December 2018. The awards are subject to a service condition that the members remain in employment by the Group until vesting date.

The awards are classified as equity settled share based payments and had a fair value of £4.9m at grant date.

Long-Term Incentive Plan ('LTIP')

On 19 April 2016 and 5 September 2016, certain management personnel were granted share options under the Hastings LTIP allowing them to acquire shares in the Company with an exercise price of £nil. Vesting is subject to a three year service period and the achievement of certain performance conditions in respect of total shareholder return and adjusted earnings per share over a three year period.

Awards subject to a market condition have been valued using a Monte Carlo pricing model and those not subject to a market condition were valued using a Black Scholes model. The model inputs are as follows:

	As at 31 December 2016
Share price at grant date:	
April tranche	172p
September tranche	220p
Exercise price	0p
Volatility per annum	28%
Average comparator volatility per annum	27%
Risk free rate per annum	0.6%
Expected life	3 years

The expected life is the contractual life of the option adjusted to reflect management's best estimate of holder behaviour. Volatility was determined with reference to insurance companies within the FTSE 350 for the 2.7 years to 19 April 2016, being the performance period and grant date respectively.

Notes to the consolidated financial statements continued

29. Share based payments continued

Long-Term Incentive Plan ('LTIP') continued

The following table details the outstanding number of LTIP share awards in issue:

	Number of share awards (m) 2016
At 1 January	–
Granted during the year	2.4
Exercised during the year	–
Forfeited during the year	–
At 31 December	2.4
Exercisable at 31 December	–

Share Incentive Plan ('SIP')

During the year the Group set up an employee SIP, to encourage colleagues to invest in the Company. Under the scheme, employees are entitled to purchase up to £150 a month of shares in the Company through an employee benefit trust. The Group matches employee contributions up to £30 a month through free share awards, subject to a three year service period before the matching shares are awarded. Dividends are paid on shares, including matching shares, held in the trust by means of dividend shares. The fair value of such awards is estimated to be the market value of the awards on grant date.

In the year to 31 December 2016, 103,801 matching shares (2015: nil) were granted to employees, with an estimated fair value of £0.2m (2015: £nil). The average unexpired life of SIP awards is 2.6 years (2015: nil).

30. Share capital and reserves

Share capital

Share capital recognised as equity comprised Ordinary Shares authorised, issued and fully paid up as follows:

	As at	
	31 December 2016 £m	31 December 2015 £m
Authorised, issued and fully paid up ordinary share capital		
657,217,641 Ordinary Shares of 2p (2015: 657,217,641)	13.1	13.1
Total	13.1	13.1

Merger reserve

As described in Note 1, the Consolidated Financial Statements have been prepared under the principles of predecessor accounting, incorporating the consolidated results of HGH and the HIG(H) Group for the prior period. Under this method, the difference on consolidation between consideration paid and the book value of the underlying net assets acquired on the date of the reorganisation is included within the merger reserve in the Consolidated Financial Statements.

Other reserves

Unrealised fair value movements on available for sale financial assets (Note 26) and property held at revalued amounts (Note 20) are recognised in other comprehensive income and accumulated within other reserves.

Shares acquired for the purposes of settling the share incentive plan are recorded as treasury shares within Other Reserves. The Group satisfies the share awards in the SIP as described in Note 29 through the acquisition of the Company's Ordinary Shares in the market. During the three year service period these matching shares are held by an employee benefit trust ('EBT') that is consolidated within these Consolidated Financial Statements.

At 31 December 2016, the EBT held 103,801 shares (2015: nil) acquired at a cost of £0.2m (2015: £nil).

