Hastings Group Holdings plc
Annual Report 2015

Refreshingly straightforward

Welcome to our first annual report since our IPO in 2015

Founded in 1996 in Bexhill-on-Sea on the Sussex coast, the Hastings Group is now one of the UK's fastest growing general insurance providers.

Since 2009 the Hastings Group has grown and invested significantly to ensure we are built for the way customers buy insurance today. An agile, digitally focused business model combined with an innovative use of data enables us to deliver refreshingly straightforward insurance.

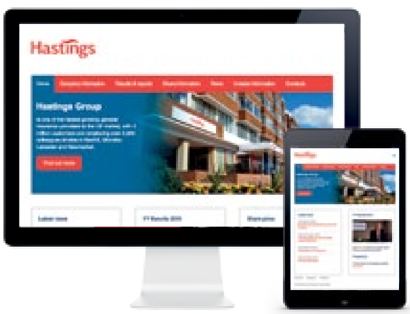
The Group comprises an agile data driven Retail business, Hastings Insurance Services Limited trading as Hastings Direct, primarily distributing policies to new customers through price comparison websites and an Underwriting business, Advantage Insurance Company Limited, built on a bedrock of sophisticated, prudent risk selection and fraud management.

The Group employs over 2,300 colleagues in Bexhill, Gibraltar, Newmarket and Leicester offering private car, van, bike and home insurance to over 2 million customers.

We are a differentiated and highly focused business and our track record is of strong, profitable growth.

Links to further information are illustrated with the following markers:

For more information visit **www.hastingsplc.com**



FINANCIAL HIGHLIGHTS

Gross written premiums

£614.9m

+27%

(2014: £483.4m[1])

Group operating profit[2]

£126.1m

+19%

(2014: £105.7m[1])

Profit before tax

£5.0m

(2014: loss £1.4m)

1 These figures have been adjusted to reflect the underlying performance of the business by excluding the effects of acquisition accounting and therefore enabling a 365 day, like for like comparison. IFRS results exclude seven days of trading prior to the acquisition on 8 January 2014 and as a result include the effects of fair value accounting.

2 Operating profit represents profit before taxation expense, interest expense, amortisation and depreciation, certain non-trading costs and the effects of accounting for business combinations. This is a non-IFRS measure used by management to measure the underlying trading of the business and is provided for information.

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Our growth strategy

GROW
DISCIPLINE
FOCUS
AGILE
INVEST
EXPAND

P 10

Key achievements

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Creating value

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A responsible business

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About us

Hastings Group is a fast growing, agile, digitally focused general insurance provider providing services to the UK car, van, bike and home insurance market. Big enough to compete but small enough to grow, the Group has strong relationships with all major price comparison websites, a cost effective digital marketing model and a focus on customer retention.

Hastings provides refreshingly straightforward products and services to UK car, bike, van and home insurance customers.

A multi-award winning business, Hastings has over 2 million customers and over 2,300 colleagues. Around 90% of policies are 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 the Group's panel of insurance partners who provide additional underwriting capacity. The Group's integrated model deliberately separates underlying product manufacturing from its distribution.

OUR VISION

PROTECTING 1 IN 10 BY 2020

To protect 1 in 10 in the UK by 2020 by offering refreshingly straightforward insurance products at competitive prices with a customer focused approach.

OUR BRANDS/PRODUCTS

Hastings DIRECT	Our largest and best-known brand, delivering great value car, bike, home and van insurance in a refreshingly straightforward way. www.hastingsdirect.com
Hastings PREMIER	Our premium cover, delivering all the benefits of Hastings Direct plus roadside breakdown cover and motor legal expenses included as standard.
Hastings ESSENTIAL	Our no-frills car and home insurance, providing just the essentials.
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
insurePink. 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

OUR VALUES

It is our attitude and the way we run our business that makes Hastings different. By that we mean that 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 giving our Colleagues the right culture and 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.

Strategic report
Corporate governance
Financial statements
Other information

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 the 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.

OUR STRATEGY IN ACTION

GROW

Driving profitable growth by targeting in excess of 2.5 million live customer policies by the end of 2017

DISCIPLINE

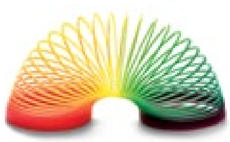
Focus on prudent underwriting

FOCUS

Continued focus on cash generation and deleveraging

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

All of our actions and decisions are based on our 4Cs

COLLEAGUES	CUSTOMERS	COMPANY	COMMUNITY

For more information on the 4Cs turn to **pages 36-39**

GROW

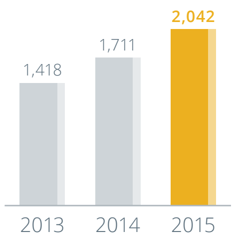
Driving profitable growth by targeting in excess of 2.5 million live customer policies by the end of 2017

Strategic focus

Our simple, straightforward business model coupled with our digitally focused distribution ensures we are well positioned to benefit from increasing price comparison website ('PCW') penetration amongst customers. Capitalising on this natural momentum will drive sustainable, profitable growth in live customer policies ('LCP') whilst strong customer retention rates allow the business to benefit from a naturally maturing portfolio as it develops longstanding relationships with its customers.

KPI

Live customer policies
'000s as at 31 December each year



Source: Company data

Key risks

- The UK car, van and bike insurance market is highly competitive.
- The distribution channels for customers purchasing insurance could change.

DISCIPLINE

Focus on prudent underwriting

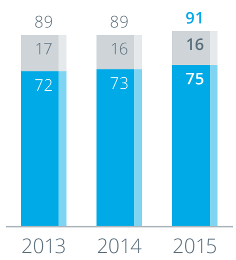
Strategic focus

We have demonstrated our focus on prudent underwriting while growing the number of LCP. Combining our dynamic footprint selection, extensive use of data, advanced pricing process and rigorous fraud detection systems will support our current growth trajectory whilst maintaining our target through the cycle calendar year net loss ratio of between 75% and 79%.

KPI

Stable underwriting

Combined operating ratio %



Source: Company data

Key risks

- Underwriting risks have numerous uncertainties and variable factors to consider. Inherent risk is that technical prices are not set correctly to cover ultimate claims costs for the risks covered.
- Fraud is an underlying risk for the insurance industry, specifically in claims management.
- Changes in car technology or people's behaviour could alter claims outcomes positively or negatively. Our ability to predict impact of changes can affect our performance.

FOCUS

Continued focus on cash generation and deleveraging

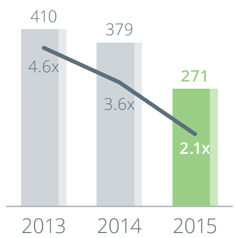
Strategic focus

We are strategically focused on the private car market, utilising our own sophisticated risk selection through the PCW digital distribution model. As the business maintains its growth trajectory, our focus remains on continuing to improve the cash efficiency of our model utilising our highly cash generative Retail business with the strategic use of reinsurance in Underwriting to deliver ongoing deleveraging.

KPI

Net debt and leverage multiple

£m and times (x) as at 31 December each year



	2013	2014	2015
Group operating profit (£m)	90.1	105.7	126.1

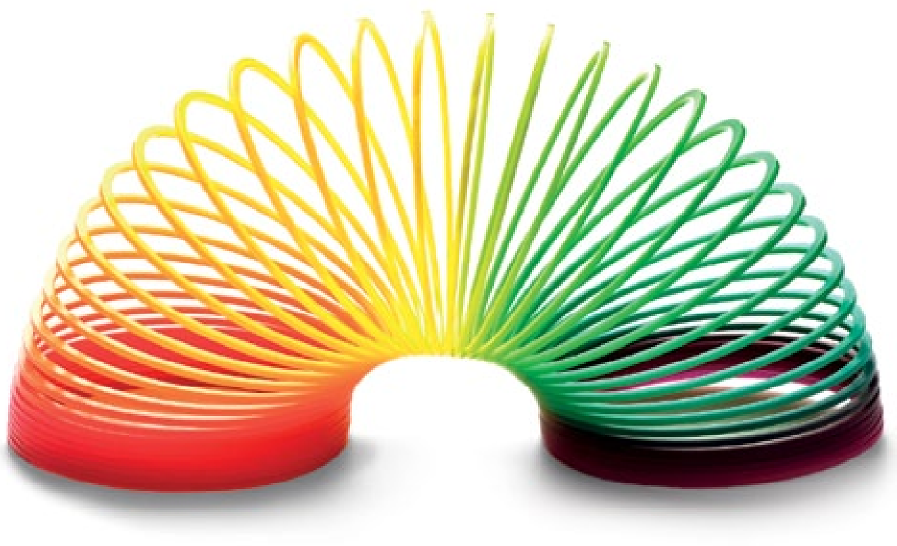
Source: Company data

Key risks

- The Group is required to meet certain minimum capital and solvency requirements and to comply with a large number of regulatory requirements and changes to them.
- Reinsurance arrangements could not be available at an economic cost or provide adequate protection.
- The ability of the Group to achieve its deleveraging target and to cover its debt obligations through cash flow generation.

AGILE

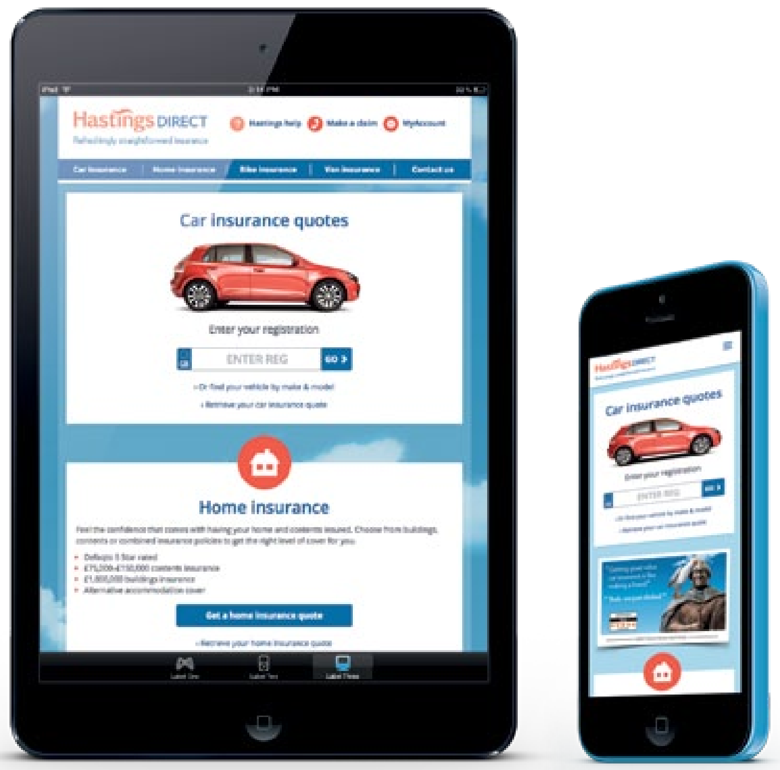
Rapid reaction to market changes



Strategic focus	KPI	Key risks
The Group's agile and digital business model means it is well placed to respond to changing market conditions driving a significant competitive advantage. The separate structure of the Retail and Underwriting businesses coupled with the innovative use of data and continuous market analysis allows the business to benefit from being able to rapidly adjust pricing presented to customers to support market share growth.	**No. 1** car insurance brand on price comparison websites for 2015 Source: eBenchmarkers	• Without ongoing investment in technology, people and processes the Group may not maintain its competitive advantage.

INVEST

Invest in digital capability and mobile distribution channels



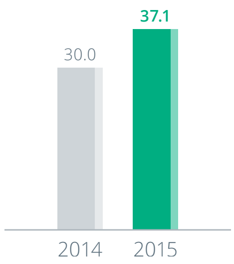
Strategic focus

Hastings continues to invest in complementary digital and mobile channels to further support LCP growth. Applications are being developed for phone and tablet devices providing enhanced policy management functionality in order to improve the overall customer experience. Investment continues within our infrastructure through the end to end implementation of Guidewire for both our Claims and Broking platforms.

KPI

Hastings online sales sold via mobile devices

% for the year ended 31 December



Source: Company data

Key risks

- An unsuccessful implementation of new systems, other enhancements and upgrades could adversely affect the Group.
- Planned investments do not deliver the expected benefits: cost reduction, customer satisfaction and distribution diversification.

EXPAND

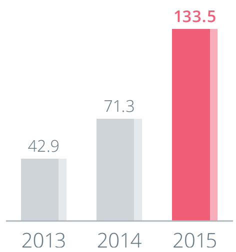
Expand our product offering and invest in our competitive proposition

Strategic focus

The Group sees significant opportunities to increase LCP volumes and overall profitability by increasing its footprint within in its core private car market with multi car and telematics two key areas of focus. In addition Hastings is set to continue its expansion into the home insurance market where its business model is well placed to benefit from increased PCW penetration.

KPI

Hastings home live customer policy growth
'000s as at 31 December each year



Source: Company data

Key risks

- Economic conditions or advances in on-board vehicle technologies restrict the growth potential of these products.

Key achievements in 2015

WINNER
THREE TIMES
Consumer Moneyfacts
Award 2013-2015
Car Insurance Provider of the Year

Awarded Consumer Moneyfacts 'Car Insurance Provider of the year' for the third year running

defaqto
2015
Car Insurance

Defaqto 5 Star ratings for a range of products

Strong set of results announced for 2014

Exceeded 1.8 million live customer policies

January February March April May June

Established home co-insurance arrangement with AXA

Hastings Direct launched new TV ads

Richard Hoskins appointed as Chief Financial Officer

Third UK site opened in Leicester

Mike Fairey appointed as Non-Executive Chairman

100,000 home customers

2 million customer milestone achieved

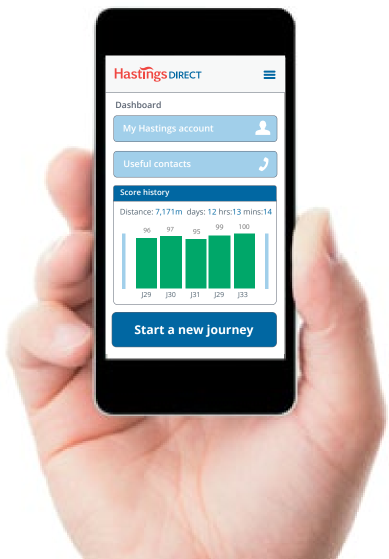
Hastings IPO and admission to trading on the London Stock Exchange

July | August | September | October | November | December

Awarded UK Broker Awards 'Personal Lines Broker of the year'

ClaimCenter go live effective from end of November

Hastings Direct mobile app launched



Chairman's statement

Building on proven, sustainable growth the Group achieved a milestone this year by insuring over 2 million customers.

Mike Fairey Chairman

"It has been a landmark year."

Overview and strategy

I am pleased to introduce the maiden Annual Report and Accounts for Hastings Group Holdings plc for the year ended 31 December 2015. It has been a landmark year for the Company achieving a successful listing on the London Stock Exchange on 15 October 2015 and subsequent admittance to the FTSE 250 index. This report covers the performance of the Group's pre-IPO parent company, Hastings Insurance Group (Holdings) plc from 1 January 2015 until 11 August 2015 and the current Group parent company, Hastings Group Holdings plc from 12 August 2015 to 31 December 2015.

Building on proven, sustainable growth the Group achieved a milestone this year by insuring over 2 million customers. The Group also launched a new system for its Claims platform and is due to launch a new system in Retail in 2016. To meet the needs of a growing business the Group also opened a new site in Leicester to complement its existing offices in Bexhill, Newmarket and Gibraltar.

2015 Review

Performance

The year was one of increasing premiums for the car insurance market which coincided with claims inflation. Against this backdrop, along with increased policy numbers, the Group's operating profit for the year increased to £126.1m (2014: £105.7m).

This growth was as a result of improved new business and renewal volumes as well as strong growth in home and car telematics products. Live customer policies exceeded 2 million just prior to the end of the year and the Group is well on its way to achieve its goal of insuring 1 in 10 by 2020.

As the Group continues to grow it is with great pleasure that we welcome colleagues at the new site in Leicester to the Hastings' family. Centrally located with excellent transport links across the Midlands, Leicester is a natural fit for the Group's third location in the United Kingdom due to the quality and diversity of talent available.

Technology investment

The Group has made significant investment in two new major systems for its Broking and Claims platforms. These systems will deliver a step change improvement in the Group's ability to interact with customers, improving customer service and providing up to the minute management information. I am very pleased to announce that the implementation of the Claims platform was successfully launched in November last year and the Broking platform is on track to be launched later this year.

Solvency II preparation and capital structure

During the year the Group continued to develop systems and procedures to enable it to comply with Solvency II which came into effect from 1 January 2016. Interactions with the regulator in Gibraltar have been positive and the Group's insurance company, Advantage Insurance Company Limited, is well capitalised.

The Board and Governance

As Chairman I am ably supported by a Board of appropriate experience and calibre. Following rigorous and stringent candidate searches Thomas Colraine joined the Board as Senior Independent Non-Executive Director in September 2015 along with fellow independent Non-Executive Directors, Malcolm Le May, Pierre Lefevre and Ian Cormack.

The appointment of four other Non-Executive Directors was also confirmed in September 2015. Pursuant to a relationship agreement between the major shareholders of the Company, Sumit Rajpal and Michele Titi-Cappelli represent the 'Goldman Sachs' investors and Richard Brewster and Edward Fitzmaurice represent the pre-IPO 'Founder' shareholders. Gary Hoffman continued as Chief Executive Officer and Richard Hoskins was appointed as Chief Financial Officer; both have extensive experience in financial services and the insurance sector. All Directors bring a wealth of strengths, skills and experience to the oversight and governance of the Company and the Group.

At the time of the IPO two Directors who had previously represented our pre-IPO major shareholders stood aside. Along with the other Goldman Sachs and Founder representatives, Andrew Wolff and Neil Utley helped to guide Hastings towards its IPO and I thank them for their contribution over the years.

As it currently stands the composition of the Board does not yet fully comply with the UK Corporate Governance Code 2014 (the 'Code') in that it stipulates at least half the Directors excluding the Chairman should be independent of the Group. Hastings is intent on becoming fully compliant by the end of 2016.

In compliance with the Code, I chair the Nomination Committee, Malcolm Le May chairs the Remuneration Committee, Thomas Colraine the Audit Committee and Pierre Lefevre the Risk Committee.

Optimising shareholder value – dividends

The Board remains confident in the Group's long-term prospects and is pleased to propose a final dividend of 2.2p per share, to be paid on 31 May 2016 to shareholders on the register on 22 April 2016 with an ex-dividend date of 21 April 2016. This is the Company's first dividend for the year and is subject to shareholder approval at the Annual General Meeting to be held on 25 May 2016.

Outlook

As I close my first financial year as Chairman, I am able to report that current trading is in line with the Board's expectations and means we begin the current financial year well positioned to continue with sustained growth. The Board remains confident that its strategy to provide refreshingly straightforward insurance, drive sustainable growth underpinned by prudent underwriting, combined with investment in digital and mobile channels will deliver enhanced shareholder returns for the future.

On behalf of the Board I would like to express my thanks to all colleagues who continue to work diligently for the Group. It is the knowledge, skills and professionalism of all our colleagues that make a difference to our customers and enables us to continue to grow the Hastings' brand and reputation.

Mike Fairey
Non-Executive Chairman

14 March 2016

CEO Q&A

We have had profitable, sustained growth, broken through the 2 million customer milestone, welcomed over 300 colleagues at our new site in Leicester and of course become a listed company following our IPO in October.

Gary Hoffman Chief Executive Officer

"It has been another year of strong performance and delivering on promises."

Q It's been quite a year for the business, what have been your personal highlights?

A 2015 has been an extraordinary year for Hastings. We've gone through another year of strong performance and delivering on promises. We have delivered profitable growth for shareholders, broken through the 2 million customer milestone, welcomed over 300 colleagues at our new site in Leicester and of course become a listed company following our IPO in October. I'm extremely proud of my 2,300 colleagues who have helped us achieve these successes and believe we're better positioned than ever to ensure the IPO is the beginning of our journey and not the end. As you would expect, this type of transformation didn't come without its challenges and we are as focused on the long term as we are on our annual performance. We've made significant investment in our infrastructure and colleagues by opening our third UK site and implementing a new system within our Claims operation.

On a personal note my highlight has to be when we were invited to open the London Stock Exchange on our first day of trading. It was a hugely proud moment and I got to share this experience with some of our long serving colleagues who have been with us since Hastings began in 1996. They've witnessed first-hand our transformation into the fast growing and successful company we are today.

Q It looks like financially the business has continued to go from strength to strength.

A It has indeed been another strong year for the business with live customer policies ('LCP') showing a 19% increase to 2 million, our share of the UK private car market increasing to 5.8% and driving growth across all key metrics. Gross written premiums continued to rise, up 27% to £614.9m and driving revenues of £481.0m. Crucially our profitable growth was achieved whilst maintaining our disciplined approach to underwriting with a loss ratio of 75.4%, at the low end of our stated target of between 75% and 79%. We're delighted to achieve such strong results in what remains a competitive marketplace and such performance is testament to the agile, data-driven business model that we've built and the dedication of our colleagues to ensure our proposition is delivered in a refreshingly straightforward way for our customers.

Q What factors do you think have powered the business' successes in 2015?

A Our successes have been driven by a number of factors. Firstly 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 price comparison website ('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 innovative use of data, enables us to respond quickly to changing market conditions, averaging 49 changes to pricing strategies per month, giving us a significant advantage over our competitors. Finally we underpin everything with our unique culture built around the principles of the 4Cs; Colleagues, Customers, Company and Community. This approach has ensured we've remained entrepreneurial with a can-do attitude that reflects itself throughout every level of the business on a daily basis.

Q How is the new site at Leicester progressing?

A We opened our third UK site in Leicester in May last year with 25 colleagues in temporary offices and had planned to have around 200 in place by the end of the year. In January this year we welcomed over 300 colleagues into our permanent city centre site and recruitment continues to support our growth strategy. It's been a hugely successful move and allows us to attract the best talent so we continue to deliver refreshingly straightforward service to our growing customer base.

Q What plans do you have for further investment in the business?

A Continuing to invest in our systems and infrastructure for our colleagues and customers remains our key priority. The implementation of our new Guidewire Claims platform in November has been a key milestone in this process and our focus for 2016 is on implementing a new Guidewire platform for our Broking platform and customer self-serve capabilities. We're making good progress and this significant investment is set to deliver further benefits and efficiencies for our colleagues, customers and the company.

Q What are your plans for the business in 2016?

A Whilst the successful listing of the Company in 2015 was a key moment for the business, it was very much the start of the journey and it's important that we continue our current growth trajectory whilst maintaining our strong underwriting discipline and delivering on our loss ratio target. We've stated that our vision is to protect 1 in 10 by 2020 and therefore growth remains a focus, but not at the expense of risk. We're also continuing to enhance customer service and operational efficiency by investing in our infrastructure and systems including a new Broking platform within Retail. This will make sure that we continue to provide customers with our straightforward service and maintain our good retention rates. We have a continued focus on profitably expanding our core motor business and of course we are always looking to innovate further. I believe there are some exciting opportunities arising in car, van and bike, for example in our telematics and multi car proposition. Home is another area of focus for us and I expect to see further growth in our book as customers shop increasingly on PCW and digitally.

Q You've previously talked a lot about Hastings' expansion into home. How is this progressing?

A Our expansion into home is something we've talked about for some time and we've continued to make steady progress in executing this element of our growth strategy with an 87% increase in policy numbers throughout 2015 albeit from a small book. Whilst our approach to market entry is prudent and measured, it is an area that is structurally attractive with consistent profitability and good retention rates. Furthermore we're seeing more customers using PCW to buy their policies instead of through the traditional mortgage lender or bank route. This is good news as it's a trend we're well placed to take advantage of.

Q What is your outlook for the wider market?

A Looking more broadly, the market remains very competitive and we're delighted that the business model and proposition we've built has performed so well in a difficult environment where pricing pressure and claims inflation have been ever present threats. Looking ahead into 2016, the pricing cycle has undoubtedly turned. With further rate rises likely to encourage consumers to shop around through PCW, our business model is well positioned to take advantage of this trend. Whilst claims inflation remains an issue for the sector we're confident that we have initiatives in place to mitigate the effect for our customers and with growing regulatory pressure on claims management firms, both the industry and consumers look set to benefit from this tougher stance.

Gary Hoffman
Chief Executive Officer

14 March 2016

The Hastings business model

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

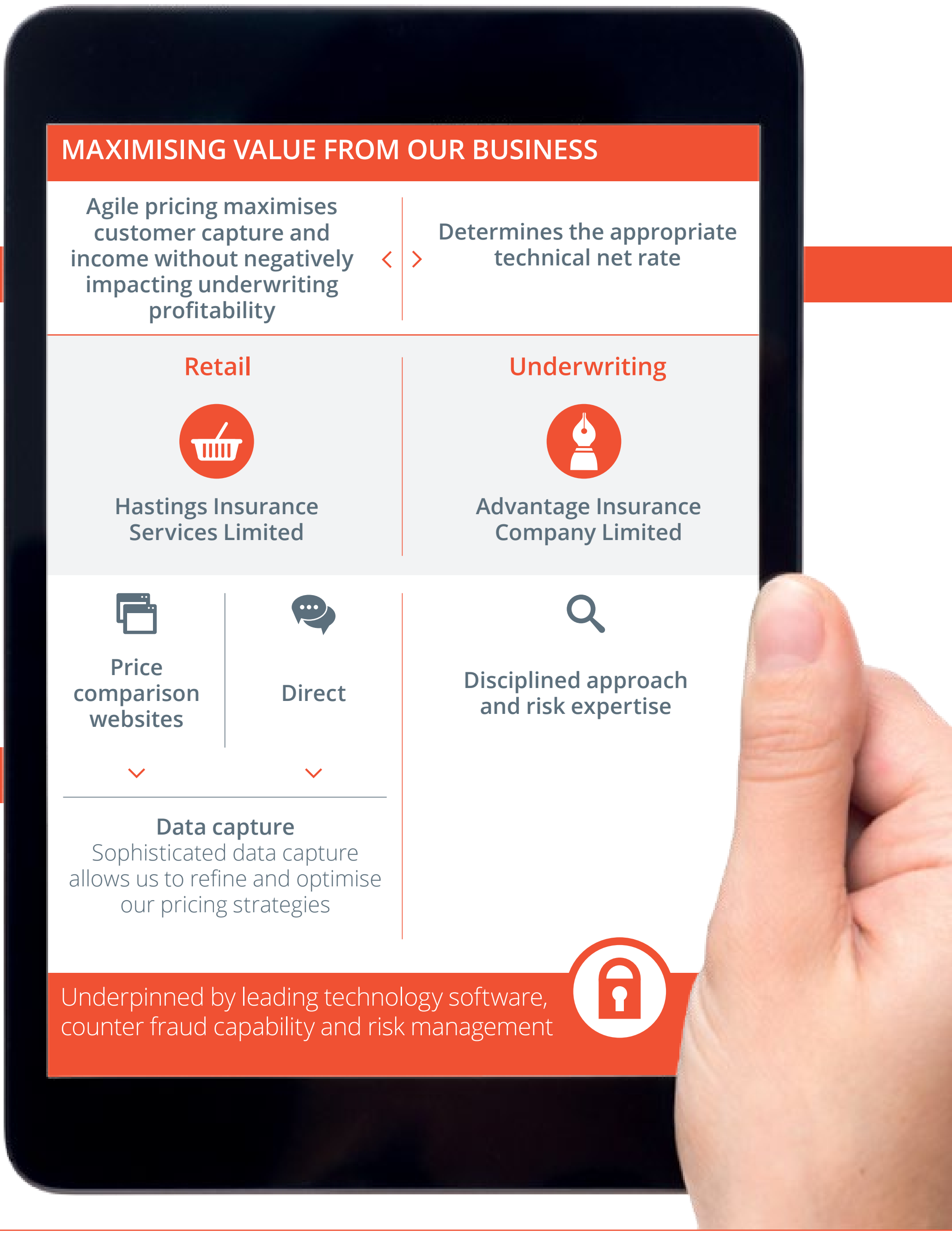
OUR VISION

PROTECTING 1 IN 10 BY 2020

- 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 CUSTOMER PROPOSITION

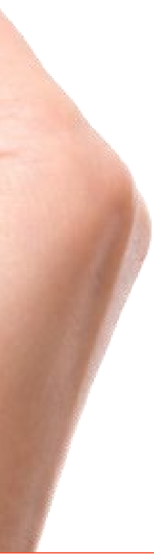
Refreshingly straightforward insurance



Underpinned by a focused growth strategy and the 4Cs

GROW	DISCIPLINE	FOCUS	AGILE

All of our actions and decisions are based on **COLLEAGUES**, **CUSTOMERS**, **COMPANY** and **COMMUNITY**



OUR PRODUCTS AND BRANDS

The breakdown of our business

Car insurance
86%

Home insurance
6%

Bike insurance
5%

Van insurance
3%

Our brands

Hastings DIRECT
Hastings PREMIER
Hastings ESSENTIAL
Hastings DIRECT smartmiles
insure Pink
People's Choice

Our focus

The Group has chosen to specialise in the UK private car insurance market which currently accounts for 86% of LCP.

INVEST

EXPAND

Delivering the 4Cs

Colleagues

2,322

Colleagues in Bexhill, Gibraltar, Newmarket and Leicester

Customers

2.04m

Live customer policies

Company

£126.1m

Group operating profit

Community

£159,076

Charitable donations in the year

Our business model in action

A disciplined approach to underwriting and agile pricing maximise value through a focused brand and product portfolio and multichannel distribution model.

THE STRENGTH OF THE HASTINGS BUSINESS MODEL

- A focused set of products
- Sophisticated approach to data and analytics in pricing
- Separation between technical and retail pricing
- Agility in a price comparison way of working
- A capital efficient underwriting model
- Market-leading innovative risk selection and counter-fraud management
- A simple and straightforward systems landscape
- An effective control framework and culture

Focus

The Group has chosen to specialise in the UK private car insurance market, which currently accounts for 86% of live customer policies ('LCP'). Within this market our primary focus is on digital distribution through price comparison websites ('PCW') and direct distribution through our retail brands' websites. The Group also provides home, bike and van insurance.

Our business

The Group operates across the insurance value chain through the Group's Retail and Underwriting businesses. Clear separation is made between these businesses to ensure the Underwriting entity receives the technical net rate that it quotes and the Retail entity maximises customer capture and income, without negatively impacting Underwriting profitability.

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 and Guidewire PolicyCenter, helping to optimise the claims process, providing greater control to colleagues, reducing the claims lifecycle workflow and activity management and early liability decisions.

Refreshingly straightforward insurance

Our brands

Hastings DIRECT

Hastings PREMIER

Hastings ESSENTIAL

Hastings DIRECT smartmiles

insure Pink. Supporting the Pink Ribbon Foundation

People's Choice

Our 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.

Products and brands

The Group's retail brands include Hastings Direct, Hastings Premier, Hastings Essential, Hastings Direct SmartMiles, InsurePink and People's Choice. The Group's product offerings include car, home, bike and van insurance.

Distribution

The Group's distribution model is optimised for the purchase of general insurance products through PCW and through direct channels, both online and mobile. PCW have become the dominant feature of private motor insurance distribution in the UK, accounting for a growing part of new business at 66%[1].

Sophisticated data capture

A digitally orientated distribution approach means the Group generates a significant amount of highly relevant data that can be used to refine and optimise the Group's pricing strategies and decision making. 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.

Focused strategy

The Group's strategy centres on growth, increasing profitability and cash generation, whilst maintaining underwriting discipline. The Group's strategy is based around six goals:

- Profitable growth;
- Prudent underwriting;
- Cash generation;
- Unlocking profitability through efficiency;
- Investing in digital and mobile distribution channels; and
- Expanding our product offering and investing in our competitive proposition.

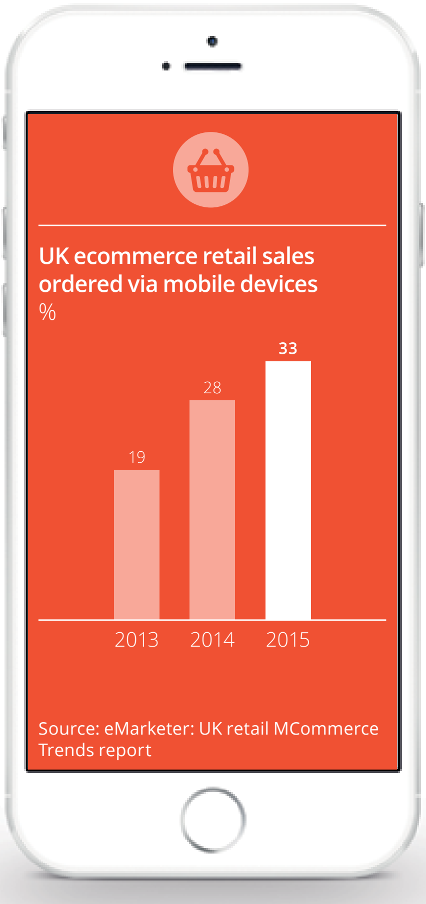
1 Source: eBenchmarkers, six months to 31 October data

What's shaping our market
Emerging trends

Private car, van and bike insurance

Distribution trends: continued growth in the digital channel

The private car, van and bike insurance market in the UK is one of the most competitive markets in the world. The internet and digital age has enabled customers to access a large amount of information about their car insurance. The growth of price comparison websites ('PCW') have 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 2015. Over the same period the proportion of car new business sales from PCW has increased from 24% to 66%[1].

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 to react quickly to changes identifying future opportunities.

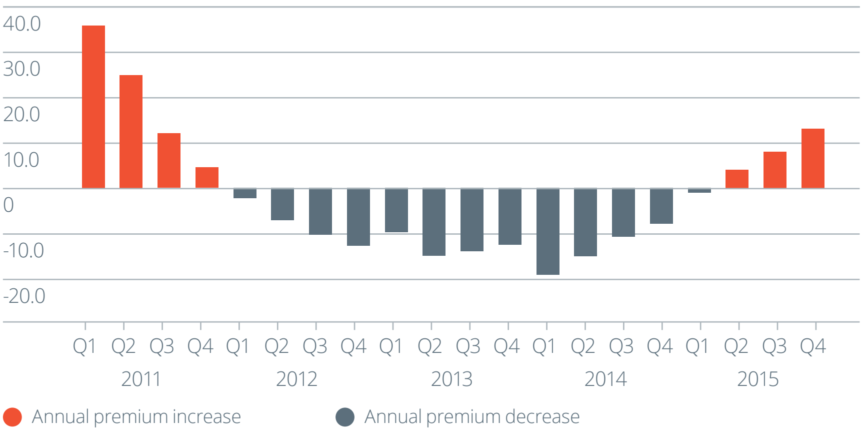
1 Source: eBenchmarkers, six months to 31 October data

Pricing trends: 2015, a 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 market 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 market beating 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

Strategic report
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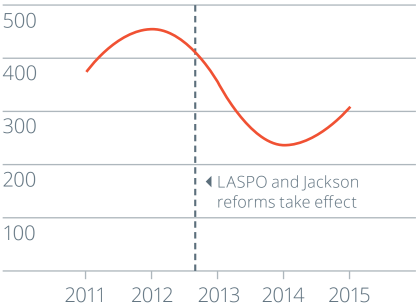
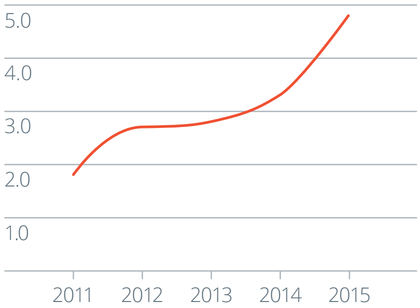
Turnover of personal injury claims management companies £m



Source: Claims Management Regulation Annual Reports

UK penetration of new business telematics insurance %



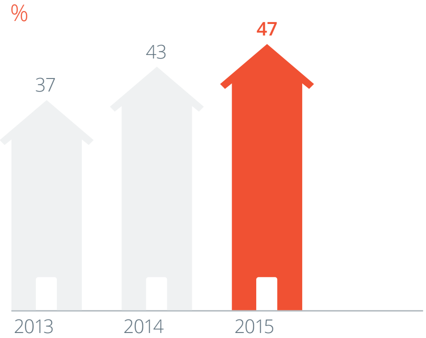
Source: eBenchmarkers monthly report at October 2015

"The market remains very competitive and we've delighted that the business model and proposition we've built has performed so well in a difficult environment."

Gary Hoffman
Chief Executive Officer

For more information turn to **pages 14 and 15**

Proportion of new business Home sales from PCW
%



Source: eBenchmarkers, six months to 31 October data

Claims trends: claims farming on the increase

Despite the Legal Aid Sentencing and Punishment of Offenders Act ('LASPO') and Jackson reforms in 2013 which resulted in legal fee savings and benefits being passed on to customers through lower premiums, the UK market has returned to higher levels of claims inflation. This is primarily as a result of increased frequency of small bodily injury claims as claims farming by claims management companies has increased in recent periods.

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

In his Autumn 2015 Budget, the Chancellor announced a proposed ban on soft tissue and whiplash claims and an increase in the small claims court limit from £1,000 to £5,000. If the changes are adopted into law, there will be an opportunity for customers to benefit from reduced claims costs.

Telematics

Although the telematics market within the UK market is not as mature as other international markets such as the USA and Italy, there has been a steady increase in uptake over the last couple of years. There is great potential for telematics data to support pricing propositions and corresponding loss ratios for insurers. This data also provides benefits to customers by rewarding their safe driving behaviours with lower premiums.

Growth in the UK has been positive over the last 18 months with around 5% of all new business sales now being sold on telematics.

The telematics market is expected to continue to grow as providers enhance their pricing and product propositions and lower the cost of technology. Further increases in telematics uptake can be expected as vehicle manufacturers increase vehicle connectivity providing faster and lower cost options to access vehicle data direct. Hastings is well positioned to capitalise on these market movements as it continues to invest in its products and technology. It expects to enhance its pricing capabilities by utilising the power of telematics data across its entire car, van and bike portfolio.

Home insurance

The distribution of home insurance policies has traditionally been provided through financial services providers such as banks and building societies. However, recently, PCW have increased their share of this market with 47%[2] new business sales in 2015. This momentum mirrors that of the car market, a few years earlier.

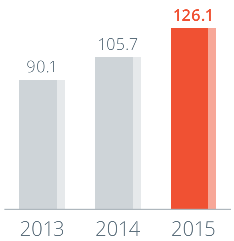
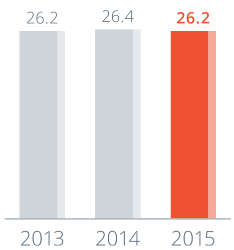
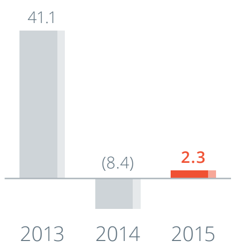
This trend of customer shopping for Home insurance is expected to continue and complements Hastings' digitally focused model. The Home insurance market presents an opportunity for the Group which initiated a strategic focus on the Home product at the start of 2014. Good progress has been made to date with a 87% increase in policy numbers during last year.

2 Source: eBenchmarkers, six months to 31 October data

Our KPIs

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

FINANCIAL KPIs

Measure	Data[1]	Performance
Group operating profit Group operating profit is the Group's primary measure used to assess performance and profit growth. It is defined as profit before taxation expense, interest expense, amortisation and depreciation, certain non-trading costs and the effects of accounting for business combinations.	£m for the year ended 31 December  	The Group has continued its consistent profitable growth in 2015, with Group operating profit increasing by 19% from 2014 to £126.1m for 2015. This primarily reflects the 19% increase in live customer policies ('LCP'), the current and prior year premium rate increases earning through and operating expense efficiencies driven by economies of scale, partly offset by the increase in loss ratio and continued investment in the business.
Group operating profit margin Group operating profit margin measures the Group's operational efficiency. It represents Group operating profit divided by underlying Group net revenue.	% for the year ended 31 December  	Group operating profit margin remains strong, at 26.2% for 2015, as the Group continues to focus on driving sustainable profitable growth.
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 £2.3m for 2015 includes the non-trading costs of the IPO and refinancing in 2015, the effects of accounting for the Goldman Sachs investment in 2014 and accrued dividends on preference shares. The preference shares and accrued dividends thereon were converted into equity in August 2015 and the other non-trading events are considered unlikely to reoccur. The Group's profit after tax of £41.1m for 2013 is higher than for 2014 and 2015, primarily because there were no accrued dividends on preference shares and no finance costs relating to the Senior Secured Notes or Term Loan during this period.

1 The KPIs presented for the year ended 31 December 2013 and as at 31 December 2013 represent the KPIs of the HIG Group (Hastings Insurance Group Limited ('HIG') and its subsidiaries) and Hastings Insurance Group (Finance) plc ('HIG(F)') combined. HIG was the parent company within the corporate structure prior to the restructuring as part of the Goldman Sachs investment on 8 January 2014 and HIG(F) became part of the Group from this date.

FINANCIAL KPIs

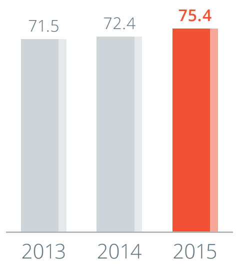
Measure | Data[1] | Performance

Calendar year loss ratio

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

For 2013 and 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.

% for the year ended 31 December



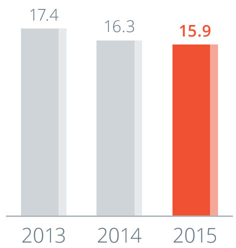
The Group's calendar year loss ratio is at the lower end of our target range at 75.4%, demonstrating our continued focus on underwriting discipline. The year on year increase is primarily due to the impact of claims inflation and the flood events at the end of the year on the accident year loss ratio, although this increase has been offset to some degree by the earn-through of higher premiums during the second half of the year. It is further impacted by higher positive prior year development recognised in 2013 and 2014 compared to 2015.

Expense ratio

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

For 2013 and 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.

% for the year ended 31 December



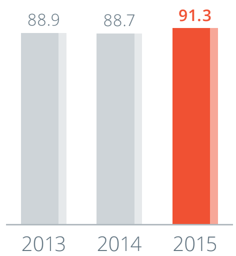
The Group's expense ratio remained competitive in the market and has seen a small improvement year on year, driven primarily by the increase in LCP that relate to renewals, which do not attract acquisition costs.

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



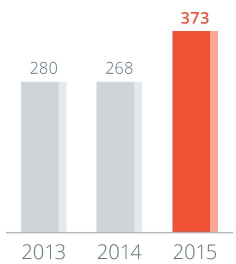
The Group continues to deliver a combined operating ratio that reflects its underwriting discipline and operating efficiency.

Solvency I coverage ratio

Solvency I coverage ratio demonstrates Underwriting's regulated trading entity Advantage Insurance Company Limited's ('AICL') capital adequacy in relation to the minimum threshold required by its regulator, the Financial Services Commission ('FSC') in Gibraltar. It is defined by the FSC as net admissible assets divided by the required minimum margin, both as at the end of the year.

Following its implementation on 1 January 2016 AICL will report under Solvency II in future periods.

% as at 31 December



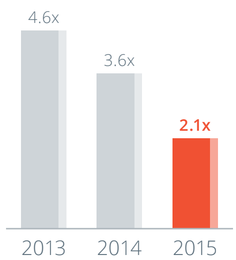
Following the allocation of £50.0m of net proceeds from the IPO to Underwriting to further strengthen its capital base, AICL's Solvency I coverage ratio has increased to 373% as at 31 December 2015.

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 growth in Group operating profit.

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

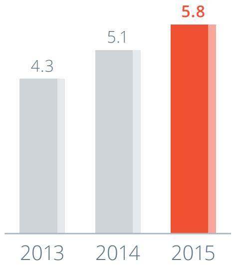
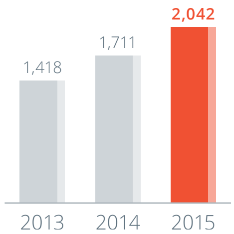
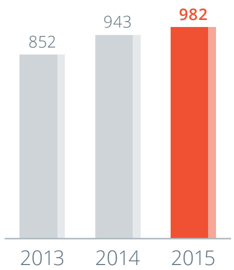
Times (x) as at 31 December



The IPO proceeds, strong operational cash flow and growth in Group operating profit during 2015 has reduced the Group's net debt leverage multiple to 2.1x as at 31 December 2015, from 3.6x in the prior year.

Our KPIs continued

NON-FINANCIAL KPIs

Measure	Data[1]	Performance
Share of total stock (private car) Share of total stock (private car) measures the Group's market share within the UK private car market relative to the size of the market as at the end of each year.	% as at 31 December 	The Group's private car market share has continued to increase alongside the growth in its LCP, reaching 5.8% as at 31 December 2015.
Live customer policies Live customer policies is a principal measure of the Group's market share 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.	'000s as at 31 December 	The Group achieved a key milestone during 2015 when LCP exceeded 2 million, representing year on year growth of 19%.
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.	Number for the year ended 31 December 	LCP per FTE increased in 2015, reflecting the operating leverage and economies of scale achieved by the Group whilst it continues to invest in improving the business.

1 The KPIs presented for the year ended 31 December 2013 and as at 31 December 2013 represent the KPIs of the HIG Group (Hastings Insurance Group Limited ("HIG") and its subsidiaries) and Hastings Insurance Group (Finance) plc ("HIG(F)") combined. HIG was the parent company within the corporate structure prior to the restructuring as part of the Goldman Sachs investment on 8 January 2014 and HIG(F) became part of the group from this date.

CFO statement

We achieved several significant milestones for the business during the year, by exceeding 2 million customers, going live with Guidewire ClaimCenter and listing on the London Stock Exchange.

Richard Hoskins Chief Financial Officer

"2015 was another very successful year for Hastings; we completed our IPO and are on track to deliver all of our key targets."