31. Financial commitments

The Group is committed to making the following payments in future years for land and buildings under operating leases:

	As at 31 December 2016 £m	As at 31 December 2015 £m
Within one year	2.0	0.7
Within two to five years	5.6	2.7
Over five years	2.6	1.2
Total operating lease commitments	10.2	4.6

The Group is committed to making the following payments in future years under other contracts in place as at the year end:

	As at 31 December 2016 £m	As at 31 December 2015 £m
IT transaction and support costs		
Within one year	5.7	7.4
Within two to five years	7.6	6.2
IT software development costs		
Within one year	–	1.8
Total other financial commitments	13.3	15.4

32. Subsidiaries

The Company's subsidiaries are as follows:

Subsidiary	Registered office	Class of shares held	% Ownership	Principal activity
Hastings Insurance Group (Holdings) plc	a	Ordinary	100%	Holding
Hastings Insurance Group (Investment) plc*	a	Ordinary	100%	Holding
Hastings Insurance Group (Layer Three) Limited*	a	Ordinary	100%	Dormant
Hastings Insurance Group (Layer Two) Limited*	a	Ordinary	100%	Dormant
Hastings Insurance Group (Finance) plc*	a	Ordinary	100%	Holding
Hastings Insurance Group Limited*	a	Ordinary	100%	Holding
Advantage Global Holdings Limited*	c	Ordinary	100%	Holding
Advantage Insurance Company Limited*	d	Ordinary	100%	Underwriting
Conquest House Limited*	b	Ordinary	100%	Leasing of property
Hastings (Holdings) Limited*	b	Ordinary	100%	Holding
Hastings (UK) Limited*	b	Ordinary	100%	Holding
Hastings Insurance Services Limited*	b	Ordinary	100%	Broking
Renew Insurance Services Limited*	b	Ordinary	100%	Dormant
1066 Direct Limited*	b	Ordinary	100%	Dormant
Advantage Insurance Services Limited*	b	Ordinary	100%	Dormant
Hastings Direct Limited*	b	Ordinary	100%	Dormant
Hastings Direct Accident Management Limited*	b	Ordinary	100%	Dormant
People's Choice (Europe) Limited*	b	Ordinary	100%	Dormant

* Held indirectly

Notes to the consolidated financial statements continued

32. Subsidiaries continued

The registered offices of the Company's subsidiaries are as follows:

a) 47 Esplanade, St Helier, Jersey, JE1 0BD

b) Conquest House, 32-34 Collington Avenue, Bexhill-On-Sea, East Sussex, TN39 3LW, UK

c) Nemours Chambers, Road Town, Tortola, British Virgin Islands, VG1110

d) Suite 23, Portland House, Glacis Road, Gibraltar

The Company holds 100% of the voting rights of both its directly and indirectly owned subsidiaries. The Company does not have any other significant holdings.

33. Ultimate controlling party

During the year, subsequent to changes in shareholdings, Hastings Investco Limited ceased to be the immediate parent company and Hastings A L.P., a limited partnership registered in the Cayman Islands, ceased to be the ultimate parent company.

The Company no longer has an ultimate parent.

34. Related party transactions

The Group undertakes transactions with related parties in the normal course of business and all transactions with related parties are made on normal, arm's length, commercial terms.

During the year ended 31 December 2016, the Group entered into the following related party transactions:

- in July 2016 the Group sold its 21% shareholding in E Touch Solutions Limited for a cash consideration of £0.1m;
- the Group was charged £0.5m in fees by Goldman Sachs Asset Management International during the year ended 31 December 2016 (2015: £0.3m). At 31 December 2016, £0.1m was outstanding (2015: £0.2m); and
- during the period the Group was charged £0.3m by Eclipse Resources Limited for the provision of key management personnel services (2015: £0.1m). There was no outstanding balance as at 31 December 2016.

35. Dividends

Dividends amounting to £36.1m or 5.5 pence per share, were paid during the year ended 31 December 2016 (2015: £nil). This consisted of two separate dividends made during the year:

- on 14 March 2016, the Board recommended the payment of a final dividend in respect of the year ended 31 December 2015 of 2.2 pence per share, totalling £14.5m which was approved at the AGM on 25 May 2016 and paid on 31 May 2016; and
- on 10 August 2016, the Board declared an interim dividend in respect of the year ended 31 December 2016 of 3.3 pence per share, totalling £21.7m, which was paid on 4 November 2016.