Financial highlights

- **Increase in live customer policies ('LCP')** to 2.04 million as at 31 December 2015, a 19% year on year increase (1.71 million as at 31 December 2014).
- **Increase in market share** of UK private car insurance to 5.8% as at 31 December 2015 (5.1% as at 31 December 2014).
- **Increase in gross written premiums** of 27% to £614.9m for the year ended 31 December 2015 (full year ended 31 December 2014[1]: £483.4m).
- **Increase in net revenue** of 20% to £481.0m for the year ended 31 December 2015 (full year ended 31 December 2014[1]: £400.9m).
- **Increase in Group operating profit[2]** of 19% to £126.1m for the year ended 31 December 2015 (full year ended 31 December 2014[1]: £105.7m).
- **Calendar year loss ratio** for the year ended 31 December 2015 of 75.4% at the lower end of target range of between 75% and 79% (full year ended 31 December 2014[1]: 72.4%[3]).
- **Reduction in net debt leverage multiple** to 2.1x Group operating profit (3.6x as at 31 December 2014).
- **The final dividend proposed for 2015 is 2.2p per share.** This is equal to 56.5% of one third of adjusted profit after tax[4] in line with the intentions set out by the Board at the time of the IPO.

Details of notes 1-4 are on page 26.

CFO statement continued

Introduction

I am pleased to present a strong set of results in our maiden annual report as a public company. We have successfully grown our top line and our market share. Gross written premiums are up 27% on a full year basis and our market share of UK private car insurance is now 5.8%. We have maintained our rigorous focus on underwriting discipline with a calendar year loss ratio of 75.4% and we delivered a 19% increase in Group operating profit to £126.1m. We also significantly strengthened our balance sheet in the year, reflecting both the cash generative nature of our operations and cash raised at the IPO.

During the period we successfully refinanced the business. As a result, we will have a materially lower interest charge going forward, with a proforma interest coverage ratio of approximately 12x, when comparing Group operating profit for 2015 with the Group's future expected interest cost. Net debt leverage multiple is now down to 2.1x, the profile is trending downwards and we have a sound capital structure to support our growth. Our proposed maiden dividend as a public company demonstrates the confidence we have looking forward and is in line with guidance at the time of our IPO, and we intend to make a £10.0m early repayment of our Term Loan during the first half of 2016.

We also achieved several significant milestones for the business during the year, including the 2 million customer milestone, going live with Guidewire ClaimCenter and listing on the London Stock Exchange.

During the IPO process we set four key targets which we are well on track to meet within our target date.

Target set at IPO	Update
Calendar year loss ratio of between 75% and 79% through the insurance market cycle.	Calendar year loss ratio for 2015 of 75.4%, at the lower end of the target range.
Over 2.5 million customers by the end of 2017, but not at the expense of profitability.	2.04 million customers as at 31 December 2015, a 19% increase year on year (31 December 2014: 1.71 million).
Net debt to Group operating profit ratio of around 1.5x by 2017.	Net debt leverage multiple of 2.1x as at 31 December 2015, a reduction from a year ago.
Dividend payout ratio of between 50% and 60% of adjusted profit after tax.	A pro-rata 2015 final dividend payout ratio of 56.5%.

Our investment in the future includes implementing the Guidewire Claims and Broking platforms to support claims handling and process improvement and commencing operations in Leicester in May 2015. We have invested £29.1m in capital expenditure this year along with ongoing operating investment. We expect this investment to improve customer experience and increase customer retention, and it affords us a robust foundation for growth.

We have improved the Group's solvency and ensured a smooth transition to Solvency II requirements. Solvency I coverage increased to 373% (268% as at 31 December 2014) and unaudited draft Solvency II coverage is 156% at the year end.

Overall, I am pleased that the profitable growth of the business has allowed us to reduce our leverage, increase our solvency coverage ratio and propose a final dividend of 2.2p per share (£14.5m).

Richard Hoskins
Chief Financial Officer

14 March 2016

1 To facilitate year on year comparison, the financial information for the full year ended 31 December 2014 is presented on an underlying basis, excluding the effects of accounting for business combinations and therefore including the effect of the seven days of trading prior to the acquisition on 8 January 2014.

2 Profit before taxation expense, interest expense, amortisation and depreciation, certain non-trading costs and the effects of accounting for business combinations.

3 The Group's calendar year loss ratio and accident year loss ratio for the year ended 31 December 2014 have been calculated on a full year basis (see footnote 1) normalised for the impact of changes to quota share contracts, whereby the Group now retains a higher proportion of premiums written but in return receives lower profit commission from its reinsurance partners. The impact of this normalisation on premiums reduces the accident year loss ratio from 77.6% as previously reported by 3 percentage points to 74.6%, while the calendar year loss ratio reduces from 75.3% to 72.4% for the year ended 31 December 2014. Claims incurred is unaffected.

4 Profit after tax adjusted to exclude the impact of non-operational amortisation, share scheme costs and other non-recurring items.

Summary consolidated statement of profit or loss

	Year ended 31 December 2015 Underlying trading[5a] £m	Non-trading items[5b] £m	Total £m	Year ended 31 December 2014 Underlying trading[5a] £m	Trading for the period ended 7 January 2014[5a] £m	Non-trading items[5b] £m	Total £m
Gross written premiums	614.9	–	614.9	483.4	(8.0)	–	475.4
Net earned premiums	255.9	–	255.9	202.5	(3.4)	–	199.1
Other revenue	219.8	–	219.8	194.6	(3.9)	(10.5)	180.2
Investment and interest income	5.3	–	5.3	3.8	(0.1)	–	3.7
Net revenue	481.0	–	481.0	400.9	(7.4)	(10.5)	383.0
Net claims incurred	(192.9)	–	(192.9)	(152.4)	2.7	–	(149.7)
Acquisition costs	(44.3)	–	(44.3)	(37.9)	0.8	11.4	(25.7)
Other operating expenses	(117.7)	(2.4)	(120.1)	(104.9)	1.7	(10.2)	(113.4)
Group operating profit[1]	126.1			105.7			
Amortisation and depreciation	(4.6)	(23.0)	(27.6)	(3.8)	0.1	(24.2)	(27.9)
Finance costs	(30.2)	(60.9)	(91.1)	(33.1)	0.2	(34.8)	(67.7)
Profit/(loss) before tax	91.3	(86.3)	5.0	68.8	(1.9)	(68.3)	(1.4)

The 2014 underlying trading figures include the full calendar year of trading and are presented in order to provide more meaningful comparative data.

Gross written premiums

Gross written premiums by product	Year ended 31 December 2015 £m	31 December 2014 Underlying trading[5] £m	31 December 2014 £m
Private car	587.4	464.4	456.6
Bike	11.3	10.2	10.1
Van	13.1	8.8	8.7
Home	3.1	–	–
Total gross written premiums	614.9	483.4	475.4
Total gross earned premiums	543.3	449.3	441.4

Gross written premiums increased by 27% year on year to £614.9m due to the increase in LCP and premium rate increases applied by the business.

LCP increased by 19% principally through continuing to grow the Group's sales on price comparison websites ('PCW'), increasing market share of sales made through PCW and maintaining a strong retention rate. The Group started applying premium rate increases during the first half of 2014 and during 2015 increased motor average written premium by 9.6%. This increase in average written premium will continue to benefit earned premiums throughout 2016. The Group has a strong track record of growth through the recent period of declining average premium in the market and is well positioned to benefit now that the insurance market cycle has turned and prices in the market are increasing.

The Group started to underwrite home insurance policies under a co-insurance agreement with AXA from 1 January 2015, having not previously underwritten any of the home policies sold by the Group. The 2014 IFRS results exclude the seven days of trading prior to 8 January 2014 as a result of acquisition accounting, and on this basis, gross written premiums increased by 29%. The 2014 underlying trading figures include the full calendar year of trading and are presented in order to provide more meaningful comparative data.

5 IFRS results have been adjusted to present underlying trading figures, to reflect the underlying performance of the business, by excluding:
a. the effects of acquisition accounting and non-trading items (see footnote 5b), and by including the effect of the seven days of trading prior to the acquisition on 8 January 2014. The presented underlying trading figures in both years therefore enable a 365 day, like for like comparison of the Group's performance.
b. non-trading items, representing significant costs incurred as a result of the IPO and refinancing in 2015, the effects of accounting for the Goldman Sachs investment and associated reorganisation in 2014 and accrued dividends on preference shares, which were part of the capital structure prior to the IPO.

CFO statement continued

Net revenue

Net revenue by type	Year ended 31 December 2015 £m	31 December 2014 Underlying trading[5] £m	31 December 2014 £m
Net earned premiums	255.9	202.5	199.1
Fees and commission	73.5	62.6	61.6
Ancillary product income	45.0	38.1	37.4
Premium finance interest	61.3	49.4	48.5
Reinsurance commissions	28.6	34.5	23.0
Other income	11.4	10.0	9.7
Other revenue	219.8	194.6	180.2
Investment and interest income	5.3	3.8	3.7
Net revenue	481.0	400.9	383.0

The Group benefits from a wide range of risk and non-risk based revenue streams. Alongside the insurance premiums and reinsurance commissions earned in the Underwriting business, the Retail business generates a diverse and sustainable range of retail revenues including fees and commission on insurance products sold, income from the sale of ancillary products and premium finance interest income.

Net earned premiums increased by 26% over the full prior year principally due to increases in the number of LCP and average premium, and due to changes in the structure of the Group's reinsurance contracts. The Group now retains a higher proportion of premiums written but in return receives lower profit commission from its reinsurance partners. The net economic impact of these changes to operating profit is broadly neutral; net earned premiums increased as a result and reinsurance commissions reduced to £28.6m, from £34.5m in the prior year.

Fees and commission on the sale of insurance contracts and ancillary products have increased in line with the growth in LCP. Premium finance interest benefitted from an increased proportion of our customers choosing to pay in monthly instalments during the year, as well as the general premium rate increases applied by the business.

Investment income grew in line with the growth of the Underwriting business' investment portfolio and the conservative investment strategy delivered a relatively stable investment return. Overall net revenue has increased by 20% year on year.

On an IFRS basis, which excludes trading in the seven days prior to 8 January 2014, the increase in net revenue was 26%, with net earned premiums having increased by 29% and other revenue, investment and interest income by 22%.

Loss ratio

	Year ended 31 December 2015	31 December 2014
Accident year loss ratio[3]	76.7%	74.6%
Prior year development	(1.3%)	(2.2%)
Calendar year loss ratio[3]	75.4%	72.4%

The Group's calendar year loss ratio of 75.4% is at the lower end of the Group's target loss ratio range demonstrating the business' continued focus on underwriting discipline. The increase on the Group's prior year calendar year loss ratio of 72.4%, which is after normalising for the impact of the changes to quota share contracts as described previously, is a result of the impact of claims inflation and the flood events at the end of the year on the accident year loss ratio. This increase has been offset to some degree by the earn-through of higher premiums which accelerated during the second half of the year.

The positive prior year development included in the net calendar year loss ratio for 2015 of 1.3%, or £3.4m, reflects a consistent reduction in the net ultimate loss expectations for the 2011, 2012 and 2013 accident years as those years have developed, offset by a strengthening of reserves for the 2014 accident year predominantly to recognise an increase in frequency on small bodily injury claims. These developments have been recognised while maintaining the Group's prudent claims reserving policy and a consistent risk margin over the internal actuarial best estimate of ultimate claims liabilities.

Expense ratio

	Year ended 31 December 2015	31 December 2014
Expense ratio	15.9%	16.3%

The Group's expense ratio has continued to reduce year on year as the Group benefits from economies of scale as a result of the increasing number of LCP and also benefits from a maturing book. The Group now services more LCP per full-time equivalent employee than ever before.

Operating profit and profit/(loss) after tax

	Year ended 31 December 2015 £m	31 December 2014 £m
Underwriting operating profit[2]	37.9	37.4
Retail operating profit[2]	89.9	69.9
Group operating profit[2]	126.1	105.7
Group profit/(loss) after tax	2.3	(8.4)

Group operating profit increased by 19% to £126.1m (2014: £105.7m), which primarily reflects the growth in LCP, the current and prior year premium rate increases earning through and operating expense efficiencies driven by economies of scale, partly offset by the increase in loss ratio and continued investment in the business. The increase in Group operating profit has been mainly contributed by the Retail business, whose operating profit increased by 29% to £89.9m. The growth in premiums earned in the Underwriting business was largely offset by the increase in loss ratio, resulting in a consistent Underwriting operating profit of £37.9m in 2015.

The following table sets out a reconciliation from profit/(loss) after tax to Group operating profit:

	Year ended 31 December 2015 £m	31 December 2014 £m
Profit/(loss) after tax	2.3	(8.4)
Taxation expense	2.7	7.0
Interest expense	54.6	67.7
Restructuring, refinancing and transaction costs	38.9	9.7
Removal of the impact of accounting adjustments for business combinations	23.0	25.9
Operational amortisation and depreciation	4.6	3.8
Group operating profit	126.1	105.7

The profit after tax of £2.3m (2014: £8.4m loss) includes the significant non-trading costs of the IPO and refinancing, the effects of accounting for the Goldman Sachs investment and associated reorganisation in 2014 and accrued dividends on preference shares, which were part of the capital structure prior to the IPO.

Interest expense includes £27.1m of interest relating to the Senior Secured Notes (which have now been redeemed) together with the accrual of preference share dividends of £23.7m (2014: £33.7m) which were treated as debt interest in accordance with IFRS. The preference shares and accrued dividends thereon were converted into equity in August 2015 and therefore no further accrual of preference share dividends will be required.

The redemption of all of the Group's £416.5m Senior Secured Notes in 2015 resulted in early repayment costs, which together with the costs of arranging the new £300.0m Term Loan amounted to £36.5m. The restructuring and transaction costs relating to the IPO in 2015 recognised in the Consolidated Statement of Profit or Loss amounted to £2.4m.

In 2014, the £9.7m restructuring costs comprised non-trading costs relating to the Goldman Sachs investment on 8 January 2014.

The accounting adjustments for business combinations primarily comprise the non-cash amortisation of acquired intangibles amounting to £23.0m (2014: £24.2m) together with other non-cash adjustments arising as a result of applying fair value acquisition accounting in 2014.

Dividends

The final dividend proposed for 2015 is 2.2p per share. This is equal to 56.5% of one third of adjusted Group profit after tax[4] in line with the target set by the Board at the time of the IPO. For the future, it is intended that the dividend payout ratio will be between 50% and 60% of adjusted Group profit after tax, of which the interim and final dividends will represent approximately one third and two thirds of the total annual dividend respectively.

CFO statement continued

Summary consolidated balance sheet

	As at	
	31 December 2015 £m	31 December 2014 £m
Assets		
Goodwill	470.0	470.0
Intangible assets	102.8	104.3
Property and equipment	13.7	10.1
Reinsurance assets	547.5	426.5
Deferred acquisition costs	19.9	15.7
Insurance and other receivables	267.2	219.4
Financial assets at fair value	316.5	224.9
Cash and cash equivalents	152.2	123.4
Total assets	1,889.8	1,594.3
Liabilities		
Preference shares	–	319.3
Loans and borrowings	295.7	403.6
Insurance contract liabilities	912.1	704.7
Insurance and other payables	158.2	153.6
Deferred income tax liability	20.6	27.0
Total liabilities	1,386.6	1,608.2
Net assets/(liabilities)	503.2	(13.9)

Net assets and working capital

The Group's net assets at 31 December 2015 were £503.2m (2014: net liabilities of £13.9m). The growth in net assets is driven by the combined effect of the growth in LCP on total assets and of the net proceeds from the Group's IPO and conversion of debt to equity on total liabilities.

The growth of LCP has driven an increase in reinsurance assets, insurance receivables and cash generated by the business, which is held both as cash and invested in financial assets. This growth has also driven the increase in insurance contract liabilities.

The Group completed its IPO by issuing 107,217,645 new shares priced at 170p per share. This raised proceeds of approximately £169.6m (net of fees, commissions and expenses), which have been used to reduce external borrowing and to contribute capital to the Underwriting business, as discussed in more detail below. The reduction in loans and borrowings combined with the conversion of preference shares and accrued dividends thereon into equity as part of restructuring the Group in August 2015, has resulted in a significant reduction in total liabilities.

Overall, the IPO, the conversion of preference shares and accrued dividends thereon to equity and cash generated by the business has significantly increased the net assets and working capital of the Group.

Return on capital employed

	Year ended	
	31 December 2015 £m	31 December 2014 £m
Average AICL deployed capital	149.8	106.1
Average HISL deployed capital	30.2	31.7
Average corporate free cash	15.9	10.4
Average capital employed	195.9	148.2
Net income	76.2	57.5
Return on capital employed	38.9%	38.8%

The Group has maintained a consistent return on capital employed for 2015. This reflects the Group's 33% growth in net income, while the capital employed has been increased as the Group has allocated additional capital to the Underwriting business in anticipation of Solvency II.

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

Refinancing

During the year, the Group used IPO proceeds and a subsequent refinancing to repay the £416.5m outstanding Senior Secured Notes. The refinancing was provided by a new facility consisting of a £300.0m five year committed Term Loan and a £20.0m Revolving Loan Facility which has not been drawn down. The Term Loan incurs interest at LIBOR plus a variable margin linked to net debt leverage multiple, initially set at 2.75%.

The Term Loan has a much lower interest rate than the Senior Secured Notes which will result in a significant reduction in annual interest payments, from approximately £31m to around £10m per year (assuming current LIBOR rates remain in effect). This gives a proforma interest coverage ratio of approximately 12x, when comparing Group operating profit for 2015 with the Group's future expected interest cost.

The Term Loan is unsecured and the Group is subject to certain financial covenants relating to net debt leverage multiple and interest coverage.

Cash and deleverage

	As at 31 December 2015 £m	As at 31 December 2014 £m
Gross debt[6]	(300.0)	(416.5)
Retail free cash[7]	17.7	17.4
Corporate free cash[8]	11.2	20.6
Net debt	(271.1)	(378.5)
Net debt leverage multiple[9]	2.1x	3.6x

The Group's operating activities continue to be highly cash generative and during 2015 cash inflow from operating activities was £155.6m, of which £81.2m was free cash from our Retail business. This free cash was offset by the refinancing costs described previously, IPO costs and ongoing investment in infrastructure and systems. The capital expenditure during the year primarily related to investment in the continued development of Guidewire, the Group's next generation Claims and Broking platforms.

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

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Opening free cash	38.0	6.7
Retail cash generated	81.2	63.3
Tax paid	(5.2)	(5.7)
Underwriting contribution to free cash	–	34.8
Capital expenditure	(27.7)	(6.4)
Interest and corporate costs	(33.4)	(36.4)
Restructuring, refinancing and transaction costs	(24.0)	(18.3)
Closing free cash	28.9	38.0

Overall, the increase in Group operating profit and reduction in net debt has resulted in a continued reduction in the Group's net debt leverage multiple from 4.9x when the Senior Secured Notes were issued in October 2013 to 2.1x as at 31 December 2015. Furthermore, the Group is currently intending to make a £10.0m repayment of its Term Loan ahead of schedule in order to accelerate deleveraging of the Group.

Investments

Cash and cash equivalents and investments by rating	As at 31 December 2015 £m	As at 31 December 2014 £m
AAA and AA (or equivalent)	274.1	131.5
A (or equivalent)	98.6	91.2
BBB (or equivalent)	88.7	82.1
Less than BBB (or equivalent) or unrated	7.3	43.5
Total cash and cash equivalents and investments	468.7	348.3

The Group has a conservative investment strategy with a primary focus on capital preservation. During the year the proportion of investments that are high grade has been increased to reduce risk further. Year on year investments rated AAA and AA or equivalent increased by £142.6m to 58% of the total portfolio (2014: 38%) and the weighted average credit rating on our portfolio increased from A- to A+.

Investments are made to correspond with the expected insurance contract liability payment profiles. The Group's investment portfolio primarily comprises investment grade fixed income debt securities and a small proportion of investment funds managed by third parties as follows:

Investments by classification	As at 31 December 2015 £m	As at 31 December 2014 £m
Cash at bank and in hand	47.5	48.9
Money market funds	104.7	74.5
Debt securities	264.6	161.9
Investment funds	51.9	63.0
Total cash and cash equivalents and investments	468.7	348.3

6 Gross debt as at 31 December 2014 comprises £266.5m of 8% Senior Secured Fixed Rate Notes due 21 October 2020 and £150.0m of LIBOR + 6% Senior Secured Floating Rate Notes due 21 October 2019 issued by a subsidiary. Gross debt as at 31 December 2015 comprises the new £300.0m Term Loan. All figures exclude IFRS adjustments.

7 This comprises cash held by the Retail business in excess of the regulatory capital required, which is not held on behalf of other insurers.

8 Corporate free cash includes cash held in the Group's unregulated corporate entities.

9 Represents the Group's net debt at each year end divided by Group operating profit for the year.

CFO statement continued

Reserves and insurance contract liabilities

Total insurance contract liabilities as at 31 December 2015 of £912.1m comprises £320.4m of unearned premiums, which are deferred to be recognised in subsequent periods (31 December 2014: £248.8m), and outstanding claims liabilities of £591.7m (31 December 2014: £455.9m). These have increased by 30% year on year due to the greater exposure from the increase in total LCP, and the impact of claims inflation.

The provision for outstanding claims liabilities 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 manages this risk by applying a consistent reserving methodology to calculate an actuarial best estimate and then reserving an additional risk margin over and above this. This margin has been maintained at a consistent level year on year. Additional information on managing this and the other risks of the business is provided in the Managing Our Risks section of the Strategic Report, beginning on page 40.

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'). The combination of the prudent reserving policy and effective reinsurance means the Group has experienced favourable net development of ultimate claims liabilities during 2015 for four of the last five accident years. The reserves in respect of the 2014 accident year were strengthened by £2.1m, or 1.2%, in the year to reflect an increase in frequency on small bodily injury claims.

Reinsurance contracts

	As at	
	31 December 2015 £m	31 December 2014 £m
AA (or equivalent)	337.2	198.8
A (or equivalent)	210.3	227.7
Total reinsurance assets	547.5	426.5

The Group uses non-proportional excess of loss and quota share reinsurance arrangements to limit its exposure to claims, and therefore protect its solvency and underwriting capability. The excess of loss programme limits the Group's exposure on any individual motor claim, including PPOs, to £1.0m (£0.5m for the 2014 accident year and prior), and the quota share arrangement provides 50% cover on motor claims incurred, after the excess of loss recoveries. The combination of these arrangements reduces volatility that could otherwise be caused by the accumulation of losses and individual large claims.

The 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 for achieving certain performance criteria, including target loss ratios. Since the year end the Group has agreed new contracts with its quota share reinsurers at improved rates compared to the 2015 contracts, which reflects the Group's stable loss ratio and established track record. The majority of quota share contracts are now on a rolling renewal basis, with approaching 50% by value now on two year minimum term arrangements. These contracts provide additional security and certainty regarding the availability of the Group's reinsurance arrangements.

Reinsurance assets, comprising reinsurers' share of outstanding claims liabilities, increased 28% year on year to £547.5m at 31 December 2015 (31 December 2014: £426.5m) due to the greater exposure from increasing policy volumes. The Group carefully manages risk within the portfolio by working with a range of high quality, highly regarded and stable reinsurers. The 31 December 2015 asset is recoverable from over 30 reinsurers, all of whom are rated A- or above.

Solvency

	As at	
	31 December 2015	31 December 2014
Solvency I:		
Solvency I coverage ratio[10]	373%	268%
Solvency II:		
Underwriting funds (unaudited, £m)	208.1	N/A
Solvency Capital Requirement (unaudited, £m)	133.1	N/A
Solvency II coverage ratio (unaudited)	156%	N/A

The Underwriting business remains well capitalised, following the allocation of £50.0m of net proceeds from the IPO to further strengthen its capital base, with a Solvency I coverage ratio as at 31 December 2015 of 373%, compared to 268% as at 31 December 2014.