The Board recommends the payment of a final dividend in respect of the year ended 31 December 2016 of 6.6 pence per share, totalling £43.4m, subject to shareholder approval at the AGM on 25 May 2017.

Parent Company balance sheet

as at 31 December 2016

	Note	31 December 2016 £m	31 December 2015 £m
Assets			
Investment in subsidiary	5	1,271.0	1,269.3
Deferred income tax assets		0.3	0.1
Other debtors		0.7	–
Cash and cash equivalents	6	0.1	6.8
Total assets		1,272.1	1,276.2
Liabilities			
Current liabilities	7	0.8	3.1
Total liabilities		0.8	3.1
Equity			
Share capital	9	13.1	13.1
Share premium	9	172.6	172.6
Retained earnings	9	1,085.6	1,087.4
Total equity		1,271.3	1,273.1
Total equity and liabilities		1,272.1	1,276.2

The accompanying notes form an integral part of these Financial Statements.

These Financial Statements were approved by the Board of Directors on 1 March 2017 and were signed on its behalf by:

Gary Hoffman
Chief Executive Officer

Hastings Group Holdings plc
Company Number: 09635183

Parent Company statement of changes in equity

for the year ended 31 December 2016

	Note	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
As at 11 June 2015		–	–	–	–
Total loss for the period attributable to equity holders		–	–	(2.1)	(2.1)
Transactions with equity holders					
Share based payments	8	–	–	0.5	0.5
Conversion of roll up loan notes into ordinary share capital	9	11.0	1,089.0	–	1,100.0
Issue of shares	9	2.1	172.6	–	174.7
Capital reduction	9	–	(1,089.0)	1,089.0	–
Total transactions with equity holders		13.1	172.6	1,089.5	1,275.2
As at 31 December 2015		13.1	172.6	1,087.4	1,273.1
As at 1 January 2016		13.1	172.6	1,087.4	1,273.1
Total profit for the year attributable to equity holders		–	–	31.8	31.8
Transactions with equity holders					
Share based payments	8	–	–	2.4	2.4
Tax on share based payments		–	–	0.1	0.1
Dividends paid		–	–	(36.1)	(36.1)
Total transactions with equity holders		–	–	(33.6)	(33.6)
As at 31 December 2016		13.1	172.6	1,085.6	1,271.3

The accompanying notes form an integral part of these Financial Statements.

Parent Company statement of cash flows

for the year ended 31 December 2016

	Note	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Profit/(loss) after tax		31.8	(2.1)
Adjustments for:			
Share based payments	8	0.7	0.3
Taxation expense		(1.1)	–
Change in other receivables and prepayments		(0.8)	–
Change in current liabilities		(2.3)	1.4
Taxation paid		1.1	–
Net cash flows from operating activities		29.4	(0.4)
Investment in subsidiary	5	–	(169.1)
Net cash flows from investing activities		–	(169.1)
Proceeds from issue of ordinary share capital	9	–	182.2
Transaction costs		–	(5.9)
Dividends paid		(36.1)	–
Net cash flows from financing activities		(36.1)	176.3
Net decrease in cash and cash equivalents		(6.7)	6.8
Cash and cash equivalents at beginning of year		6.8	–
Cash and cash equivalents outflow for the year		(6.7)	6.8
Cash and cash equivalents at end of year	6	0.1	6.8

The accompanying notes form an integral part of these Financial Statements.

Notes to the Parent Company financial statements

1. Basis of preparation

Hastings Group Holdings plc (the 'Company', 'HGH'), was incorporated on 11 June 2015. The principal activity of the Company is that of a holding company and its registered office and principal place of business is at Conquest House, Collington Avenue, Bexhill-on-Sea, TN39 3LW, United Kingdom. The Company's registered number is 09635183.

The Financial Statements comprise the results of the Company for the year ended 31 December 2016 and comparative figures for the period from incorporation to 31 December 2015. The Company made a profit for the year ended 31 December 2016 of £31.8m (2015: Loss of £2.1m) and has elected not to present a Parent Company Statement of Profit or Loss as permitted by Section 408 of the Companies Act 2006.

The Parent Company Financial Statements have been prepared and approved by the Directors in accordance with IFRS as adopted by the EU ('IFRS') that are in effect as at 31 December 2016. IFRS comprise standards and interpretations approved by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee.

The accounting policies used in the preparation of these separate Financial Statements are consistent with the accounting policies used in the preparation of the Consolidated Financial Statements of Hastings Group Holdings plc.

Going concern

Having considered the financial performance and financial position of the Company, its cash flows and dividend capacity of its trading subsidiaries over the next 12 months, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Parent Company Financial Statements.

Basis of measurement

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

The Financial Statements are prepared on the historical cost basis.

Application of IFRS

The accounting policies developed in accordance with the standards effective under IFRS as at 31 December 2016, have been applied consistently to these Financial Statements.

2. Accounting policies

Employee benefits

Pension contributions

The Company operates a defined contribution pension scheme. The amount charged to profit or loss in respect of pension costs is the amount of contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Parent Company Balance Sheet. The Company has no legal or constructive obligation to make any further payments to the plans other than the contributions due.

Share based payments

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

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

The expense for employees of the Company is recognised in the Parent Company Profit or Loss with a corresponding amount recognised within equity. Where shares are awarded to subsidiary employees it results in an increase in the cost of investment in the subsidiary, with a corresponding amount recognised within equity.

Investment in subsidiary

The investment in subsidiary is reported in the Parent Company Balance Sheet at cost less any impairment.

2. Accounting policies continued

Cash and cash equivalents

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

Financial liabilities

Financial liabilities comprise intercompany payables and other payables. Financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequently, financial liabilities are measured at amortised cost using the effective interest method.

Share capital

Shares are classified as equity when there is no obligation to transfer cash or other financial assets, or to exchange financial assets or liabilities under potentially unfavourable conditions. Incremental costs directly attributable to the issue of equity instruments are recognised as a deduction from share premium to the extent that there is sufficient share premium to do so, net of tax effects.

Dividends

Dividends are recognised directly in equity when approved and payable.

3. Auditor remuneration

For the period ended 31 December 2016, auditor remuneration for audit services in respect of these Financial Statements amounted to £0.1m (2015: £0.1m).

4. Employee benefits

Total employee benefits, key management personnel compensation and Directors' emoluments comprised the following:

	Period ended	
	31 December 2016 £m	31 December 2015 £m
Short term employee benefits	1.7	0.9
Share based payments	0.7	0.3
Total key management personnel compensation and directors' emoluments	2.5	1.2

5. Investment in subsidiary

	Period ended	
	31 December 2016 £m	31 December 2015 £m
As at 1 January	1,269.3	–
Additions	–	1,269.1
Share based payment charge	1.7	0.2
As at 31 December	1,271.0	1,269.3

The investment in subsidiary includes £1.7m (2015: £0.2m) relating to equity settled share based payments for certain management personnel employed by subsidiaries indirectly owned through HIG(H) ('subsidiary undertakings').

Notes to the Parent Company financial statements continued

6. Cash and cash equivalents

	As at 31 December 2016 £m	As at 31 December 2015 £m
Cash at bank and in hand	0.1	6.8
Total cash and cash equivalents	0.1	6.8

7. Current liabilities

	As at 31 December 2016 £m	As at 31 December 2015 £m
Accrued expenses	0.8	0.1
Intercompany payables	–	1.0
Other payables	–	2.0
Total current liabilities	0.8	3.1

Payables are unsecured, non-interest bearing and are normally settled within 12 months.