The new Solvency II capital requirements came into effect on 1 January 2016, replacing Solvency I. The Group had fully prepared for this implementation and the table above presents the Underwriting business' unaudited draft Solvency II coverage ratio as at 31 December 2015 calculated using the regulated entity's results.

10 As stipulated by Underwriting's regulator, the Financial Services Commission ('FSC') in Gibraltar, it is defined as net admissible assets divided by the required minimum margin ('RMM'), both as at the end of the year.

Business review

We operate across the insurance value chain through our retail business, Hastings Insurance Services Limited, and our underwriting business, Advantage Insurance Company Limited.

Hastings Insurance Services Limited – Retail

Net revenue 2015

£243.6m

+19%

(2014: £205.5m)

Overview

The Group's product offerings include private car insurance as well as bike, van and home insurance in the UK. In 2014, the Group increased its strategic focus on home insurance in order to increase the Group's offerings to customers and expand its footprint. The Group also offers optional add-on products to customers alongside its primary insurance products, which are underwritten separately from the primary policy. Key add-on products include legal expenses cover, breakdown cover, substitute vehicle cover and home emergency and replacement key coverage.

Retail offers a range of brands and products to the UK market that appeal to different customer groups. Brand awareness of the flagship Hastings Direct brand has grown through continued targeted investment in TV advertising and digital media in 2015. TV advertising is optimised carefully using disciplined testing and analysis of performance. The Group's core product offering; private car insurance, constituted 86% of the Group's live customer policies ('LCP') as at 31 December 2015 with home, bike and van policies constituting the remainder. Within this market, the business has chosen to focus primarily on digital distribution through price comparison websites ('PCW') and direct distribution through the Hastings Direct website. Retail supports PCW and direct distribution through brand advertising and online direct marketing.

The Group's focus on digital channels has allowed it to benefit from the ongoing growth in consumer adoption of PCW. Retail has built up a range of capabilities to support success on PCW. These include sophisticated market pricing, the ability to implement price changes rapidly, large scale data processing and a Defaqto 5 Star rated, quality product range. The business has grown its market share of PCW consistently since 2010, with an increasing number of consumers choosing to switch to the Group's brands.

Of the policies sold by Retail in the year 90% were placed within the Group's insurer, Advantage Insurance Company Limited. Retail also operates a full broker capability utilising a panel of insurer partners which enable the Group to increase its distribution potential on a risk free basis. Home insurance is a growing part of the Group's offering and a product where Retail mainly uses external insurers, but retains full customer ownership and broking income streams. Retail benefits from diverse income streams including ancillary product revenues, premium finance, fees and commissions and other income.

Business review continued

Performance and progress

Net revenue in the period increased by 19% to £243.6m (2014: £205.5m). This performance was as a result of year on year LCP and PCW market volume growth driven by market wide price rises and subsequent increased customer shopping activity. LCP at the end of the year were just over 2 million; 19% ahead of last year. New business volumes were also ahead of the prior year driven by strong growth in all products including car telematics and home volumes.

The Group had 2.04 million LCP as at 31 December 2015 compared to 1.71 million LCP as at 31 December 2014. The Group's continued growth in its number of LCP is a result of a number of factors, including the Group's ability to attract new customers through its PCW focused strategy complemented by the Group's competitive risk-based pricing, its ability to retain existing customers on renewal, and its ability to reduce cancellation rates among the Group's existing customers.

During the year as part of the Group's growth strategy, Retail opened a fourth operational site in Leicester. Centrally located with excellent transport links across the Midlands, Leicester was a natural fit for a third location in the UK due to the quality and diversity of talent available. Working closely with Leicester and De Montfort universities and Leicester College, the Group plans to help identify a broad range of career opportunities. The new Leicester customer service centre will play a significant role in the Group's plans for growth and expansion and already accommodates over 300 colleagues.

The Group's telematics offering as part of its car product grew by 58% in the period. This performance is primarily being driven by new business due to the product's popularity with new drivers and helping inexperienced drivers to effectively manage their insurance costs. Telematics provides the Group with up-to-date driver information to enable it to intervene where a driver is not driving as expected. By communicating with the driver concerned, the Group is able to educate its policyholders on the merits of better and safer driving and enables the Group as a whole to enhance its loss ratio performance.

Retail's home product has also gained good momentum during the period increasing policy count. In recent years there has been an increased penetration of PCW for home insurance in a market that has traditionally been static, dominated by traditional players with customers predominantly not changing provider; the Group is well positioned to benefit from these changes to customer behaviours.

Retail's award winning counter-fraud team, Insight, provides quote validation based on customer inputs as part of their PCW journey to ensure that customers are not manipulating data inputs to achieve a better quote. Insight validated over 27.5 million quotes last year (2014: 20.3 million), an increase of 35%.

With the ever increasing use of mobile devices across all age groups, the Group has recognised the need to diversify the way it interacts with its customers. Transitioning away from over-reliance on traditional modes of communication such as computers and landline phones and embracing greater accessibility via mobiles and tablets allows Retail's customers to buy insurance the way they choose to. Retail is currently in the development stage of a new system to provide richer and more expansive digital self service capabilities. The new Retail platform is expected to be launched later this year.

As part of the Group's continued improvement, Retail enhanced its customer experience with the following initiatives during the period under review:

- Live webchat rolled out to provide customers with more ways to communicate;
- Social media response team operating 24/7;
- Mobile friendly website;
- Online document retrieval; and
- New complaints system implemented enabling complaints to be handled and responded to quicker and enabling management to improve root cause analysis.

"Another year of growth for Retail. More customers than ever have chosen to switch to and stay with us. We've opened our third UK operational site and our product expansion into telematics and home is building significant momentum. We're digital, we're data driven and we continue to grow by delivering refreshingly straightforward products and service."

Tobias van der Meer
MD Retail

Advantage Insurance Company Limited – Underwriting

Net revenue 2015

£307.6m

+23%

(2014: £251.1m)

Overview

The Underwriting business is a Gibraltar-based insurer which underwrites car, bike, van and home insurance. It currently underwrites most of Retail's private car, bike, van policies and from the beginning of 2015 also co-insured home insurance with AXA, one of Retail's panel insurers.

Underwriting is managed from Gibraltar and oversees a dedicated outsourced, insurer services team at the Group's office in Bexhill which includes claims operations. The Underwriting business utilises a data intensive process specifically designed to provide superior underwriting results in the highly competitive PCW market. The underwriting process consists of fraud detection, market analysis, risk pricing, portfolio investment, reinsurance, claims handling and reserving. Claims handling has two core objectives; the first is delivering excellent, straightforward quality service to the Group's customers in their time of need following an incident, and secondly to control payments to third parties through efficient pro-active case management.

"Underwriting has delivered another good year of prudent, disciplined underwriting and we continue to be very well positioned in the UK motor insurance market. As part of our growth plans we've started underwriting home insurance and are well prepared for the transition to Solvency II legislation, effective January 2016."

Ian Godfrey
MD Underwriting

Performance and progress

Net revenue for Underwriting increased by 23% to £307.6m (2014: £251.1m) as a result of the Underwriting business being well positioned at the beginning of the year to take full benefit of a hardening market. Following a strong track record in a soft market, Underwriting implemented strategic price rises where necessary due to market claims inflation during 2015. Combined with controlled LCP growth, further price increases during the year provided Underwriting with an improved base position for 2016.

As an agile and straightforward general insurance provider, the Group recognises that customers wish to communicate with the Group through a number of channels, both inside and outside usual business hours. Having made significant investment in its systems for claims handling, a new Claims platform was successfully launched in November this year. This investment has created an integrated claims handling platform to enable the Group to interact with customers when and how they wish to communicate by making the claims journey simpler and smoother. This will help reduce call lengths and waiting times by enabling claims handlers be more responsive to customer requests and enquiries and improve the overall claims experience. Internally the new claims platform will enhance the Group's decision making and response times deriving cost saving benefits.

As part of the benefits of the new claims system, the Group is well positioned to increase its underwriting sophistication through a more timely and granular use of data and experience. Better use of data, continuous monitoring of results, advanced analytic capabilities and rapid execution provide the Group with the ability to respond within the marketplace to identify risks and exploit opportunities.

The period under review saw an increase in claims inflation across the market driven in part by the re-emergence of claims farming and continued increases in the incidence of soft tissue bodily injuries such as whiplash. As a result and recognising a hardening car insurance market early in the year, Underwriting introduced a number of strategic price rises which enabled the Group to protect its loss ratio while enhancing its already strong competitive position.

During the year the Group strengthened its counter-fraud capabilities tackling serious and complex insurance fraud crimes even further with the establishment of a Specialist Investigation team that incorporates intelligence and analyst teams. This team is led by the former head of the City of London Police's Insurance Fraud Enforcement Department. Fraud is an increasing risk for insurers and brokers alike whether at point of quote or claim; the Group is at the forefront of identifying and repudiating fraudulent claims, bringing fraudsters to justice and lowering prices for customers.

Sophisticated risk pricing is achieved by the Underwriting business employing significant analytic capabilities bolstered by data enrichment. The Group's underwriting capabilities are enhanced by enriching data for a selective footprint to significantly reduce risk that the general market is under-pricing. This entails harnessing data collected from customers who use PCW, overlaying other external data points and creating new variables and pieces of information that translate into rating variables. The combination of enrichment and fraud prevention enables Underwriting to price appropriately to achieve very competitive rates while achieving target loss ratio.

Coming into effect at the start of January 2016, Underwriting was well-prepared for the introduction of Solvency II that replaced Solvency I. Interactions with the Gibraltar regulator, the Financial Services Commission, have been positive and transparent throughout the programme of planning, design and implementation. The Underwriting business is well capitalised above the levels required under Solvency II. As at 31 December 2015, under Solvency I, Underwriting had a coverage ratio of 373% (2014: 268%).

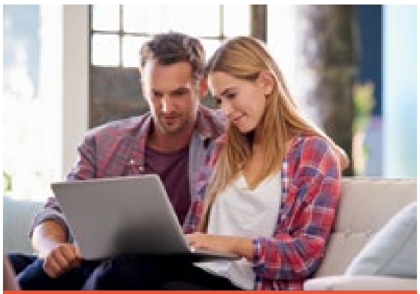
Our corporate responsibility

Our approach to corporate social responsibility is as refreshingly straightforward as the way we do business: serve our colleagues, customers and communities and be a good neighbour. We focus our efforts locally, instead of globally, so that we play an active role in the communities where we work and live.

OUR 4Cs

"Our 4Cs philosophy – Colleagues, Customers, Company and Community – frames our decision making process, guiding us as we continue to grow a sustainable and financially stable Group in a responsible manner."


Colleagues


Customers


Company

Community

The 4Cs approach

Hastings' vision to protect 1 in 10 in the UK by 2020 and its strategic goals are underpinned by the 4Cs. This cultural framework is based on the belief that if we provide our colleagues with the right tools (leadership, products, systems, premises, information etc.) they will be able to do more for our customers 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.

Colleagues

Colleagues are the first step in the 4Cs. We believe that engaged colleagues lead to happy customers and we actively promote a culture where our colleagues can contribute and thrive. We make sure that we recognise and reward the hard work and dedication our people 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 that we have a clear, consistent and balanced approach to delivering our objectives by using the right behaviours.

4Cs Awards
And the winners are...

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





Equal opportunities and human rights

We are committed to ensuring that all have the right to equal opportunities at all stages of recruitment, selection and throughout our colleagues' 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 origins, 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.

Growth and development

The Hastings family grew to over 2,300 colleagues in 2015. Development plays a key part in our culture and in 2015 we launched a new career framework for over 1,000 colleagues. This framework is designed to provide colleagues with the skills they need to advance with a clear career path and along with our leadership development programme provide us with a strong pipeline of future leaders.

Communication and engagement

We encourage colleagues to express their views and ideas formally and informally to our leadership team, whether by emailing our Chief Executive Officer or more formally via our colleague roadshows and communication forums. We hold regular coffee mornings and idea pitching sessions to stimulate debate and encourage conversations. Our recent annual engagement survey showed us that our colleagues feel strongly that they are part of the Hastings family and work for a company where they can contribute and thrive. We regularly receive over 1,000 nominations for our annual 4Cs Awards where our outstanding colleagues and teams are recognised for their great achievements.

Gender diversity across the Group

All colleagues	1,187	1,135	Total: 2,322
Underwriting and Retail senior management	68	17	Total: 85
Underwriting Board	6	0	Total: 6
Retail Board	6	2	Total: 8
Company Board	11	0	Total: 11

Customers

What differentiates us from our competitors is our great value pricing and products and the way we are built for the way customers now buy insurance. Key to our success is providing refreshingly straightforward service and 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;
- Providing a quality service to all our customers by working in an open and accountable way.

To help minimise our environmental impact we invite customers to receive all their documentation electronically. In 2015 this equated to a saving of 83,197 kilos of paper that would have been used had we posted this documentation.

Promoting a Travel Green initiative

Company

As a large and rapidly growing Group, we try to minimise, where possible, our impact on the environment making sure that what we do reflects our approach to corporate social responsibility.

It is our belief that ethical conduct is an integral component of running a business successfully and it is an expectation we have of 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 are able to ensure 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:

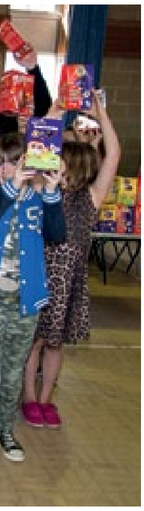
- Supporting local businesses with over 50 unique offers that encourage and incentivise our colleagues to buy from local retailers, suppliers and services.
- Promoting a Travel Green initiative that supports our colleagues in making greener journeys to work through car sharing, increased cycle use and 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 movement sensitive lighting.
- Recycling unwanted furniture by donating it to local charities and organisations.

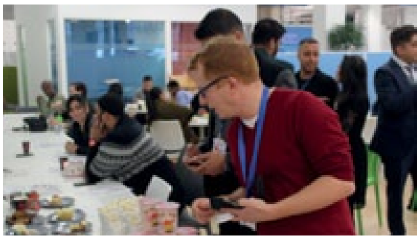
Community

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, nurturing home grown talent 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 2015 we raised over £50,000 for local charities and organisations and spent over 5,500 hours in our communities. As part of our InsurePink product offering, where £10 from every policy is donated to the Pink Ribbon Foundation, we are pleased that our customers helped us raise over £100,000 for this worthy charity.





Supporting our local Communities

Examples of how colleagues have helped local charities and good causes in our communities throughout 2015.

Nurturing home grown talent

We have significant interaction with schools, colleges and universities in and around our communities to help develop and attract home grown talent. In November last year, we launched a three-year education programme in partnership with social enterprise called 'Be the Change'. This programme is the first of its kind in the UK and raises the aspirations of local thirteen year old students, helping them to remove barriers that make them disengaged at school and in life by providing them with life skills to help shape their future. It is a detailed and sustainable programme of activity designed to bring young people and business volunteers together over the course of the school year.

© Bexhill Observer

"I feel privileged to be one of the business mentors for the Be the Change programme. The launch event was a rollercoaster of emotions, laughter and tears and I felt both mentally and physically exhausted… I have not felt quite so passionate about anything for many years and can't wait for the next sessions to see the change and growth in confidence and maturity of the pupils in the next six months. I am proud to work for a company that has such values and commitment to 'Being the Change'."

Caron Viollet
Business Mentor

"We are proud to be at the forefront of something so transformational for students in our community. We do a lot of work already with our local schools and colleges to help improve employability prospects and indeed a number of local students have gone on to become colleagues. Be the Change offers us the opportunity to help younger people in our community and with our colleagues' involvement; we hope that we can make a real difference."

Carole Jones
Group HR Director

© Leicester Mercury

Managing our risks

The Board sets risk appetite, reviews risks, both existing and emerging and considers risk when reviewing the Group's strategy and in meeting its objectives.

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 trading entities, with detailed analysis of income and expenditure and resulting free cash generated, including 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 that align to the Group's Three Year Plan are assessed as being within appetite, with adequate and effective controls and efficient monitoring. This, coupled with the culture and values demonstrated by executive and senior leadership across the Group, provides 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 and monitoring 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 issues, 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 and monitor 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 Retail and Underwriting 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 successfully delivering the Three Year Plan.

Strategic Risk is reviewed and challenged by the Risk Committees of the Company, Retail and Underwriting. These Committees receive timely, up to date commentary on the material movement of risk, whether influenced by external 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. Reports on risk profiles by department (risks, controls, key risk indicators and internal or external events) are provided by the risk management function for independent review and challenge on a regular basis.

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

Internal control framework

The Group has an internal control framework based on a three lines of defence approach, which is mirrored in the trading entities. The three lines are comprised of:

- First Line: Business Operations:
  - perform day-to-day risk management and compliance monitoring activity;
  - provide management assurance, inform the Audit and Risk Committees by identifying risks and business improvement actions, implement and embed controls and reporting on progress.
- Second Line: Oversight Functions:
  - set boundaries by drafting and implementing policies and procedures to align practices to defined strategy, provide guidance and direction on those policies and procedures, introduce best practice, monitor policy execution and provide oversight of business processes and risks;
  - oversee business operations and provide guidance and assurance;
  - comprise Compliance and Risk Management functions;
- Third Line: Independent Assurance:
  - offers independent challenge and assurance by internal and external auditors;
  - provides independent, objective assurance and consulting activities designed to add value and improve the Company's operations, 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 governance framework and are accountable to either the Audit or Risk Committee and ultimately the Board. The role of these Committees is to monitor and render opinions on the effectiveness of the Company's internal controls and risk management.

Monitoring and quality assurance 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 and Compliance 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 Company, Retail and Underwriting as appropriate.

Internal control and risk management

The Group's governance structure, combined with embedded controls and processes, enable executive management to define the parameters within which it implements Board approved strategies, monitors outcomes, and proactively identifies risk and issues, as well as initiating mitigations as required and reporting to the Board.

Strategy is implemented by suitably experienced people in the trading entities, 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, high quality management information is generated to enable appropriate monitoring, 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 must not be onerous or ineffectual. These should remain appropriate and proportionate to the size, nature and complexity of the Company and are therefore regularly reviewed by executive management and the Boards of the Group 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.

Managing our risks continued

Risk management function

There is a consistent Risk Management Framework throughout the Group, 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 function ensures all known and emerging risks are addressed 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 constantly developed to include Strategic, Business and Conduct risks. Stress and reverse stress testing and scenario analysis is regularly undertaken and reviewed by the respective Committees. For example, cashflow forecasts have been stressed tested using the principal financial and operational risks listed on page 43 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 the requirements of the recent implementation 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 58 to 60.

Compliance

The Compliance functions within the trading entities monitor compliance with the various regulatory and legal requirements the Group is required to comply with, specifically those of the FCA in the UK and the FSC in Gibraltar. The outcome of this monitoring helps to provide input into training, marketing and other documents used by the businesses to ensure they meet those requirements and also ensures appropriate dialogue is maintained with regulators.

The Group continues to invest appropriately in its compliance oversight function to ensure that it remains effective in monitoring and providing assurance that appropriate regulatory adherence and customer conduct outcomes are being met. The Compliance function provides appropriate and effective advisory guidance to the business as well 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 including new business review agents, analysts, intelligence operatives, claims handlers, former police officers and field based investigators. The Group's counter-fraud operations help to improve the Group's counter-fraud abilities and results. The 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.

The Group employs a number of sophisticated validation methodologies and databases to identify potentially fraudulent activity at various points in the application, sale and claims process. At the point of quote, the Group focuses on risk scoring and referencing tools including data enrichment to identify and reduce exposure to potentially fraudulent applications. At the point of sale, the Group again undertakes risk scoring supported by a review of relational databases and check for any irregularities in the quotations created known as 'quote manipulation'. During the claims process, the Group reviews relational databases and uses external referencing and investigations to uncover fraudulent claims. The strength of its Insight team is recognised in the industry and has been the recipient of a number of industry awards.

Policies and procedures

To maintain good outcomes for all stakeholders it is imperative that everyone is made aware of and complies with legislation, regulation and best practice. 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 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 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 Company's Board and are proposed to be adopted in full by the trading subsidiaries.

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

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

The Group considers its principal risks as follows:

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

Liquidity and capital risk: The risk of loss resulting from an inability to meet financial commitments as they fall due.

Operational risk: The risk of loss resulting from inadequate or failed internal processes, people or systems and external events.

PRINCIPAL RISKS AND UNCERTAINTIES

Principal risks	Key monitors
Commercial performance risk	
• Inability to manage reserving risk (Underwriting)	Regular internal and external reserving audits reporting to the Board of Underwriting and external actuaries that report to Underwriting's Reserving Committee.
• 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 PCW	Assessing consumer preferences, and in particular the use of PCW for the purchase of general insurance products against our planning assumptions.
Liquidity and capital risk	
• Insufficient capital to service debt arrangements (Group)	Monitoring cash flow from trading entities and 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 in accordance with Group plans.
Operational risk	
• Business Continuity 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 meet 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	Constant IT infrastructure monitoring, data assessment and perimeter testing.
• Increased exposure to claims fraud could increase claims related expenditure	Dedicated counter-fraud team that deploys effective and counter-fraud techniques.

Managing our risks 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 downturn, as the Group diversifies into home products, more of its product exposure will be subject to the effects of a sustained economic downturn.	**Status: Stable** The Group and trading entity Boards regularly consider the investment portfolios managed in the respective trading entities against the economic outlook and its 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 has been monitored and assessed against the strategic plan.
Regulatory change Changes to the regulatory environment that introduces inhibitors for income generation in the general insurance industry.	The regulatory landscape is constantly being reformed and challenged which may introduce constraints that reduce the income drivers from general insurance. The Group strategy is based on the current regulatory regime and guidelines. Any material shift in the regulations that apply to general insurance could impact the commercial plans of the Group.	**Status: Stable** The Group has an effective regulatory horizon scanning capability to review the potential implications for the Group and more importantly across its regulated trading entities. In addition the trading entities continue to foster good working relationships with their various 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 and gives the Group early insight and opportunity to contribute towards the shape of future regulation. During the year the Group has invested in developing its governance, risk and control in Underwriting in preparation for 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 deliver its strategic plan could be compromised in the event of increased claims frequency and or severity.	**Status: Stable** Underwriting adopts a prudent approach to the risk accepted and the pricing used reduces 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 prudent underwriting approach will ensure that Hastings 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 resulting in an impaired commercial performance.	**Status: Stable** The Group has established an effective governance, risk and compliance approach that provides for the identification, assessment, mitigation and monitoring of risks and highlights areas of potential conflict with the various regulations that apply to the Group or its trading entities. This includes a targeted compliance monitoring programme that specifically addresses regulatory risks and controls.

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.	**Status: Stable** The Group, through the 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. This is 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. During 2015 new technology introduced simplified processes for claims handling. This will be continued with additional technology to further improve policy administration processing, which will also improve the customer experience.
Operational risk Disruption event in a trading entity.	A sustained disruption event could materially affect the Group ability to deliver its strategic plans.	**Status: Improved** The Group has invested in power and systems resilience programmes that have, and will continue to improve the stability of Retail during a business interruption event. 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 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. During the year there have been a number of improvements to power supply resilience and technology stability. The Boards of the respective trading entities review these risks on a regular basis against the risk appetite that is set and is 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.	**Status: Stable** 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.