8. Share based payments

On 28 September 2015, certain key management personnel employed by the Company and its subsidiary undertakings were granted share awards conditional upon the Company listing on the London Stock Exchange. The awards are for a fixed cash value of £5.9m payable in Ordinary Shares at or shortly before 31 December 2017 and 31 December 2018, based on the market value of the Company's Ordinary Shares at that date, and will be Ordinary Shares of the same class as those Ordinary Shares listed on the London Stock Exchange. The awards have no performance conditions attached, other than the requirement for the members to remain in service until vesting, not be subject to gross misconduct and other similar exceptions. In the event that the Board determines that the market price of Ordinary Shares has fallen materially since the grant of the awards, the Board may reduce the value of the awards at the time that they become payable.

The estimated fair value of the awards on the grant date, taking into account the fixed price of the award and the period to vesting was £4.9m. The awards are classified as equity settled share based payments and at 31 December 2015, no awards had vested. For the period ended 31 December 2016, costs of £0.7m relating to employees of the Company were recognised as employee expenses within profit or loss (2015: £0.3m). Costs of £1.7m relating to employees within the subsidiary undertakings, were recognised as an increase in the investment in subsidiary (2015: £0.2m), with a corresponding £2.4m credit to retained earnings (2015: £0.5m).

9. Share capital

	As at 31 December 2016 £m	As at 31 December 2015 £m
Authorised, issued and fully paid up ordinary share capital		
657,217,641 Ordinary Shares of 2p (2015: 657,217,641)	13.1	13.1
Total	13.1	13.1

10. Ultimate controlling party

Full details of the ultimate controlling party of the Company are included in the Consolidated Financial Statements of Hastings Group Holdings plc above in Note 33, Ultimate controlling party.

11. Related party transactions

The Company undertakes transactions with related parties in the normal course of business and all transactions with related parties are made on normal arm's length commercial terms.

The Company has a balance payable to Hastings Insurance Services Limited of £0.7m relating to payments made on its behalf (2015: £1.0m).

12. Dividends

Full details of the dividends declared during the year are included in the Consolidated Financial Statements of Hastings Group Holdings plc above in Note 35, Dividends.

Reconciliations

Loss 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 2016 £m	Year ended 31 December 2015 £m
Reconciliation of profit before tax to net underwriting margin, net claims incurred and net underwriting expenses:		
Profit before tax	94.3	5.0
Add: Finance costs	10.2	91.1
Retail and other operating expenses	115.9	97.0
Retail and Group amortisation and depreciation	25.4	24.5
Less: Retail, investment and other income	(216.6)	(195.3)
Net underwriting margin	29.2	22.3
Less: Net earned premiums	(334.8)	(255.9)
Add: Net claims incurred	260.1	192.9
Net underwriting expenses	(45.5)	(40.7)
Calculation of combined operating ratio, expense ratio and loss ratio		
Combined operating ratio		
Net earned premiums	334.8	255.9
Less: Net underwriting margin	(29.2)	(22.3)
Net underwriting claims costs and expenses	305.6	233.6
Net earned premiums	334.8	255.9
Combined operating ratio (%)	91.3%	91.3%
Expense ratio		
Net underwriting expenses	45.5	40.7
Net earned premiums	334.8	255.9
Expense ratio (%)	13.6%	15.9%
Loss ratio		
Net claims incurred	260.1	192.9
Net earned premiums	334.8	255.9
Loss ratio (%)	77.7%	75.4%

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

Retail operating expenses are those costs incurred by the Retail business in provision of broking services, and therefore do not include acquisition costs incurred in the sale of insurance contracts or claims handling 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 cash generated reconciliation

The following tables reconcile the Group's cash and cash equivalents per the statutory Financial Statements to the free cash reported in the Strategic Report, and statutory increase in cash and cash equivalents to Retail cash generated during the year ended 31 December 2016.

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. The Retail cash generated is presented as it is the most accurate representation of the cash inflows available for unrestricted use.

	Year ended	
Reconciliation of cash held in regulated entities or on behalf of third parties	31 December 2016 £m	31 December 2015 £m
Underwriting statutory cash balance	93.8	89.2
Cash held by HISL on behalf of AICL and third party insurers	35.7	30.6
Mortgage and insurance prudential standard ('MIPRU')	4.2	3.5
Restricted cash	133.7	123.3
Statutory cash and cash equivalents	168.0	152.2
Closing free cash	34.3	28.9

	Year ended	
Reconciliation of statutory cash to Retail cash generated	31 December 2016 £m	31 December 2015 £m
Net increase in cash and cash equivalents	15.8	28.8
Movement in cash held in regulated entities	(10.4)	(37.9)
Movement in free cash	5.4	(9.1)
Add back adjustments:		
Tax paid	10.9	5.2
Capital expenditure	20.6	27.7
Dividends paid	36.1	–
Loan repayment	10.0	–
Interest and corporate costs	13.0	33.4
Reorganisation, refinancing and transaction costs	2.1	24.0
Retail cash generated	98.1	81.2

MIPRU represents cash held by HISL for the purposes of meeting FCA regulations.

Glossary

4Cs
Colleagues, Customers, Company and Community. The Group's cultural approach that defines decision making processes and performance.

Accident year loss ratio
Accident year loss ratio is defined as net claims incurred in the period divided by net earned premiums.

For historic periods, the figures used are adjusted to reflect the underlying performance of the business by excluding the effects of acquisition accounting. The Group has also incorporated adjustments to net earned premiums in these periods due to changes in quota share contracts, to enable comparisons to be made with 2015.

Calendar year loss ratio
Calendar year loss ratio is the accident year loss ratio adjusted to include the impact of prior year development of claims and PPO reserves.

Claims reserves
The Group's technical claims reserves represent the estimated ultimate cost of its exposure to claims and expenses against business which was previously underwritten.

Co-insurance
An agreement between more than one insurer to underwrite an insurance contract. Each co-insurer receives a pre-determined portion of the benefit and risk from the underwritten contract.

Combined operating ratio
Combined operating ratio is the sum of the calendar year loss ratio and expense ratio.

Expense ratio
Expense ratio is a measure of incurred operational and acquisition expenses, net of certain reinsurance commissions, expressed relative to net earned premiums.

For historic periods, the figures used are adjusted to reflect the underlying performance of the business by excluding the effects of acquisition accounting. The Group has also incorporated adjustments to net earned premiums and reinsurance commissions in these periods due to changes in quota share contracts, to enable comparisons to be made with 2015.

Group
The combined operations of Hastings Group Holdings plc and its subsidiaries.

Gross earned premiums
Gross written premiums in the current and prior periods recognised over the life of the underlying insurance contracts.

Gross written premiums
Total premiums the Group expects to receive over the life of insurance contracts underwritten by Underwriting. This is before ceding to the Group's reinsurers' their share of premiums and includes the Group's portion of premiums under co-insurance agreements.

LCP
Live Customer Policies; the number of active policies.

Net claims incurred
Net claims incurred represents claims expensed in the period less the portion of claims covered by the Group's reinsurers.

Net earned premiums
Net earned premiums represent gross earned premiums after deducting earned premiums ceded to reinsurers.

Net written premiums
Gross written premiums less the portion of written premiums ceded to the Group's panel of reinsurers.

Ogden rate
The Ogden rate is a discount rate set by the Lord Chancellor and used by UK courts in the calculation of lump sum settlement awards.

PCW
Price comparison websites.

PPO
Periodic Payment Orders are a type of compensation award, in existence in the UK since 2005, in respect of catastrophic personal injury claims. Instead of paying a claimant a single lump sum, PPOs involve making a series of regular payments to pay for the individual's care costs for the rest of his or her life.

Profit commission
Performance-based payments from reinsurers based on contractual performance targets.

Reinsurance
Agreement with a panel of insurers whereby the Group mitigates its risk of losses from claims by transmitting a portion of risk in exchange for a portion of premium. The Group utilises reinsurance on a quota share basis (a percentage share of premiums, claims and expenses) and excess of loss basis (full reinsurance for claims over an agreed value).

Retail
The Group's retail business, Hastings Insurance Services Limited, trading as Hastings Direct, based in Bexhill, England.