Our Board

Mike Fairey
Chairman

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. He is also the Chairman of the Trustees of the Lloyds TSB Pension Funds.

Gary Hoffman
Chief Executive Officer

Appointed: 15 June 2015

Experience: Gary has been the Chief Executive Officer of the Group since November 2012 and joined the Board in June 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.

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.

Richard Brewster
Non-Executive Director

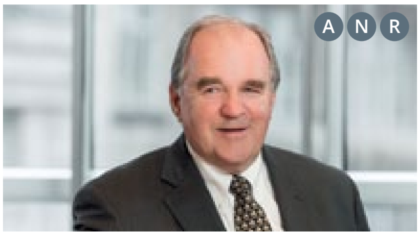
Appointed: 3 September 2015

Experience: Richard was part of the management buyout of Hastings completed in February 2009. Richard became involved with the Hastings Group 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 and joined the Board in September 2015.

Thomas Colraine
Senior Independent Director

Appointed: 3 September 2015

Experience: Tom joined the Board in September 2015 and 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

Appointed: 3 September 2015

Experience: Ian joined the Board in September 2015. He spent 30 years at Citibank where he was appointed head of UK and Co-head of the Global Financial Institutions business before becoming Chief Executive Officer of AIG's European business in 2000. He currently serves as a Non-Executive on the boards of Partnership plc, Xchanging plc, Phoenix Group Holdings plc, and National Angels Limited, and is Chairman of Temporis Capital LLP and Maven Income & Growth VCT4 plc.

Key

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

Edward Fitzmaurice
Non-Executive Director

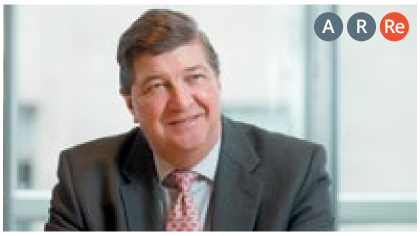
Appointed: 3 September 2015

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. Edward joined the Board in September 2015.

Pierre Lefevre
Independent Non-Executive Director

Appointed: 3 September 2015

Experience: Pierre joined the Board in September 2015. He also 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.



Malcolm Le May
Independent Non-Executive Director

Appointed: 3 September 2015

Experience: Malcolm joined the Board in September 2015 and 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

Appointed: 3 September 2015

Experience: Sumit was appointed as Non-Executive Director for the Company as part of the investment made by Goldman Sachs in the Group in 2014. Sumit leads the Goldman Sachs global financial services investment practice in the Goldman Sachs Merchant Banking Division ('MBD') in New York. He serves as a member of the Firmwide Finance Committee, the Firmwide Risk Committee and the Corporate Investment Committee. Sumit joined Goldman Sachs in 2000 as an associate in the Financial Institutions Group ('FIG') in London. From 2001 to 2004, he worked in FIG in New York. He became a vice president in 2003, joined MBD in 2005 and was named managing director in 2007 and partner in 2010. Sumit joined the Board in September 2015.

Michele Titi-Cappelli
Non-Executive Director

Appointed: 3 September 2015

Experience: Michele was appointed as Non-Executive Director for the Company 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. Michele joined the Board in September 2015.

Anthony Leppard
Group Company Secretary

Tony is a Fellow of the Institute of Chartered Secretaries and Administrators, having qualified in 1985. Since that time he has held numerous board and senior management positions, including Chief Financial Officer and Company Secretary of GE Capital IT Solutions UK, a subsidiary of GE Capital. Tony joined the Group in April 2009, and leads the Group's legal, compliance, and corporate governance functions. Tony was a Director of Hastings Group Holdings Limited from its incorporation on 11 June 2015 until 15 June 2015.

Directors' report

The Directors present their Annual Report and the audited Financial Statements for the year ended 31 December 2015.

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 in the table below and is incorporated into this Report by reference:

Section of report	Page reference
Results and dividend	Chairman's statement (pages 12 and 13)
Corporate governance and the Group's financial risk management objectives and policies	Corporate governance statement (pages 53 to 63)
Directors' responsibility statements	(page 51)
Details of the salaries, bonuses, benefits and share interests of Directors	Directors' Remuneration Report (pages 65 to 75)

Management report

The Strategic Report on pages 2 to 51 and this Directors' Report, with its inclusions as indicated in the table, 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 biographical details of the current Directors of the Company are shown on pages 46 and 47. Details of Directors' interests in the shares of the Company are shown on page 74. 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 page 65.

Articles of Association

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

Substantial shareholdings

As at 14 March 2016 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
Hastings Investco Limited	380,320,840	57.9	Direct
Mr Neil Utley	46,779,238	7.1	Direct
Mr David Saville	28,036,739	4.3	Direct

Share capital structure, issue and buying back and shareholder rights

The number of Ordinary shares of 2p each issued and fully paid at 31 December 2015 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 given 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.

Following the IPO in October 2015, shareholders Hastings A, L.P., Hastings B, L.P., Goldman, Sachs & Co. and the Founder Shareholders (collectively) continue to have significant direct and indirect investment in the Company via Hastings Investco Limited. Pursuant to a Relationship 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 first such 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 Companies Act 2006 and related legislation. In accordance with principle B.7.1, all Directors will be subject to annual election by shareholders.

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 employees 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

The annual level of greenhouse gas emissions, resulting from activities for which the Group is responsible for the year ended 2015 was 1,570 tonnes of carbon dioxide equivalent ('CO_2e') (2014: 1,628 tonnes of CO_2e), equivalent to 0.78 tonnes of CO_2e per employee (2014: 0.81 tonnes of CO_2e per employee).

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 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 excludes the leased offices in London, Leicester and Hyperion House, Newmarket for which energy data is not available/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.

Emissions reported:

- Scope 1 – Natural Gas consumption
- Scope 1 – Gasoil consumption
- Scope 1 – F Gas emissions
- Scope 2 – Grid Electricity consumption

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 (2014: £nil).

Directors' statements

As required under the Companies Act 2006, the UK Corporate Governance Code 2014 and the DTR, various statements have been made by the Board as set out on page 51 and are incorporated into this Report by reference.

Directors' report continued

Auditor

KPMG LLP were appointed as the Company's auditor in December 2015 for the financial year ending 31 December 2015. KPMG have confirmed that they are willing to be reappointed as auditor for the financial year ending 31 December 2016.

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.

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
- Each Director 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 team 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.

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 people, which is achieved through the application of our policies throughout the organisation.

The Group is comprised of people 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 2015, the Company's Board had 11 Directors, all of whom were male. Of the Group's 2,322 employees, 1,187 were male and 1,135 were female.

The Group has a responsibility to conduct 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.

Contractual arrangements

The Group considers its co-insurance and reinsurance contracts as well as contracts with PCW 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 24 to the 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 and is signed on its behalf by

Anthony Leppard
Company Secretary

14 March 2016

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 Consolidated 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 Consolidated 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 Consolidated 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 Leppard
Company Secretary

14 March 2016

Corporate governance

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Letter from the Chairman

Mike Fairey Chairman

Dear shareholder

We are 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 2014 ('the Code') and the Board believes that the Company has complied with the principles and spirit of the Code during the year. However, as a newly listed entity, the Board recognises that there are some principles with which the Company has yet to fully comply. In my Chairman's statement I noted that the composition of the Board is not fully compliant with Code requirements for at least half of the Directors excluding the Chairman to be independent of the Group. The Board is also conscious that it is not representative in terms of gender diversity. The Board will continue to seek appropriate, well qualified candidates irrespective of race, gender, disability, religion or belief, sexual orientation or age. The Board intends to become fully compliant during the next financial year.

Prior to the Company's Admission to the London Stock Exchange in October 2015, entrepreneurial leadership for the Hastings Group was provided by the Board and Committees of Hastings Insurance Group (Investment) plc. As a private Group, the Board and its Committees at that time applied the requirements of the Code as appropriate and adhered to best practice corporate governance where possible. Since the IPO, the Company has established successor Committees with Terms of Reference in line with the Code. These Committees will continue to provide robust challenge and oversight on matters within their remit, continuing work to date. It is noted that some of these successor Committees did not meet during the financial year ended 31 December 2015; however, meetings were convened early in 2016.

This Corporate Governance Statement and the Committee reports on pages 58 to 64 explain how the Board and its Committees operate and how the Company has complied with the Code during the year ended 31 December 2015.

Mike Fairey
Chairman

14 March 2016

UK best practice

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, reviewing and monitoring the independence of the external auditor and the level of non-audit work performed by the auditor.

Since its establishment in August 2015 the Board formally met eight times during the financial year. It is intended that during the coming year it will meet formally at least eight times a year with additional meetings as necessary. There is formal schedule of matters reserved for Board decision which will be subject to annual review and approval. Matters included are 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. A copy of the schedule is available online at www.hastingsplc.com/company-information/corporate-governance.

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 Board 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 2015

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.

As noted in the Chairman's introductory letter to this Statement, prior to the IPO in October 2015, oversight and entrepreneurial leadership for the Hastings Group was provided by the Board and Committees of Hastings Insurance Group (Investment) plc, the previous Group parent entity. Since August, the Board met eight times in 2015; five of these were to consider matters in connection with the IPO. At the other three meetings the Board considered the Group's third quarter interim management statement announced in October, appointment of the external auditor, approval of the 2016 budget, review of the Group's reinsurance programme and updates on strategic initiatives.

Board Committees

The Board delegates certain matters to various Committees; each with their own Board approved Terms of Reference which will be reviewed annually. The Board has four Committees, Audit, Nomination, Remuneration and Risk. The principal activities of each Committee are set out in their respective reports on pages 58 to 64. The 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 these Committees is a matter for the full Board upon recommendation of the Nomination Committee. Each of the 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 Committee can be found on pages 46 and 47. Executive Directors also attend meetings of the Committees when required to do so by the Chairman of the relevant Committee.

Board and Committee Terms of Reference can be found at www.hastingsplc.com/company-information/corporate-governance.

Board and Committee meeting attendance

Details of the number of meetings of the Board and its Committees of the Company held since August 2015 up to 31 December 2015 and the attendance of each Director at those meetings, are set out below. As noted in the Chairman's introductory letter to this Statement, some of the successor Committees did not meet during the financial year ended 31 December 2015; however, meetings were convened early in 2016. Information on the role and responsibility of each Committee are provided in their respective reports on pages 58 to 64.

		Committee			
	Board	Audit	Nom	Rem	Risk
Total meetings held	8	1	0	3	0
Mike Fairey	8			3	
Gary Hoffman	8				
Richard Hoskins	8				
Thomas Colraine	7	1		3	
Ian Cormack	6	1			
Malcolm Le May	6	1		3	
Pierre Lefevre	8	1			
Richard Brewster	7				
Edward Fitzmaurice	8			3	
Sumit Rajpal	6			3	
Michele Titi-Cappelli	8				

Compliance with the UK Corporate Governance Code

The Company is subject to the UK Corporate Governance Code 2014 ('Code') and 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. The Board met eight times during the year. There is a clear schedule of matters reserved for the Board, together with delegated authorities.

A.2 Division of responsibilities

The roles of the Chairman, the Chief Executive Officer and Senior Independent Non-Executive Director are clearly defined. The roles of Chairman and Chief Executive are not to be exercised by the same individual. The division of responsibilities between the Chairman, Chief Executive and the 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.1.1 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 if they have concerns and to 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.

The Chairman held meetings with the Non-Executive Directors without the Executive Directors present during the year. The Senior Independent Non-Executive Director will meet with Non-Executive Directors without the Chairman present in the coming financial year to appraise the Chairman's performance and on such other occasions as are 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.

UK best practice continued

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. The Board is aware that the Company does not fully comply with the provisions of the Code as half of the Board is not composed of independent Non-Executive Directors. The Company intends to be fully compliant with the Code in this respect prior to the end of the next financial year and is actively seeking to make a further independent Non-Executive Director appointment during the course of 2016. The Board is also conscious that it is not representative in terms of diversity. The Board will continue to seek appropriate, well qualified candidates irrespective of race, gender, disability, religion or belief, sexual orientation or age.

B.2 Board appointments

The Board is responsible for the appointment of Executive Directors. The appointment of new Non-Executive Directors to the Board is led by the Nomination Committee. The Nomination Committee report is on page 61.

Following the IPO in October 2015, 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 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 first such appointees were Sumit Rajpal and Michele Titi-Cappelli (Goldman Sachs) and Richard Brewster and Edward Fitzmaurice (Founders).

B.3 Commitment

When appointed, Directors are informed of the time commitment expected from them and is stipulated in their contract of employment or letter of appointment as appropriate.

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. An annual effectiveness evaluation will be undertaken by the Board in the coming year and the training and development needs of each Director will be assessed.

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.

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.

B.6 Board evaluation

The Board, its Committees and Directors will undertake an evaluation of their performance during the Company's next full financial year during 2016.

B.7 Re-election of the Directors

All Directors are subject to election by shareholders at the first AGM after their appointment, and will be 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. The Strategic Report is set out on pages 2 to 51 inclusive and this provides information about the performance of the Group, the business model, strategy and the risks and uncertainties relating to the Group's business.

C.2 Risk management and internal control systems

The Board determines the nature and extent of the significant risks the Company faces and maintains sound risk management and internal control systems. The Board has established a Risk Committee and an Audit Committee; each will convene at least four times a year. Further information on risk management and internal control systems is set out in the Company's Viability Statement on pages 40 to 45, the Audit Committee report on pages 58 to 60 and the Risk Committee report on pages 62 and 63.

The Board has reviewed the effectiveness of the Company's risk management and internal controls during 2015, 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 and up to the date of approval of this Annual Report.

C.3 The role of the Audit Committee
The activities of the Audit Committee which assists the Board with its responsibilities for risk management, internal control and its relationship with the auditors are set out in the Audit Committee report on pages 58 to 60.

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, while 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, 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.

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 66 to 75.

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, is released to all shareholders at the same time in accordance with applicable legal and regulatory requirements.

E.2 Annual General Meeting
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 each of them holds 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 beneficial interest in any contract significant to the Company's business, other than a contract of employment. 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.

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 2016 will be held at 11:00am on Wednesday 25 May at Instinctif Partners, 65 Gresham Street, London, EC2V 7NQ. 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 shareholder

I am pleased to present the report of the Audit Committee for the financial year ended 31 December 2015. The current Audit Committee became effective following the IPO in October 2015. Prior to this a Group Audit Committee was already in place, the last meeting of which was held on 14 September 2015. References to the activities of the Audit Committee in this report are before and after listing.

Members of the Audit Committee

The Audit Committee is made up of the following independent Non-Executive Directors:

Chairman	Members
Thomas Colraine	Malcolm Le May
	Pierre Lefevre
	Ian Cormack

Each member 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 and 47. The Company Secretary acts as Secretary to the Committee and takes the minutes of all meetings.

Although not members, the external auditor, KPMG LLP ('KPMG'), the internal auditor, 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.

The Audit 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**.

Meetings

Subsequent to the IPO the Committee met once during the year under review to recommend to the Board the appointment of KPMG as external auditors to the Company, approve the external audit strategy and approach, approve the internal audit plan for 2016 and recommend for approval the policy on Provision of Audit and Non-Audit Services. The Committee met twice during the current year to review the Annual Report and Accounts and met with KPMG.

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 auditors

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 internal actuary has accumulated significant experience in projecting future claims development and a detailed understanding of how ultimate liabilities outturn 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 management function responsible for oversight of the process and recommending the reserves to be recognised. There are robust controls in place surrounding the data used by the internal actuary 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. The Group's external actuary prepares an independent projection of claims reserves.

Having been approved by Underwriting's Reserving Committee and Board, detailed papers were provided to the Audit Committee explaining the Reserving Policy, the methodology and judgements applied in the actuarial calculations to support the provisions made. This included reports and calculations provided by the external actuary. The Committee met with management and considered representations from both the internal and external actuaries to challenge the methodology applied, the best estimate calculations and the external actuary's independent report. During these discussions additional information on reserving levels was provided and challenged by the Committee as to their adequacy and level of prudence, and any variances between the internal and external best estimates were debated and understood.

The Audit Committee also asked the Group's external auditors 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 auditors further confirmed the challenges made, representations they received and conclusions they made based on this.

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

Reinsurance assets

In common with many insurers, 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, 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 also 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 periodical payment orders ('PPO'). 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 themselves with the enquiries made, the Committee confirmed they were 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, there were no other significant issues related to the Financial Statements considered by the Committee and discussed with the external auditors during the year and in relation to the 31 December 2015 year end.

External audit

Prior to the audit being conducted, the Committee considered the content and scope of audit work and the audit fees proposed by KPMG and discussed changes in accounting policies and new developments within the business which might affect financial reporting going forward. KPMG Audit plc was appointed as the auditor to the Group's subsidiaries in 2010. The Directors of the Company appointed KPMG LLP as auditors to the Company in November 2015 and their re-appointment is proposed at the upcoming AGM in May 2016.

Audit Committee continued

Adoption of policy on the provision of audit and non-audit services

Under the provisions of the UK Corporate Governance Code ('Code') the Committee, as representative of the shareholders, is required to oversee the relationship with the auditors 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; Board approval was sought and obtained.

In assessing the effectiveness of the external audit process by the Committee, the auditors were asked to articulate the steps that they have taken to ensure objectivity and independence. This year, the Committee reviewed and challenged the external audit plan to ensure that having identified potential areas of risks to ensure KPMG would employ effective audit procedures to examine them. The Committee monitors the auditors' performance, behaviour and effectiveness during the exercise of their duties, which informs the Audit Committee's decision to recommend reappointment on an annual basis. The total amount paid for non-audit work during the year was £1.3m and was for matters relating to the IPO in KPMG's role as Reporting Accountant.

The Committee recommends that KPMG be reappointed as auditors to the Company at the upcoming AGM.

Internal audit

The internal audit function is managed and resourced via a third-party relationship with Grant Thornton UK LLP. 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 is 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.

No significant deficiencies in the system of internal controls were identified following an internal audit review.

Priorities for 2016

In the coming year the Audit Committee will focus on:

- Continued enhancement of the Group's reserving process;
- Appointment of a new Group audit partner, after the mandatory rotation of the current Group audit director in 2016;
- Assessment of the potential impact on the Group of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers and ensuring the Group is well prepared to comply with these new accounting standards; and
- Ensuring the Group's internal audit function continues its systematic and disciplined approach.

Fair, balanced and understandable

The Board sought advice from the Committee that 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 setting up a committee 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 appropriate constructive challenge for its role.

On behalf of the Audit Committee

Thomas Colraine
Chairman of the Audit Committee

14 March 2016

Nomination Committee

Mike Fairey Chairman of the Nomination Committee

Dear shareholder

I am pleased to present the first report of the Nomination Committee for the year ended 31 December 2015. The current Nomination Committee became effective after the IPO. Prior to this a Group Remuneration and Nomination Committee was in place. References to the activities of the Nomination Committee in this report are before and after flotation. Appointments made to the Board and subsequently the Committee itself were agreed by the pre-IPO Board in August and September 2015 just prior to Admission. Since that date no further Committee meetings have been convened. It is proposed that the Committee will meet at least twice a year and at other times as required.

Members of the Nomination Committee

The Nomination Committee is made up of the following Directors:

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

Membership may vary depending on whether an individual member's own position is under review. Biographies of the Committee members are set out on pages 46 and 47. The Company Secretary acts as Secretary to the Committee and takes the minutes of all 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**.

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 of and evaluate the balance of skills, knowledge and experience of the Board. It also leads the process for the appointment of new Directors to the Board (other than those appointed by the pre-IPO major shareholders) and makes appropriate recommendations to the Board on such matters. As per its Terms of Reference, the Committee can obtain information and advice during the period under review from independent recruitment consultants at the expense of the Company. During the period under review, no advice was sought.

Role and responsibilities of the Committee

When proposing appointments of 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.

As noted in my Chairman's statement, the composition of the Board currently does not fully comply with the UK Corporate Governance Code 2014 in that half the Directors excluding the Chairman should be independent of the Group. Hastings is intent on becoming fully compliant by the end of 2016.

The Committee and the Board is aware that the composition of the Board as it currently stands is not as diverse as it could be. During the coming financial year the Committee will review the composition and diversity of the Board and make recommendations as appropriate. The Company's policy is 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. Instructions to external agents appointed for senior appointments will require a list of candidates to be provided from as many different backgrounds as possible.

Priorities for 2016

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

14 March 2016

Risk Committee

Pierre Lefevre Chairman of the Risk Committee

Dear shareholder

I am pleased to present the first report of the Risk Committee for the financial year ended 31 December 2015. The current Risk Committee became effective following the IPO in October this year taking over from the previous Group Risk Committee. References to the activities of the Risk Committee in this report are before and after flotation. Although there was no meeting of this Risk Committee prior to the year end, an inaugural meeting was convened in February 2016.

Members of the Risk Committee

The Risk Committee is made up of the following Non-Executive Directors:

Chairman	Members
Pierre Lefevre	Ian Cormack
	Michele Titi-Cappelli
	Malcolm Le May

Biographies of the Committee members are set out on pages 46 and 47. 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**.

The Committee is supported by separate Risk Committees in each of the Group's trading entities, Retail and Underwriting, which met throughout the year. The Board fully reviews the risk profile of all matters that it has considered in the financial year under report. The Group's Risk Management Framework is a development of the framework in place pre-IPO and will be further enhanced throughout the coming year.

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 defined Terms of Reference. The principal purpose of the Risk Committee is to advise the Board on risk management issues, 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 and monitor 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.

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

Role and responsibilities of the Committee

The Risk Committees within the trading entities are composed of independent Non-Executive Directors and executive management. At each meeting of the respective Committee consideration is given to significant movements in the risk profile as well as emerging risks of each entity; risk appetite proposals are also made for approval by the respective Board. Both Committees oversee 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 is separately considered by Retail's Customer and Financial Conduct Committee ('CFC'). The CFC is also composed of independent Non-Executive Directors and executive management; all of the subsidiary Board Committees are chaired by a Non-Executive Director. The Committee Chairmen formally report to the respective entity Boards and the minutes are available to all Directors. The Chairman of the Risk Committee regularly meets with the Chairmen of these respective Committees and is also chairman of Underwriting's Risk Committee.

The implementation of a common approach to the Governance and application of the Risk Management Framework enables there to be a direct link between the trading entities and the Group, to form a Group wide view of risk. Furthermore, in the trading entities, there are links established between Strategic Risk and the Business Risks that enables an assessment of any deterioration or improvement of risks, top to bottom and bottom to top. Subsidiary level Strategic Risks are then linked, where appropriate, to the Group's Risks, which again enables an assessment of any movement in a risk at entity level and the implications for Group Risks. This cohesive and integrated approach to Risk Management leverages the Risk Committees at subsidiary level and provides effective assessment of the Group's Risk.

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 40 to 45.

Priorities for 2016

In the coming year the Risk Committee will focus on:

- Enhancing and embedding the Group Risk Framework to include:
  - Group Risk Appetite Statements;
  - risk reporting;
  - alignment of Risk Appetite Statements (throughout the Group);
  - establishing data links between trading entities and Group level risks;
  - conducting a series of stress tests to examine in more detail Group risks, control and key indicators; and
  - ensuring that ongoing compliance with Solvency II is sufficiently embedded in Underwriting through systems of governance, risk management and capital adequacy.
- Overseeing and ensuring that the implementation of the Claims and Broking platform upgrades through 2016 is successful and does not impact operations, services to customers or the profitability of the Group;
- Implementing assurance processes (oversight) that allows Group to assess the adequacy and effectiveness of risk management processes applied within the trading entities; and
- Reviewing resource requirements and if necessary increase risk resources at Group level.

On behalf of the Risk Committee

Pierre Lefevre
Chairman

14 March 2016

Remuneration Committee

Malcolm Le May Chairman of the Remuneration Committee

Dear shareholder

I am pleased to present the first report of the Remuneration Committee for the financial year ended 31 December 2015. The current Remuneration Committee became effective in August this year, prior to the IPO in October 2015. Prior to this a Group Remuneration and Nomination Committee was in place. References to the Remuneration Committee in this report include activities both before and after flotation.

Members of the Remuneration Committee

The Remuneration Committee is made up of the following Non-Executive Directors:

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

Biographies of the Committee members are set out on pages 46 and 47. 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 three times during the year under review. The Terms of Reference for the Committee can be viewed on the Company's website.

Following appointment, Deloitte 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. Total fees for advice provided to the Committee during the year under review amounted to £14,000.

Role and responsibilities of the Committee

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. The remuneration of the Chairman and Non-Executive Directors is a matter for the full Board on the principle that no individual should be able to determine their own remuneration.

The Committee can and did obtain 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.

Remuneration Report and Policy

The Director's Remuneration Report and Remuneration Policy follows this Committee report.

Priorities for 2016

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 2015 budget and approval of bonus awards for 2015; and
  - approval of bonus performance measures and targets for 2016.
- Review of any issues raised by shareholders in relation to remuneration and the remuneration policy;
- Assessment of ongoing appropriateness of remuneration arrangements and remuneration trends and market practice;
- Recommending for approval by the Board awards and performance conditions under the Company's Long-Term Incentive Plan for 2016 and proposals for 2017; and
- Analysis of performance conditions under the Company's Long-Term Incentive Plan at the year end.

On behalf of the Remuneration Committee

Malcolm Le May
Chairman

14 March 2016

Annual statement from the Remuneration Committee Chairman

Dear shareholder

On behalf of the Board, I am pleased to present our first Directors' Remuneration Report for the year ended 31 December 2015. The current Remuneration Committee became effective in September 2015, prior to the IPO in October 2015. Prior to this a Group Nomination and Remuneration Committee was in place. References to the Remuneration Committee in this report include activities both before and after flotation. As required this report is set out in two parts: a Policy Report which sets out our Remuneration Policy ('Policy') for all Directors of the Group and an Annual Report on Remuneration ('Report') which sets out how our Directors were paid in 2015 and how we will apply our Policy in 2016. Shareholders will be asked to vote on both the Policy, which will be binding, and the Report at the AGM in May 2016.

The Company undertook a review of remuneration for senior management in preparation for flotation. The objective of the remuneration review was to provide a reward structure that enables the Company to recruit, motivate, retain and reward senior management to support its business goals. Underpinning this objective we applied the following principles:

- Minimal change to current structures;
- Aligning the interests of management with those of shareholders;
- An appropriate balance between short-term reward and recognition and also incentivising a long-term view;
- Retention of senior management and the wider workforce;
- Reward structures, performance conditions and targets that are easily understood; and
- A non-hierarchical approach supporting the Group's 'one team' culture.

The strategy for the Group is set out in the Strategic Report and is focused on creating long-term value for our shareholders by delivering sustainable growth. The Committee takes a strategic approach to determining remuneration 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.

The final structure is set out in the following pages and is consistent with typical FTSE 250 practice. Salaries for key individuals were adjusted to reflect the scope and size of the role in the listed entity environment. A Long-Term Incentive Plan ('LTIP') was adopted just prior to the IPO and the first awards will shortly be granted to key individuals. Executive Directors will not receive an award, but will be considered for the three year performance period beginning January 2017. As Executive Directors have not received an award, disclosure of the LTIP performance conditions is not required but in the interests of transparent reporting has been included in this report.

To recognise the contribution of key individuals to the IPO and to the importance of keeping these people within the Company, a one-off conditional award of shares ('Admission Awards') was made shortly after the Company listed on the London Stock Exchange ('Admission'). The awards are expressed in cash terms and will be delivered in Shares at the end of 2017 and 2018 based on the market price of Company shares at that time. In the event that the Board determines that the market price of Company 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. Recipients of an Admission Award were not considered for an LTIP award this year.

Remuneration report

Remuneration decisions and changes in respect of 2015

Having decided that the current levels of target bonus of 50% salary for senior management remained appropriate post Admission, the Committee felt, in the interests of clarity, that they should introduce a maximum bonus level of 100% salary. Such an award would only be made for outstanding financial and personal performance and the determination of bonus for 2015 remained unchanged.

As described in the Strategic Report, the Company achieved a strong financial performance during its first year as a listed Group. The 2015 annual bonus pool was based on financial metrics and individual awards were based on personal performance. In recognition of the work undertaken by the Executive Directors in taking the Company through the IPO and a successful year financially, the Committee has decided to award a bonus of £150,000 to the Chief Executive Officer, representing 44% of salary earned during the year, and £90,000 to the Chief Financial Officer, representing 47% of salary earned during the year.

The Committee also considered the terms of the LTIP. The Committee determined that the performance conditions for the first awards should be based on Total Shareholder Return ('TSR') and Earnings Per Share ('EPS') performance targets with a 50% weighting to each measure. Subject to achievement of the relevant targets, these awards will vest in early 2019 in accordance with the normal business cycle. The Committee is satisfied that the targets set a minimum level of achievement for vesting and are appropriately linked to the delivery of demanding long-term financial goals and the creation of shareholder value.

Remuneration changes for 2016

A portion of bonus awards made to Executive Directors from the performance year 2016 onwards will be deferred into shares for a period of three years. The initial percentage deferred will be 25% of any bonus award. The Committee will keep the proportion to be deferred under review to ensure the level remains appropriate and in line with market practice. No change was made to pension arrangements or any other benefits.

LTIP awards are expected to be made before the next Annual Report and Accounts and Executive Directors will be eligible for consideration. The Committee will determine appropriate targets at the time of award.

Annual General Meeting

The Directors' Remuneration Policy and the Directors' Remuneration Report will be put to the shareholder vote at our AGM in May 2016 and we look forward to receiving your support.

Directors' Remuneration Policy

This section sets out the Remuneration Policy for the Directors of the Company, split between Executive Directors and Non-Executive Directors (the 'Policy'). If approved by shareholders at the AGM in May 2016, the Policy will apply from that date and subject to review and approval by shareholders at least every three years or sooner should the Company choose to amend the Policy. The Committee may make minor amendments to the Policy set out in this report for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation, without obtaining shareholder approval for such amendments.

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 employee and shareholder interests.	Executive Directors may participate in the SIP on the same terms as all other employees. The SIP is expected to commence in April 2016.	Participation in any HMRC-approved all-employee share plan is subject to the maximum permitted by the relevant tax legislation.	None

Remuneration report continued

EXECUTIVE DIRECTORS continued

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 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 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 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 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.

Notes to the policy table

Any remuneration payments and payments for loss of office not in line with the Policy as detailed may nevertheless be satisfied where (i) the terms of the payment or award were agreed before the Policy came into effect (including awards under the legacy Management Incentive Plan ('MIP') and the Admission Awards) where relevant, and (ii) the individual was not a Director of the Company at the time and in the Committee's opinion was not in consideration for becoming a Director of the Company. The MIP was agreed before the Policy came into effect and details of the MIP, including disclosure of potential value arising under the MIP is included in this Directors' Remuneration Report in the section 'Legacy arrangements' on page 73.

Performance measures and approach to target setting

Annual bonus

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

Long-Term Incentive Plan

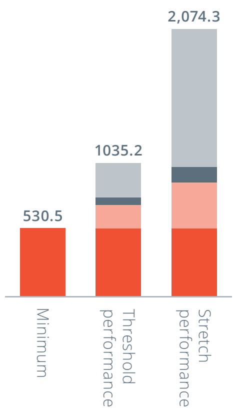
The Committee believes it is important that the performance conditions applying to LTIP awards support the long-term ambitions of the Group and the creation of shareholder value. The Committee currently considers that a combination of relative TSR and EPS are the most appropriate measures to assess the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

Illustration of the Remuneration Policy

The remuneration arrangements have been designed to ensure that a significant proportion of pay is dependent on the delivery of stretching short-term and long-term performance targets aligned with the Group's objectives, and on delivering shareholder value. The Committee considers the level of remuneration that may be received under different performance outcomes to ensure that this is appropriate in the context of the performance delivered and the value added for shareholders. The charts that follow provide illustrative values of the annual remuneration packages for Executive Directors based on three assumed performance scenarios. Minimum reflects fixed remuneration only. Threshold performance is on-target performance for bonus awards and threshold performance for LTIP (i.e. 25% of maximum). Stretch performance reflects maximum performance under both the bonus and the LTIP. Share price appreciation has not been taken into account. These charts are for illustrative purposes only and actual outcomes may differ from those shown. Shareholders should note that the scenarios are based on future policy and Executive Directors will not receive an award of LTIP during the 2016 performance year.

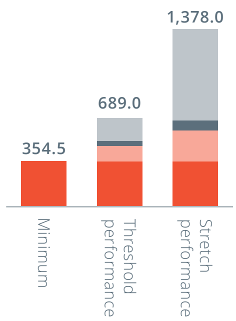
CEO – Gary Hoffman

£000



CFO – Richard Hoskins

£000



- Salary and benefits
- Cash bonus
- Deferred bonus
- LTIP

Remuneration report continued

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 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

Directors' service contracts

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

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

The service contracts in respect of Executive Directors who were in office during the year are rolling service contracts and therefore have no end date. The date of commencement for the service contract is 9 October 2015 in respect of the Chief Executive Officer and 8 October 2015 in respect of the Chief Financial Officer.

The Company has agreed to mitigate Richard Hoskins' exposure to income tax liability on shares acquired under the MIP and any related liabilities, in the event that he is unable to realise the benefit of those shares by reason of termination of his employment or non-vesting of the shares for any other reason.

Loss of office payment policy

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

Payment in lieu of notice

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

Bonus

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

Deferred bonus

Deferred bonus awards will not lapse if the Executive Director ceases to be employed before the normal vesting date except in cases where he has breached a term of his employment or service contract or has been summarily dismissed, unless the Committee determines otherwise. If the Executive Director dies, any outstanding awards will vest at the time of his death. In any other circumstances, awards will vest at the normal vesting date, unless the Committee determines that they should vest earlier.

Long-Term Incentive Plan

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

In any other circumstances, any unvested LTIP awards will lapse.

Change of control

Outstanding incentive awards will be treated in line with the provisions of the applicable plan rules.

Other payments

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

Recruitment policy

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

Normally, benefits will be limited to those outlined in the Policy, including relocation assistance where necessary. The maximum level of variable pay (excluding any buyouts) that may be awarded to a new Executive Director will be limited to 400% of base salary, as set out in the Policy table. The Committee believes that the existing incentive plans contain sufficient flexibility to provide any specific awards that may be necessary to secure a particular individual. Within this limit, the Committee may include any element included within the approved policy, or any other element which the Committee considers is appropriate given the particular circumstances.

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

The service contracts for new appointments will be consistent with the Policy for existing Executive Directors.

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

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

Employee consultation

Given the size and complexity of the Group, it was not considered appropriate to perform a formal consultation process on the Remuneration Policy of Executive Directors with other employees. However, the Company is committed to the alignment of all employee interests with shareholders and has therefore introduced arrangements, via a SIP, to enable all employees to acquire shares in the Company and they will then be able to vote on the Executive Directors' remuneration in the same way as other shareholders. In addition, the HR function will provide any employee feedback to the Remuneration Committee for consideration, as appropriate.

Other considerations

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

Although the Company only recently became a public listed company, the Committee understands the importance of understanding the views of the Company's shareholders. The Committee is therefore open to listening to the views of our shareholders and engaging in ongoing dialogue with them on executive remuneration matters. The Committee also takes full account of the guidelines of investor bodies and shareholder views in determining the remuneration arrangements in operation within the Group.

Remuneration report continued

Annual report on remuneration

This section sets out how the Directors' Remuneration Policy of the Company has been applied since Admission 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 2016.

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

The following table sets out the audited total remuneration for the Executive Directors for the period from 3 September 2015, representing the date that the Executive Directors commenced duties for Hastings Group Holdings plc, to 31 December 2015. The Remuneration Committee did not apportion the Executive Directors' 2015 bonus between work undertaken pre and post 3 September and consequently the full year award has been shown. As the Company was a newly listed company during 2015, there is no disclosure in this report of prior year information.

	Gary Hoffman	Richard Hoskins
Salary	£136,391	£95,798
Benefits	£30,447	£3,236
Retirement benefits	£13,639	£9,580
Annual bonus	£150,000	£90,000
LTIP	–	–
Admission Award (vesting in 2017 and 2018)	£1,500,000	£1,000,000
Total	£1,830,477	£1,198,614

Additional notes to the table

Salary

On Admission, the salary for the Chief Executive Officer was £475,000 and the salary for the Chief Financial Officer was £315,000. Their salaries for 2016 remain unchanged and will next be reviewed in 2017.

Benefits

The benefits consist of private medical insurance (for the Executive Directors and their families), long-term sickness cover, 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 and Newmarket offices and any consequent tax liability for the Chief Executive Officer. The cost of these benefits are included based on the latest completed returns to HMRC for the year ended 5 April 2015. The costs are not believed to be materially different since that return.

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 receives cash in lieu of pension.

Annual bonus

The Executive Directors' annual bonus targets were set at the beginning of the financial year, prior to Admission.

The Executive Directors' annual bonus awards in relation to 2015 were measured against a basket of measures and objectives. They were weighted 50% on financial objectives and 50% on personal objectives.

Strong progress was made by the Executive Directors on the financial objectives. Highlights for 2015 include: continued growth culminating in a Group operating profit of £126.1m and the successful flotation of the Company. Both Executive Directors also made strong progress against the personal objectives set at the beginning of the year.

The Committee has considered it appropriate not to disclose the actual targets for these awards as they were set at a time when the Company was a private company and as such the Board considers the underlying targets to be commercially sensitive.

Based on the performance achieved in the year, the Committee decided to award a bonus of £150,000 to the Chief Executive Officer, representing 44% of salary earned during the year, and £90,000 to the Chief Financial Officer, representing 47% of salary earned during the year.

Long-term incentives

No long-term incentive awards vested based on performance in the year.

Admission awards

The Executive Directors were granted conditional share awards at the time of Admission, given the importance placed by the Committee on retaining key individuals at the time and as the business transitioned in to being a listed company.

As required, the values shown in the table represent 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 are 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.

Legacy arrangements

Management Incentive Plan

As disclosed in the IPO Prospectus, a management incentive plan was established at the time of the Goldman Sachs investment in the business in January 2014. The outstanding interests held by Directors are set out in the 'Directors' Shareholding and Scheme Interests' table on page 74. The interests are subject to the following vesting conditions: 50% of the interests being on a time basis and 50% on a performance basis. The time vesting element vests as to 20% on the first anniversary of the date of original issue with the remainder vesting pro-rata over the subsequent four years. The interests subject to performance conditions will vest in whole or in part when Goldman Sachs and Founder shareholder interests in the Group fall below 35% in aggregate or 8 July 2018, and subject to certain valuation and investment return targets being met.

Gary Hoffman acquired his interests in January 2014 and, as at 31 December 2015, 38.4% of the time vesting element had vested. Richard Hoskins acquired his interests in April 2015 and, as at 31 December 2015, none of the time vesting element had yet vested.

As at 31 December 2015, assuming all vesting conditions are met, the total MIP interests for Gary Hoffman and Richard Hoskins would have a value equivalent to 5,147,659 and 1,437,334 ordinary Company shares respectively. As the amounts attributable to the historic MIP are payable from the proceeds of shares held by Hastings Investco Limited, they have no impact on the Company's cash flow or profitability.

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 will however be granted to other senior executives within the group in 2016. These awards may vest 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 EPS performance targets. The EPS target is a cumulative pence per share target over each of the three years. The Committee felt this approach would encourage longer term planning and would help smooth out some of the volatility driven by changes in the insurance market cycle. The targets are summarised below.

EPS		Relative TSR	
Vesting is based on the cumulative pence per share target over each of the three years of the 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	

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 Europe Ltd, Visa Europe Services Inc and The Football Foundation. The appointment with The Football Foundation is unpaid. Remuneration for Gary Hoffman's appointments with Visa are not disclosed as Visa is not required to make any such disclosure and to do so here would be inconsistent with Visa's reporting obligations.

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 the period from 3 September 2015, representing the date that the Non-Executive Directors commenced duties for Hastings Group Holdings plc, to 31 December 2015.

	Fees
Michael Fairey	£48,864
Thomas Colraine	£26,061
Malcolm Le May	£21,174
Ian Cormack	£16,288
Pierre Lefevre	£14,659
Richard Brewster	–
Edward Fitzmaurice	–
Sumit Rajpal	–
Michele Titi-Cappelli	–

The fees shown are paid to each Non-Executive Director from 3 September 2015 and include additional fees for chairing sub-committees where appropriate. Richard Brewster, Edward Fitzmaurice, Sumit Rajpal and Michele Titi-Cappelli have waived their fees for their roles as Non-Executive Directors.

The Company issued shares at 170p to four of the Independent Non-Executive Directors with a value (net of tax) of £50,000 in the case of Michael Fairey and £30,000 each in the case of Thomas Colraine, Ian Cormack and Malcolm Le May. Gross of tax and national insurance contributions, the value of these awards was £62,500, £56,604, £54,545 and £48,908 respectively.

Remuneration report continued

Implementation of Remuneration Policy in 2016

Base salary

As has been disclosed elsewhere in this report, salaries for Executive Directors will not be reviewed before 2017, and therefore no changes have been made to the salaries for Gary Hoffman (£475,000) and Richard Hoskins (£315,000).

Benefits and pension

These will be implemented in line with the approved policy.

Bonus

The maximum opportunity for each Executive Director in respect of 2016 will be 100% of base salary. Any bonus payment in respect of 2016 will be subject to deferral with at least 25% of any bonus awarded in respect of 2016 deferred into shares for three years.

The level of the award will be based primarily on Group operating profit, the details of which are commercially sensitive and will therefore be disclosed for 2016 in next year's report. The Committee will also give weight to each Executive Director's achievement against a range of financial and non-financial objectives agreed at the start of 2016 and will consider the Group's longer term position in reaching a conclusion on the award to be made.

Long-Term Incentive Plan

There is currently no intention to make Long-Term Incentive Plan Awards to Executive Directors during 2016.

Non-Executive Director fees

There are no anticipated changes to Non-Executive Director fees for 2016.

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 £80,000, comprising £45,000 for his duties as Non-Executive Director, and chairman of the Risk Committee, of Advantage Insurance Company Limited and £35,000 for his role as Independent Non-Executive Director of the Company.

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

The table below sets out the Directors' shareholdings in the Group as at 31 December 2015.

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. The table below represents actual shareholdings and, in the case of Gary Hoffman and Richard Hoskins, scheme interests in the MIP. Admission Awards will be delivered in shares at the prevailing share price at the point of vesting, and no LTIP awards have yet been made to Executive Directors.

		Scheme interests[3, 4]	
	Number of shares owned	MIP interests subject to time-based conditions	MIP interests subject to performance conditions
Gary Hoffman	2,771,785[1]	5,828,637	5,828,637
Richard Hoskins	–	1,627,477	1,627,477
Mike Fairey	29,411	–	–
Thomas Colraine	76,470	–	–
Richard Brewster	19,133,222	–	–
Ian Cormack	35,294	–	–
Edward Fitzmaurice	–[2]	–	–
Pierre Lefevre	82,169	–	–
Malcolm Le May	17,647	–	–
Sumit Rajpal	–	–	–
Michele Titi-Cappelli	–	–	–

1 Gary Hoffman also holds legacy interests in Hastings Investco Limited and its parent entity, which he originally acquired at the time of the Goldman Sachs investment in the business in January 2014. These interests may be redeemed in cash or, in certain circumstances, as ordinary shares in the Company.

2 Edward Fitzmaurice has no direct interest in the share capital of the Company. He is the settlor of a Jersey discretionary trust which is the 100% owner of Ted Limited, a company incorporated and managed in Jersey, which is one of the Founder Shareholders and which has an indirect interest in the Company through its interest in Hastings Investco Limited. Ted Limited has no direct interest in the share capital of the Company.

3 Excluding Admission Awards granted at the time of Admission. Further details of these awards can be found on page 72 of this report.

4 These scheme interests reflect interests under the legacy MIP, as described on page 73 of this report.

There were no changes in the Directors' direct beneficial interests in shares between 31 December 2015 and 14 March 2016 (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

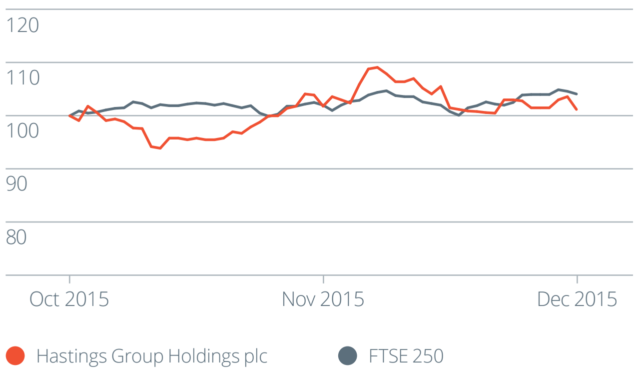
There were no payments to former Directors made in the year.

Payments for loss of office

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

TSR chart

The graph below shows the TSR of the Company and the UK FTSE 250 index since Admission of the Company to 31 December 2015. The FTSE 250 index was selected on the basis that the Company is a member of the FTSE 250 in the UK.



Historical CEO pay

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

	2015
Single figure of remuneration	£1,830,477
Annual bonus payout (as a % of maximum opportunity)	44%
Long-term incentive payout (as a % of maximum opportunity)	N/A[1]

1 As noted above, no long-term incentive awards under the LTIP have yet been granted to Executive Directors. The award included in the single figure table above represents Admission Awards granted to Executive Directors.

Percentage change in CEO remuneration

This section is not applicable as the Company only listed in October 2015 and as such there is no prior year comparator which can be shown.

Relative importance of spend on pay

The following table illustrates total remuneration for all employees in the Group compared to distributions to shareholders since Admission of the Company to 31 December 2015. As the Company only listed in October 2015, there is no comparative information for the prior year.

	2015
Shareholder distributions (dividends and share buy backs)	£14,458,788
Total employee expenditure	£61,930,212

Advice and support provided to the Remuneration Committee

Since the formation of the current Remuneration Committee, membership has remained unchanged and Malcolm Le May, Thomas Colraine, Mike Fairey, Edward Fitzmaurice and Sumit Rajpal continue to serve. Deloitte LLP was appointed by the Committee to provide external advice. Its total fees for advice provided to the Remuneration Committee were £14,000. Deloitte has voluntarily signed up to the Remuneration Consultants' Code of Conduct in relation to executive remuneration consulting during the year. The Committee is comfortable that the Deloitte LLP engagement partner and team that provides remuneration advice to the Committee does not have connections with the Company that may impair their independence. During the year, Deloitte also provided unrelated tax 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. The Company Secretary (or in his absence, the Deputy Company Secretary) act as the Committee's secretary. No individual participates in discussions regarding their own remuneration.