Underwriting
The Group's Underwriting business, Advantage Insurance Company Limited, based in Gibraltar.

Company information

Registered office
Hastings Group Holdings plc
Conquest House
Collington Avenue
Bexhill-on-Sea
East Sussex
TN39 3LW

Auditor
KPMG LLP
15 Canada Square
Canary Wharf
London
E14 5GL

Actuarial Advisor
Willis Towers Watson Limited
Watson House
London Road
Reigate
RH2 9PQ

Bankers
Barclays Bank Plc
One Churchill Place
London
E14 5HP

Joint Corporate Brokers
Barclays Bank Plc
5 The North Colonnade
Canary Wharf
London
E14 4BB

Credit Suisse Securities (Europe) Limited
1 Cabot Square
London
E14 4QJ

Registrar
Capita Asset Services, a trading name of Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Shareholder information

Registered office

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

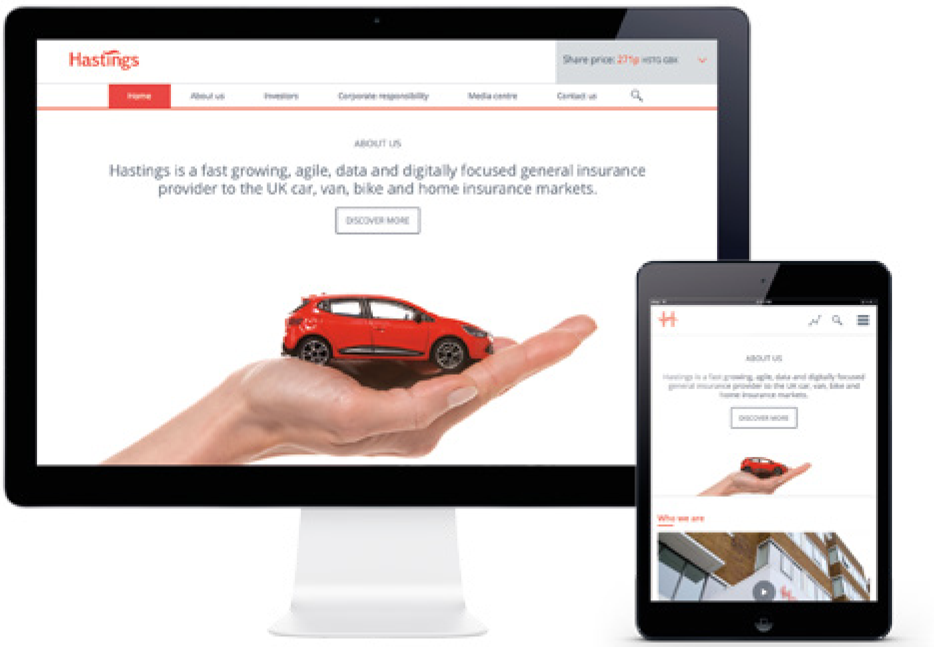
Corporate website

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

Financial calendar

4 May 2017	Ex dividend date*
5 May 2017	Dividend record date*
25 May 2017	Annual General Meeting
31 May 2017	Dividend payment date*
10 August 2017	Proposed Interim results announcement

* Subject to shareholder approval at the AGM.



For further information please visit:
www.hastingsplc.com

MIX
Paper from responsible sources
FSC® C022913

This Report has been printed in the UK. The stock was produced using part recycled fibre from both pre- and post-consumer sources together with virgin environmentally-friendly ECF (elemental chlorine free) fibre. The text paper is also completely bio-degradable and recyclable.

If you have finished reading the Report and no longer wish to retain it please pass it on to other interested readers, return it, or dispose of it in your recycled paper waste. Thank you.

Designed and produced by Instinctif Partners www.creative.instinctif.com

Hastings

Hastings Group Holdings plc
Conquest House
Collington Avenue
Bexhill-on-Sea
East Sussex
TN39 3LW

www.hastingsplc.com