The Directors' Remuneration Report was approved by the Board and is signed on its behalf by

Malcolm Le May
Chairman

14 March 2016

Independent auditor's report

to the members of Hastings Group Holdings plc only

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 2015 set out on pages 79 to 137. 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 2015 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 Consolidated Financial Statements, Article 4 of the IAS Regulation.

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 were as follows:

Outstanding claims liabilities (£591.7m as at 31 December 2015), refer to page 58 (Audit Committee report), note 2 (accounting policies) and pages 112 to 115 (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 periodical payment orders ('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 – We assessed the governance process including whether the Group had followed their documented reserving policy in setting claims reserves. 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.

Using our actuarial specialists to support us, we considered the findings of the Group's internal actuary report 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 the differences in reserving methodology applied by both actuaries and we challenged the key assumptions being used. We assessed these assumptions for reasonableness through the use of analytical procedures, an assessment of claims development trends and benchmarking to market data. Where there have been changes in methodology or key assumptions, we have assessed whether these are reasonable based on changes in the industry and the Group's historical claims experience.

In addition, 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.

We conducted further detailed analysis into areas of most significant uncertainty which included an assessment of the PPO model and large bodily injury claims reserves development which included assessing if key assumptions (such as the impaired mortality and propensity percentages) are consistent with actuarial market data. We have also considered the adequacy of the Group's disclosures about the degree of estimation uncertainty and the sensitivity of recognised amounts to changes in assumptions, and assessed whether the disclosures comply with relevant accounting standards.

Reinsurance assets (£547.5m as at 31 December 2015), refer to page 59 (Audit Committee report), note 2 (accounting policies) and pages 112 to 115 (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. There is judgement involved in the assessment of whether insurance risk has been transferred to the reinsurer so that an asset can be recognised. The amount of reinsurance asset to recognise against the IBNR claims reserves is particularly judgemental as this is inherently linked to the judgements and estimates involved in reserving process. The calculation of the reinsurance asset is therefore impacted by the judgements and estimations made as part of 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. Though the Group spreads its reinsurance cover across a panel of different reinsurers, the Group bears credit risk to each counterparty. The valuation of the reinsurance asset on the balance sheet requires significant judgement to reflect the credit risk exposure, especially to longer-term assets arising as a result of recoveries from IBNR and PPO claims reserves.

Our response – We tested the process and controls over the approval of new reinsurance contracts in order to support the recognition of a reinsurance asset.

For the reinsurance share of claims outstanding, we assessed the assets against the terms of the reinsurance contracts and the related recorded liability.

We used our own actuarial specialists to assess the suitability 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 program. Our actuaries assessed the methodology for establishing reinsurance share of IBNR claims reserves against current market practices and for consistency with prior periods.

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.

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 £4.7m, determined with reference to a benchmark of Group net revenue (of which it represents 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 report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £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, 100% of Group profit before tax and 100% of total Group assets. 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 audit team approved the AICL materiality of £3.2m, which was also applied by all components for the audit for group reporting purposes.

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.

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 40, 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 2018; 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, 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 50, in relation to going concern; and
- The part of the Corporate Governance Statement on pages 55 to 57 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 51, 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.

Tim Butchart
Senior Statutory Auditor

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

14 March 2016

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Consolidated statement of profit or loss

for the year ended 31 December 2015

	Note	31 December 2015 £m	31 December 2014 £m
Gross written premiums	6	614.9	475.4
Gross earned premiums	6	543.3	441.4
Earned premiums ceded to reinsurers	6	(287.4)	(242.3)
Net earned premiums	6	255.9	199.1
Other revenue	7	219.8	180.2
Investment and interest income	8	5.3	3.7
Net revenue		481.0	383.0
Claims incurred	9	(460.1)	(354.9)
Reinsurers' share of claims incurred	9	267.2	205.2
Net claims incurred	9	(192.9)	(149.7)
Acquisition costs		(44.3)	(25.7)
Other operating expenses	10	(120.1)	(113.4)
Add back: Restructuring and transaction costs	10	2.4	9.7
Impact of business combinations		–	(0.4)
Group operating profit[1]		126.1	103.5
Amortisation and depreciation	10	(27.6)	(27.9)
Finance costs	13	(91.1)	(67.7)
Profit/(loss) before tax		5.0	(1.4)
Taxation expense	14	(2.7)	(7.0)
Total profit/(loss) attributable to the equity holders of the parent		2.3	(8.4)
Earnings per share attributable to the equity holders of the parent (expressed in pence per share)			
Basic and diluted earnings/(loss) per share	15	0.5p	(2.2)p

All results arose from continuing operations.

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

1 Group operating profit represents profit before taxation expense, interest expense, amortisation and depreciation, certain non-trading costs and the effects of accounting for business combinations. This is a non-IFRS measure used by management to measure the underlying trading of the business and is provided for information. Group operating profit for the full year ended 31 December 2014 would have been £105.7m if adjusted to include the seven days pre-acquisition trading, as detailed in note 35.

Consolidated statement of comprehensive income

for the year ended 31 December 2015

	Note	31 December 2015 £m	31 December 2014 £m
Total profit/(loss) attributable to the equity holders of the parent		2.3	(8.4)
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Fair value loss on available for sale investments	24	(1.3)	–
Total items that may be subsequently reclassified to profit or loss		(1.3)	–
Items that may not be subsequently reclassified to profit or loss			
Revaluation of property	18	0.7	–
Deferred tax charge on revaluation of property	19	(0.1)	–
Total items that may not be subsequently reclassified to profit or loss		0.6	–
Total other comprehensive loss		(0.7)	–
Total comprehensive income/(loss) attributable to the equity holders of the parent		1.6	(8.4)

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

Consolidated balance sheet

as at 31 December 2015

	Note	31 December 2015 £m	31 December 2014 £m
Assets			
Goodwill	16	470.0	470.0
Intangible assets	17	102.8	104.3
Property and equipment	18	13.7	10.1
Deferred income tax asset	19	3.4	5.6
Reinsurance assets	20	547.5	426.5
Deferred acquisition costs	21	19.9	15.7
Prepayments		2.2	1.2
Insurance and other receivables	22, 24	261.6	212.6
Financial assets at fair value	24	316.5	224.9
Cash and cash equivalents	23, 24	152.2	123.4
Total assets		1,889.8	1,594.3
Liabilities			
Preference shares	24, 25	–	319.3
Loans and borrowings	24, 26	295.7	403.6
Insurance contract liabilities	20	912.1	704.7
Insurance and other payables	24, 27	155.9	146.9
Provisions	28	0.3	0.3
Deferred income tax liability	19	20.6	27.0
Current tax liabilities		2.0	6.4
Total liabilities		1,386.6	1,608.2
Equity			
Share capital	30	13.1	7.6
Share premium	30	172.6	749.4
Merger reserve	30	(756.0)	(756.0)
Other reserves	30	(0.7)	–
Retained earnings	30	1,074.2	(14.9)
Total equity		503.2	(13.9)
Total equity and liabilities		1,889.8	1,594.3

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

These Financial Statements were approved by the Board of Directors on 14 March 2016 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 2015

	Note	Share capital £m	Share premium £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
As at 1 January 2014	30	7.6	749.4	(756.0)	–	(6.5)	(5.5)
Total loss attributable to the equity holders of the parent		–	–	–	–	(8.4)	(8.4)
Total comprehensive loss for the year		–	–	–	–	(8.4)	(8.4)
As at 31 December 2014 and 1 January 2015	30	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 income/(loss) for the year		–	–	–	(0.7)	2.3	1.6
Transactions with equity holders of the parent							
Share based payments	29, 30	–	–	–	–	0.5	0.5
Conversion of preference shares	25, 30	3.4	339.6	–	–	–	343.0
Issue of shares	30	2.1	172.6	–	–	(2.7)	172.0
Capital reduction	30	–	(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	30	13.1	172.6	(756.0)	(0.7)	1,074.2	503.2

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

Consolidated statement of cash flows

for the year ended 31 December 2015

	Note	31 December 2015 £m	31 December 2014 £m
Profit/(loss) after tax		2.3	(8.4)
Adjustments for:			
Restructuring and transaction costs	10	2.4	9.7
Depreciation of property and equipment	10, 18	2.3	1.4
Amortisation of intangible assets	10, 17	25.3	26.5
Net fair value gains on financial assets at fair value through profit or loss	8	(0.8)	(2.1)
Other interest income	8	(4.5)	(1.5)
Loss on disposal of property and equipment	18	0.1	–
Finance costs	13	91.1	67.7
Taxation expense	14	2.7	7.0
Share based payments	29	0.5	–
Change in insurance and other receivables and prepayments		(48.9)	(8.7)
Change in insurance and other payables		12.3	(9.5)
Change in reinsurance assets	20	(121.0)	(83.8)
Change in deferred acquisition costs	21	(4.2)	(13.2)
Change in insurance contract liabilities	20	207.4	115.5
Change in provisions	28	–	(0.6)
Taxation paid		(11.4)	(9.0)
Net cash flows from operating activities		155.6	91.0
Purchase of property and equipment		(5.2)	(2.3)
Acquisition of intangible assets		(24.8)	(5.8)
Interest received		0.5	–
Release of cash held in escrow		–	415.0
Net outlay for acquisition of subsidiary		–	(343.1)
Outlays for acquisition of financial assets at fair value		(189.4)	(98.6)
Proceeds from disposal of financial assets at fair value		100.1	48.9
Net cash flows from investing activities		(118.8)	14.1
Proceeds from issue of preference shares		–	144.6
Proceeds from issue of ordinary share capital	30	182.2	1.0
Proceeds from new loans and borrowings	26	300.0	–
Repayment of loans and borrowings	26	(416.5)	(83.8)
Interest paid on loans and borrowings		(32.4)	(33.8)
Other interest paid		(1.0)	–
Non-trading costs paid		(40.3)	(9.7)
Net cash flows from financing activities		(8.0)	18.3
Net increase in cash and cash equivalents		28.8	123.4
Cash and cash equivalents at beginning of year		123.4	–
Cash and cash equivalents inflow for the year		28.8	123.4
Cash and cash equivalents at end of year	23	152.2	123.4

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

Notes to the consolidated financial statements

1. Basis of preparation

Hastings Group Holdings plc (the 'Company', 'HGH') was initially incorporated as Hastings Group 123 Limited on 11 June 2015, with its registered office situated in England and Wales. The Company was renamed as Hastings Group Holdings Limited on 17 July 2015 and on 23 September 2015 it re-registered as a public company limited by shares and was renamed as Hastings Group Holdings plc. The Company's registered office and principal place of business is at Conquest House, Collington Avenue, Bexhill-on-Sea, TN39 3LW, United Kingdom.

The principal activities of the Group are to broker and underwrite private car, van, bike and home insurance within the United Kingdom.

The Financial Statements comprise the consolidated results of the Company and its subsidiaries (together referred to as the 'Group') for the year ended 31 December 2015 and comparative figures for the year ended 31 December 2014.

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 as at 31 December 2015. IFRS comprise standards and interpretations approved by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee ('IFRIC').

Reorganisation

The Company was incorporated for the purposes of acquiring the share capital of Hastings Insurance Group (Holdings) plc ('HIG(H)'). HIG(H) at the time was the ultimate parent company of Advantage Insurance Company Limited ('AICL') and Hastings Insurance Services Limited ('HISL'), the principal trading companies of the HIG(H) Group, as a result of its own acquisition of Hastings Insurance Group Limited ('HIG') and its subsidiaries (together referred to as the 'HIG Group') on 8 January 2014, as described in note 35. Prior to 8 January 2014, HIG was the parent company within the corporate structure.

On 12 August 2015, the Company acquired the entire issued share capital of HIG(H) in a series of transactions referred to as the 'reorganisation'. On that day the Company issued roll up loan notes in exchange for the entire issued ordinary share capital and preference shares, accrued dividends thereon and roll up loan notes in HIG(H) for the value of £1,100.0m. On the same day, HIG(H) then converted its preference shares, accrued dividends thereon and roll up loan notes into ordinary share capital. As a result, the Company's £1,100.0m investment in HIG(H) represented the entire issued ordinary share capital of HIG(H). Subsequently, the Company converted its roll up loan notes into ordinary share capital.

Both HGH and HIG(H) were under common control before and after the reorganisation and, as a consequence, the Consolidated Financial Statements have been prepared under the principles of predecessor accounting. Under these principles, no acquirer is required to be identified and all entities are included at their pre-combination carrying amounts. This accounting treatment leads to differences on consolidation between consideration paid and the book value of the underlying net assets acquired; this difference is included within equity as a merger reserve. Under predecessor accounting, the Group has included the results of the combined entities for both the current and prior period, rather than from the restructuring date.

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 is provided 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.

Notes to the Consolidated Financial Statements continued

1. Basis of preparation continued

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

The 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.

Adoption of new IFRS

On 1 January 2015, the Group adopted the following IFRS which were issued and endorsed by the EU:

IFRS	EU effective date
Annual Improvements to IFRSs 2010–2012 Cycle (issued on 12 December 2013)	Annual periods beginning on or after 1 February 2015
Annual Improvements to IFRSs 2011–2013 Cycle (issued on 12 December 2013)	Annual periods beginning on or after 1 January 2015
IFRIC 21 Levies	Annual periods beginning on or after 17 June 2014

There was no material financial impact on the Financial Statements on adoption of these new IFRS.

There are no other relevant IFRS which are expected to have a significant impact on the Group that have been issued and endorsed by the EU but are not yet effective.

Presentation of financial statements in accordance with IAS 1

The Consolidated Financial Statements are prepared in accordance with IAS 1 Presentation of Financial Statements. The Group has elected to present a separate Consolidated Statement of Profit or Loss and Consolidated Statement of Comprehensive Income.

Application of IFRS

The accounting policies, developed in accordance with the standards effective under IFRS as at 31 December 2015, have been applied consistently to all periods presented in these Financial Statements. There have been no changes to accounting policies during the year with the exception of the adoption of new IFRS now effective in the EU.

Basis of consolidation

The Consolidated Financial Statements consolidate the financial statements of HGH, HIG(H) and all of the subsidiary undertakings for the years ended 31 December 2015 and 31 December 2014.

The Consolidated Financial Statements are based on financial statements of subsidiaries whose year ends are coterminous with those of the Company and 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.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. Identifiable assets acquired, and liabilities and contingent liabilities assumed, in a business combination are initially measured at their fair value at the date of the acquisition.

Acquisition related costs, referred to as transaction costs, are expensed as incurred.

2. Accounting policies

Revenue recognition

Premiums 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 collection of premiums from customers at the period end are recognised within insurance receivables.

Premiums ceded to reinsurers are recognised in profit or loss in the same accounting period as the related direct insurance business.

Under certain reinsurance contracts, profit commission may become receivable or payable on 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 and is recognised in profit or loss on completion of the associated service. The fair value measurement makes allowance for expected future refunds to customers in the event of cancellation before the expiry of the policy.

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 at fair value.

Interest income for all interest-bearing financial assets, including financial assets measured at fair value through profit or loss and available for sale, is recognised in profit or loss within investment and interest income using the effective interest rate method.

Investment and interest income also includes all realised investment gains and losses on financial instruments measured at fair value through profit or loss and available for sale as well as the unrealised gains and losses on financial instruments measured at fair value through profit or loss. Any unrealised gains and losses on available for sale financial assets are recognised directly in other comprehensive income and accumulated in other reserves. They are reclassified to profit or loss on derecognition of the assets.

Dividends received from investments in subsidiaries are eliminated upon consolidation.

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.

Notes to the Consolidated Financial Statements continued

2. Accounting policies continued

Insurance contracts and reinsurance assets

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. The gross unearned premiums reserve and reserve for unearned premiums ceded to reinsurers are presented separately.

Claims

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.

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.

Both outstanding claims liabilities assumed and reinsurance assets acquired in a business combination are discounted to present value on acquisition and these discounts are subsequently unwound over their expected settlement period.

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 they 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, periodical payment orders ('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 assets relating to PPOs are recognised alongside the related gross claims liabilities.

Reinsurance contracts

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more insurance contracts issued by the Group 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 liabilities are primarily premiums payable to reinsurers under reinsurance contracts held and are recognised when due. Amounts recoverable from or due to reinsurers are measured consistently with the amounts recognised for the associated reinsured insurance contracts 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.

2. Accounting policies continued

Unexpired risks reserve

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 to the 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

Some insurance contracts permit the Group to pursue salvage recoveries through the sale of (usually damaged) property acquired in settling a claim. The Group may also have the right to subrogation recoveries, where third parties are pursued for payment of some or all 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 out of reinsurance contracts are included in insurance and other payables. For salvage recoveries, the amount recognised is the amount that can be reasonably recovered from the disposal of the property. For subrogation reimbursements, the amount recognised is the amount that can be recovered from the action against the liable third party.

Levies

The Group incurs levies as a consequence of both its insurance broking and underwriting activities. The Group is charged levies by the Motor Insurers' Bureau, Financial Conduct Authority ('FCA'), Financial Services Commission ('FSC') and other regulatory bodies in the UK and Gibraltar. In line with IFRIC 21 Levies, these are accrued in full when the activity that gives rise to the liability occurs and are recognised in profit or loss over a period equivalent to that over which the underlying benefit is earned.

Employee benefits

The Group operates a defined contribution pension scheme. The amount recognised in profit or loss in respect of pension costs is the contributions payable in the period. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the Consolidated Balance Sheet. The Group has no legal or constructive obligation to make any further payments to the plans other than the contributions due.

Finance costs

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

Taxation

Income tax on the result for the period 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 enacted or substantively enacted at the reporting date 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 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.

Notes to the Consolidated Financial Statements continued

2. Accounting policies continued

Taxation continued

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.

Intangible assets

Goodwill

Goodwill represents the difference between the fair value of the consideration transferred in a business combination and the Group's interest in the fair value of the identifiable assets and liabilities of the acquired entity at the date of the business combination. All business combinations which have been entered into by the Group in historic periods have resulted in the Group obtaining full ownership of the acquired entities. Any acquisition costs are expensed as incurred.

Goodwill acquired in a business combination is allocated to cash generating units ('CGUs') that are expected to benefit from the business combination.

Goodwill has an indefinite life and is tested annually for impairment, with any impairment being recognised immediately in profit or loss. An 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 allocated CGU less costs to sell and the CGU's value in use, which is determined by discounting forecast results.

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.

Carrying amounts are reviewed at each period end 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. Where the asset's recoverable amount exceeds its carrying amount, the difference is recognised as an impairment loss in profit or loss.

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

The Group's brands were acquired upon the Group's acquisition of HIG on 8 January 2014. They were initially recognised at fair value and are subsequently recognised using the historical cost method (their fair value on acquisition less accumulated amortisation and impairment losses).

2. Accounting policies continued

Brands continued

Amortisation is provided on all brands 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 life is eight years for the Group's brands.

Carrying amounts are reviewed at each period end 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. Where the asset's recoverable amount exceeds its carrying amount, the difference is recognised as an impairment loss in profit or loss.

Customer relationships

The Group's customer relationships were acquired upon the Group's acquisition of HIG on 8 January 2014. They were initially recognised at fair value and are subsequently recognised using the historical cost method (their fair value on acquisition less accumulated amortisation and impairment losses).

Amortisation is provided on all customer relationships, 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.

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 life is five years for the Group's customer relationships.

Carrying amounts are reviewed at each period end 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. Where the asset's recoverable amount exceeds its carrying amount, the difference is recognised as an impairment loss in profit or loss.

Work in progress

Work in progress includes assets in production which are considered to fulfil the criteria for recognition outlined in IAS 38 Intangible Assets 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.

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 incidental costs incurred to bring an asset to the condition and location necessary for its intended use.

Subsequent costs incurred which relate to the initial production or improvement of an asset are added to its cost and depreciated over the asset's useful economic life. Costs incurred significantly later than the initial production of the asset are treated as a separate asset if they meet the criteria of IAS 16 Property, Plant and Equipment or else are expensed as incurred.

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.

Notes to the Consolidated Financial Statements continued

2. Accounting policies continued

Property and equipment continued

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

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

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

Carrying amounts are reviewed at each period end 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. Where the asset's recoverable amount exceeds its carrying amount, the difference is recognised as an impairment loss in profit or loss.

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.

Work in progress

Work in progress includes assets in production which are considered to fulfil the criteria for recognition outlined in IAS 16 Property, Plant and Equipment but which have not yet reached the state where they are ready for their intended use. As such no depreciation has yet been charged on these assets.

Deferred acquisition costs

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

The deferred acquisition costs are held at cost less accumulated amortisation and impairment losses. They have an economic useful life of 12 months and are amortised over the coverage period of the related insurance contract, in line with recognition of the corresponding premiums. Amortisation for the period is charged to acquisition costs 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 at fair value, insurance and other receivables, and cash and cash equivalents. 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 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.

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 of financial assets at fair value through profit or loss are expensed as incurred in profit or loss.

2. Accounting policies continued

Available for sale

Financial assets are classified as available for sale when they consist of investments acquired neither with the intention to sell in the near term, make purchase and sale decisions based on fair value, or with the intention to hold until maturity, and are not classified as loans and receivables.

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.

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.

Cash and cash equivalents and insurance and other receivables are classified as loans and receivables for measurement purposes. Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments and bank overdrafts.

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.

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

The Group assesses at each period end date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only 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 an impact on the estimated future cash flows of the financial asset that can be reliably estimated. 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 becoming 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 original effective interest rate. The carrying amount of the asset is reduced to its recoverable amount and the 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.

Notes to the Consolidated Financial Statements continued

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 decreases and the decrease 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, preference shares and insurance and other payables.

Financial liabilities are initially measured at fair value less any directly attributable transaction costs, which are capitalised and reduce the initial liability recognised. Subsequently, financial liabilities are measured at amortised cost using the effective interest method.

Preference shares are recognised as a liability when there is a contractual obligation regarding dividend payments, defined repayment terms or a combination of both that indicates that they are a financial liability. Dividends on such preference shares are recognised through profit or loss.

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 either 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 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.

Fair values

Financial assets carried at fair value are analysed by valuation method based on levels defined 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.

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, apart from those involving estimations, that the Directors have made in applying the Group's accounting policies that have the most significant effect on the amount recognised in the 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 calculation of reinsurance recoveries is intrinsically linked to the calculation of outstanding claims liabilities, and requires the same estimations and judgements.

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.

When PPOs are awarded as a result of claims made under insurance contracts, they are generally for a fixed instalment over an indeterminate time period. As such, reserving for PPOs granted inherently involves estimation by management as to the period over which the PPOs will be fulfilled. As at the period end, management may consider the award of certain PPOs to be probable and as such these will be included in claims liabilities. The value of instalments, the period over which these instalments will be payable and the likelihood of the PPO being granted are determined as a result of detailed review of the circumstances of each claim by management with support of the Group's actuaries.

Sensitivity of the Group to a change in loss ratios is included in note 20.

Property and equipment and intangible assets

Management determines the estimated useful lives and residual values of property and equipment and intangible assets. The estimated useful lives are reviewed annually and the amortisation and depreciation charge is revised prospectively where useful lives or residual values are subsequently found to be different from those previously estimated.

Where property and equipment and intangible assets are classified as work in progress as at the reporting date, management have assessed that the criteria for recognition outlined in IAS 16 Property, Plant and Equipment have been fulfilled.

Revenue from insurance broking activities

Revenue from insurance broking activities is measured at the fair value of the income receivable and is recognised on completion of the associated service. The revenue recognised makes allowance for expected future refunds required in the event of cancellations of contracts by customers. Management judgement is required to estimate future refunds resulting from cancellations, based on cancellation experience.

Impairment of assets

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, the higher of its fair value less costs to sell or value in use, is assessed and where this is significantly below its carrying amount, impairment is deemed to exist.

Estimating the recoverable amount of an asset requires a high degree of judgement, as does the assessment of what is deemed to be significant, and may to a large extent depend upon the selection of key assumptions about future events.

Where recoverable amount cannot be assessed for an individual asset, it is assessed for its CGU. Where a CGU requires an impairment, first the carrying amount of any goodwill allocated to the CGU is impaired, before the other assets of the CGU are impaired on a pro-rata basis of their carrying amount.

Notes to the Consolidated Financial Statements continued

4. Insurance contracts risk management

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

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

Risk management objectives and policies for mitigating insurance risk

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

Acceptance of risk

The Board of Directors of the Group's underwriting subsidiary, 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 developments in the market.

All data used is subject to rigorous verification and reconciliation processes. The models incorporate consideration of market conditions.

Claims management

Initial claim determination is managed by claims handlers with the requisite degree of experience and competence with the assistance, where appropriate, of 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 total net motor insurance losses of more than an inflation-adjusted £1.0m, gross of quota share recoveries, on any individual claim including PPOs. For periods ended 31 December 2014 and prior, this threshold amount was £0.5m on any individual claim. These arrangements have been in place for policies incepted by the Group since 1 January 2003 and for the year ended 31 December 2014 were subject to an aggregate deductible of £5.0m.

4. Insurance contracts risk management continued

Reinsurance contracts continued

The Group also uses excess of loss reinsurance arrangements for Home insurance policies, the effect of which is that the Group should not suffer total net home insurance losses of more than £0.3m (capped at £15.0m liability per claim) on any individual claim between 1 January 2015 and 31 December 2015.

Additionally, the Group has a 50% quota share arrangement in place, applicable on all new motor insurance policies incepted by AICL since 1 July 2010.

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.

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. This is discussed further in note 24.

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.

Credit risk

The management of credit risk arising out of insurance contracts is explained in note 24.

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 chief operating decision maker in line with IFRS 8 Operating Segments.

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. From 1 January 2015, AICL underwrites 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 includes the results of various head office companies, whose primary activities are as holding and finance companies.

Notes to the Consolidated Financial Statements continued

5. Segmental reporting continued

Removal of trading for the period ended 7 January 2014

This adjustment removes the HIG Group's result for the first seven days of trading in 2014, prior to its acquisition by the Group on 8 January 2014.

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. Sales between the Group's two reportable segments are carried out at arm's length.

Operational amortisation and depreciation

Operational amortisation and depreciation refers to the amortisation and depreciation recognised based on the underlying internal cost of assets. It does not include amortisation of intangible assets identified and fair valued upon acquisition as described in note 35, which is included within the line item accounting for business combinations.

Accounting for business combinations

Accounting for business combinations reflects adjustments recognised in the period which relate to the restructuring as part of the Goldman Sachs investment on 8 January 2014, whereby HIG(H) acquired the HIG Group.

For the year ended 31 December 2015, this comprises non-operational amortisation arising on assets fair valued under acquisition accounting.

Operating profit

Operating profit represents profit before taxation expense, interest expense, amortisation and depreciation, certain non-trading costs and the effects of accounting for business combinations.

Segment performance

The tables below present the Group's results by reportable 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)
Operating expenses	(76.8)	(153.7)	(2.2)	70.7	(162.0)
Operating profit/(loss)	37.9	89.9	(2.1)	0.4	126.1
Interest expense					(54.6)
Operational amortisation and depreciation					(4.6)
Restructuring, refinancing and transaction costs					(38.9)
Accounting for business combinations					(23.0)
Profit/(loss) before tax					5.0
Taxation expense					(2.7)
Total profit attributable to the equity holders of the parent					2.3

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. All other revenues presented arose from transactions with external customers.

5. Segmental reporting continued

Segment performance continued

Year ended 31 December 2014	Underwriting £m	Retail £m	Removal of trading for the period ended 7 January 2014 £m	Corporate £m	Consolidation adjustments £m	Group £m
Net earned premiums	212.7	–	(3.4)	–	(10.2)	199.1
Other revenue	34.9	205.2	(3.9)	–	(56.0)	180.2
Investment and interest income	3.5	0.3	(0.1)	–	–	3.7
Net revenue	251.1	205.5	(7.4)	–	(66.2)	383.0
Net claims incurred	(152.6)	–	2.7	–	0.2	(149.7)
Operating expenses	(61.1)	(135.6)	2.5	(10.9)	75.3	(129.8)
Operating profit/(loss)	37.4	69.9	(2.2)	(10.9)	9.3	103.5
Interest expense						(67.7)
Operational amortisation and depreciation						(3.8)
Restructuring, refinancing and transaction costs						(9.7)
Accounting for business combinations						(23.7)
Profit/(loss) before tax						(1.4)
Taxation expense						(7.0)
Total loss attributable to the equity holders of the parent						(8.4)

Included within other revenue recognised by the Retail segment is £57.8m arising from transactions with the Underwriting segment. Other revenue recognised by the Underwriting segment includes £0.4m arising from transactions with the Retail segment. All other revenues presented arose from transactions with external customers.

Group operating profit for the full year ended 31 December 2014 would have been £105.7m if adjusted to include the seven days pre-acquisition trading, as detailed in note 35.

Notes to the Consolidated Financial Statements continued

5. Segmental reporting continued

Segment assets and liabilities

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

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[1]	4.2	–	–	(4.2)	–
Property and equipment	1.7	8.1	–	3.9	13.7
Deferred income tax asset	–	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	265.5	4.9	(225.5)	155.9
Provisions	–	0.3	–	–	0.3
Deferred income tax liability	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

1 Underwriting's investments comprise the property Conquest House. This is classified as property and equipment by the Group (see note 18).

5. Segmental reporting continued

Segment assets and liabilities continued

As at 31 December 2014	Underwriting £m	Retail £m	Corporate £m	Consolidation adjustments £m	Group £m
Goodwill	–	1.9	–	468.1	470.0
Intangible assets	0.2	10.5	–	93.6	104.3
Investments in subsidiaries	–	–	1.0	(1.0)	–
Investments[1]	3.7	–	–	(3.7)	–
Property and equipment	1.7	5.3	–	3.1	10.1
Deferred income tax asset	–	0.8	–	4.8	5.6
Reinsurance assets	428.1	–	–	(1.6)	426.5
Deferred acquisition costs	14.9	–	–	0.8	15.7
Prepayments	–	1.1	0.1	–	1.2
Insurance and other receivables	204.3	166.0	6.6	(164.3)	212.6
Financial assets at fair value	224.8	–	–	0.1	224.9
Cash and cash equivalents	64.2	38.4	20.8	–	123.4
Total assets	941.9	224.0	28.5	399.9	1,594.3
Preference shares	–	–	319.3	–	319.3
Loans and borrowings	–	–	403.6	–	403.6
Insurance contract liabilities	717.1	–	–	(12.4)	704.7
Insurance and other payables	113.6	197.5	5.8	(170.0)	146.9
Provisions	–	0.3	–	–	0.3
Deferred income tax liability	–	–	–	27.0	27.0
Current tax liabilities	3.1	3.3	–	–	6.4
Total liabilities	833.8	201.1	728.7	(155.4)	1,608.2
Total equity	108.1	22.9	(700.2)	555.3	(13.9)

6. Insurance premiums

	Year ended 31 December 2015			Year ended 31 December 2014		
	Gross £m	Reinsurers' share £m	Net £m	Gross £m	Reinsurers' share £m	Net £m
Written premiums	614.9	(320.9)	294.0	475.4	(254.1)	221.3
Unearned premiums reserve brought forward at start of year	248.8	(133.3)	115.5	–	–	–
Acquired through business combinations (note 35)	–	–	–	214.8	(121.5)	93.3
Unearned premiums reserve carried forward at end of year	(320.4)	166.8	(153.6)	(248.8)	133.3	(115.5)
Change in the unearned premiums reserve	(71.6)	33.5	(38.1)	(34.0)	11.8	(22.2)
Total earned premiums	543.3	(287.4)	255.9	441.4	(242.3)	199.1

Unearned premiums reserve acquired through business combinations in the prior year comprises amounts acquired upon acquisition of the HIG Group on 8 January 2014.

Notes to the Consolidated Financial Statements continued

7. Other revenue

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Fees and commission	73.5	61.6
Ancillary product income	45.0	37.4
Premium finance interest	61.3	48.5
Reinsurance commissions	28.6	23.0
Other income	11.4	9.7
Total other revenue	219.8	180.2

8. Investment and interest income

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Net fair value gains on financial assets at fair value	0.8	2.2
Other interest income	4.5	1.5
Total investment and interest income	5.3	3.7

9. Claims incurred

	Year ended 31 December 2015			Year ended 31 December 2014		
	Gross £m	Reinsurers' share £m	Net £m	Gross £m	Reinsurers' share £m	Net £m
Claims paid	(336.1)	177.8	(158.3)	(286.7)	137.8	(148.9)
Change in the provision for claims	(134.2)	86.7	(47.5)	(80.9)	70.9	(10.0)
Salvage and subrogation reserve movement	1.3	2.7	4.0	6.8	(3.5)	3.3
Other claims income	8.9	–	8.9	5.9	–	5.9
Total claims incurred	(460.1)	267.2	(192.9)	(354.9)	205.2	(149.7)
Current period	(451.6)	251.1	(200.5)	(362.4)	202.1	(160.3)
Prior periods	(8.5)	16.1	7.6	7.5	3.1	10.6
Total claims incurred	(460.1)	267.2	(192.9)	(354.9)	205.2	(149.7)

Current period claims relate to claim events that occurred in the current year. Prior period claims relate to the reassessment of claim events that occurred in all previous years, including an enhancement in PPO reserving methodology during the year which increased gross and reinsurers' share of claims incurred by £13.1m, with no impact on net claims incurred.

10. Other operating expenses

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Profit/(loss) before taxation is stated after charging		
Buildings operating lease rentals	0.5	0.5
Employee benefits	56.3	51.4
Restructuring and transaction costs	2.4	9.7
Other administration and distribution costs	60.9	51.8
Other operating expenses before amortisation and depreciation	120.1	113.4
Amortisation of intangible assets (note 17)	25.3	26.5
Depreciation of property and equipment (note 18)	2.3	1.4
Total amortisation and depreciation	27.6	27.9
Total other operating expenses	147.7	141.3

11. Auditor remuneration

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £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		
Corporate finance transactions	1.3	–
Other non-audit services	0.1	–
Total fees for non-audit services	1.4	–
Total auditor remuneration	1.7	0.3

Auditor remuneration for corporate finance transactions during the year relates to Reporting Accountant work performed as part of the IPO process. £0.2m of this has been recognised in profit or loss and the remaining £1.1m has been recognised as a deduction from share premium.

All other auditor remuneration has been recognised in profit or loss.

Notes to the Consolidated Financial Statements continued

12. Employee benefits

Included in other operating expenses were the following employee benefits:

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Salaries	50.1	46.1
Social security charges	4.6	4.3
Defined contribution pension plan costs	1.1	1.0
Share based payment charge	0.5	–
Total employee benefits	56.3	51.4

Retirement benefit obligations

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The defined contribution pension plan costs for the year represent contributions payable by the Group to the fund.

Staff numbers (including Directors)

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

	Year ended 31 December 2015	Year ended 31 December 2014
Operational staff	1,747	1,550
Support staff	163	136
Total staff	1,910	1,686

Key management personnel compensation

Key management personnel compensation comprised the following:

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Short-term employee benefits	4.0	5.4
Post-employment benefits	0.2	0.1
Total key management personnel compensation	4.2	5.5

Directors' emoluments

The aggregate Directors' emoluments are disclosed in note 4 of the Parent Company Financial Statements.

13. Finance costs

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Interest on Senior Secured Notes	27.1	31.1
Interest on Term Loan	1.1	–
Non-cash amortisation of loans and borrowings	1.8	1.9
Preference share dividends	23.7	33.7
Other interest expense	0.9	1.0
Total interest expense	54.6	67.7
Refinancing costs	36.5	–
Total finance costs	91.1	67.7

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 relate to the early redemption of the Senior Secured Notes in 2015, see note 26. They include early redemption charges and the write off of remaining directly attributable transaction costs and applicable discounts.

On 12 August 2015, as part of the reorganisation, the preference shares and accrued dividends thereon were converted into Ordinary Shares. Details on the conversion and the dividends incurred on the preference shares, recognised under the effective interest method, are described in note 25.

14. Taxation expense

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Current tax		
Corporation tax on profits for the year	7.0	10.1
Adjustments for prior years	–	0.4
Current taxation expense	7.0	10.5
Deferred tax		
Deferred taxation movement relating to temporary differences	(3.6)	(3.1)
Impact of change in the UK Corporation tax rate	(0.8)	(0.5)
Adjustments for prior years	0.1	0.1
Deferred taxation expense	(4.3)	(3.5)
Total taxation expense	2.7	7.0

Notes to the Consolidated Financial Statements continued

14. Taxation expense continued

Factors affecting total taxation expense are:

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Profit/(loss) before tax	5.0	(1.4)
Applicable tax charge at the statutory tax rate 20.25% (2014: 0%):	1.0	–
Impact of different tax rates in foreign jurisdictions	(1.7)	0.4
Non-taxable income	(0.7)	(0.3)
Expenses and provisions not deductible for tax purposes	4.9	6.8
Impact of change in the UK Corporation tax rate	(0.8)	(0.5)
Adjustment relating to prior periods	0.1	0.5
Deferred income tax not recognised in profit or loss	(0.1)	0.1
Total taxation expense	2.7	7.0

The UK Corporation tax rate applicable to the Company was 20.25% for the year ended 31 December 2015 (year ended 31 December 2014 Jersey Corporation tax rate applicable to HIG(H): 0%).

Factors affecting future tax charges

Effective from 1 April 2015, the UK Corporation tax rate changed from 21% to 20%. It will further change to 19% from 1 April 2017 and to 18% from 1 April 2020.

The Gibraltar rate of tax has remained at 10% and is expected to remain constant for the foreseeable future.

Unrecognised deferred income tax assets

Deferred income tax assets of £1.3m have not been recognised by the Group as at 31 December 2015 in respect of tax losses (31 December 2014: £1.4m).

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.

Unrecognised deferred income tax liabilities

As at 31 December 2015 there were no deferred income tax liabilities that have not been recognised by the Group (31 December 2014: £nil).

15. Earnings per share

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

Adjusted basic earnings per share is calculated by dividing the profit attributable to the equity holders of the Company adjusted for restructuring, refinancing and transaction costs, preference share dividends and the impact of accounting for business combinations by the weighted average number of Ordinary Shares in issue during the year. The Directors believe this figure provides a better indication of operating performance.

The share awards described in note 29 have an inconsequential dilutive potential and therefore the basic and adjusted earnings per share equals the basic and adjusted diluted earnings per share respectively.

15. Earnings per share continued

	Year ended 31 December 2015	Year ended 31 December 2014
Profit/(loss) attributable to the equity holders of the parent (in £m)	2.3	(8.4)
Basic weighted average number of Ordinary Shares in issue	468,122,379	378,482,926
Basic and diluted earnings per share	0.5p	(2.2)p

	Year ended 31 December 2015	Year ended 31 December 2014
Profit/(loss) attributable to the equity holders of the parent (in £m)	2.3	(8.4)
Adjusted for (in £m):		
Restructuring, refinancing and transaction costs	38.9	9.7
Preference share dividends	23.7	33.7
Impact of accounting for business combinations on finance costs	0.7	1.1
Non-operational amortisation	23.0	24.2
Other effects of accounting for business combinations	–	(0.4)
Tax effect of the above adjusting items	(12.4)	(3.9)
Total adjusted profit after tax (in £m)	76.2	56.0
Basic weighted average number of Ordinary Shares in issue	468,122,379	378,482,926
Adjusted basic and diluted earnings per share	16.3p	14.8p

16. Goodwill

Goodwill at the period end was allocated as follows:

	CGU		
Cost	Underwriting £m	Retail £m	Total £m
As at 1 January 2014	–	–	–
Additions	374.8	95.2	470.0
As at 31 December 2014 and 31 December 2015	374.8	95.2	470.0

The goodwill of £470.0m arose from the acquisition of the HIG Group on 8 January 2014, the calculation of which is in note 35.

Goodwill from this acquisition was allocated between the Group's two CGUs, Underwriting and Retail. The apportionment was conducted on the basis of expected benefits to be derived from the acquisition.

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 budgets approved by management, discounted to the Group's pre-tax discount rate of 8.23% (31 December 2014: 9.41%). Management determine financial budgets based on past performance and their expectations for market and business development.

Cash flows beyond the budget period are extrapolated using growth rates declining to the forecast long-term economic terminal growth rate of 2%. The terminal growth rate does not exceed the long-term average past growth rate for the insurance business in which the CGUs operate. The key assumptions used in the value in use calculations are those regarding growth rates and expected changes in pricing and expenses incurred. Management estimates growth rates and changes in pricing based on past practices and expected future changes in the market. As the recoverable amount of each CGU is significantly higher than the cumulative total of allocated goodwill and the carrying value of the CGUs assets, the allocated goodwill is not deemed to be impaired.

Notes to the Consolidated Financial Statements continued

17. Intangible assets

	Customer relationships £m	Brands £m	Software £m	Work in progress £m	Total £m
Cost					
As at 1 January 2014	–	–	–	–	–
Acquired through business combinations (note 35)	64.0	13.0	45.2	1.5	123.7
Additions	–	–	1.8	5.3	7.1
Transfers	–	–	0.2	(0.2)	–
As at 31 December 2014	64.0	13.0	47.2	6.6	130.8
Accumulated amortisation					
As at 1 January 2014	–	–	–	–	–
Amortisation for the year	12.6	1.6	12.3	–	26.5
As at 31 December 2014	12.6	1.6	12.3	–	26.5
Net book value as at 31 December 2014	51.4	11.4	34.9	6.6	104.3
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

Intangible assets acquired through business combinations in the prior year comprise intangible assets acquired upon acquisition of the HIG Group on 8 January 2014.

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

Software held as at 31 December 2015 includes internally generated software carried at £8.8m (31 December 2014: £6.2m).

Software held as at 31 December 2015 has a remaining amortisation period of up to seven years (31 December 2014: up to six years).

18. 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 2014	–	–	–	–	–	–
Acquired through business combinations (note 35)	5.3	0.9	1.7	0.6	0.7	9.2
Additions	–	0.6	1.2	0.5	–	2.3
Transfers	–	0.6	–	–	(0.6)	–
As at 31 December 2014	5.3	2.1	2.9	1.1	0.1	11.5
Accumulated depreciation						
As at 1 January 2014	–	–	–	–	–	–
Charge for the year	0.1	0.2	0.8	0.3	–	1.4
As at 31 December 2014	0.1	0.2	0.8	0.3	–	1.4
Net book value as at 31 December 2014	5.2	1.9	2.1	0.8	0.1	10.1
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

Property and equipment acquired through business combinations in the prior year comprise property and equipment acquired upon acquisition of the HIG Group on 8 January 2014.

Notes to the Consolidated Financial Statements continued

18. Property and equipment continued

The Group's property comprises the freehold buildings at The Old Bank, Cannon Lane, Gibraltar and Conquest House, Bexhill-on-Sea, UK. Property is held at the revalued amount which is assessed 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 during 2013 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. No change in value was considered necessary during the year ended 31 December 2015 (year ended 31 December 2014: no change in value considered necessary).

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 (year ended 31 December 2014: £nil).

In these latest valuations, total property was valued at £5.9m. 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 (31 December 2014: £5.2m).

19. Deferred income tax

Deferred income tax asset

	As at	
	31 December 2015 £m	31 December 2014 £m
Brought forward at start of year	5.6	–
Acquired through business combinations (note 35)	–	5.0
Movement in year	(2.2)	0.6
Carried forward at end of year	3.4	5.6
Accelerated capital allowances	0.7	0.8
Insurance provisions	0.2	0.5
Deferred acquisition costs	2.4	4.3
Share based payments	0.1	–
Deferred income tax asset at end of year	3.4	5.6

Deferred income tax liability

	As at	
	31 December 2015 £m	31 December 2014 £m
Brought forward at start of year	27.0	–
Acquired through business combinations (note 35)	–	29.9
Movement in year	(6.4)	(2.9)
Carried forward at end of year	20.6	27.0
Intangible assets	12.8	17.6
Deferred acquisition costs	3.7	5.8
Insurance provisions	4.0	3.6
Revaluation of property	0.1	–
Deferred income tax liability at end of year	20.6	27.0

Deferred income tax asset and liability acquired through business combinations in the prior year comprise amounts acquired upon acquisition of the HIG Group on 8 January 2014.

19. Deferred income tax continued

Movement in deferred income tax assets and liabilities during the year

	As at 1 January 2014 £m	Acquired through business combinations (note 35) £m	Recognised in profit or loss £m	As at 31 December 2014 £m
Deferred income tax asset				
Accelerated capital allowances	–	1.0	(0.2)	0.8
Insurance provisions	–	0.5	–	0.5
Deferred acquisition costs	–	3.5	0.8	4.3
Total deferred income tax asset	–	5.0	0.6	5.6
Deferred income tax liability				
Intangible assets	–	22.6	(5.0)	17.6
Deferred acquisition costs	–	2.9	2.9	5.8
Insurance provisions	–	4.4	(0.8)	3.6
Total deferred income tax liability	–	29.9	(2.9)	27.0

	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 asset				
Accelerated 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 asset	5.6	–	(2.2)	3.4
Deferred income tax liability				
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 liability	27.0	0.1	(6.5)	20.6

Notes to the Consolidated Financial Statements continued

20. Reinsurance assets and insurance contract liabilities

Claims development

	As at 31 December 2015			As at 31 December 2014		
	Gross £m	Reinsurers' share £m	Net £m	Gross £m	Reinsurers' share £m	Net £m
Claims reported and adjustments to claims reported	430.6	(254.9)	175.7	334.8	(204.8)	130.0
Claims incurred but not reported ('IBNR')	161.1	(125.8)	35.3	121.1	(88.4)	32.7
Outstanding claims liabilities	591.7	(380.7)	211.0	455.9	(293.2)	162.7
Unearned premiums reserve	320.4	(166.8)	153.6	248.8	(133.3)	115.5
Total insurance contract liabilities	912.1	(547.5)	364.6	704.7	(426.5)	278.2

Given the uncertainty in establishing the outstanding claims liabilities, it is likely that the final outcome will be different from the original liability established. 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 timing of the settlements for the net and gross claims liabilities are shown in note 24.

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. The development is presented for each of the most recent five accident periods and all historic periods prior to these from incorporation of the Group's underwriter (2002) (i.e. including accident periods prior to the creation of the Group), as estimated at each reporting date. It includes the effect of an enhancement in PPO reserving methodology during the year which increased gross and reinsurers' share of outstanding claims liabilities by £13.1m, with no impact on the net position. 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 2015.

The information is presented on an accident period basis. The fair value acquisition adjustment relates to accounting for the acquisition of the HIG Group on 8 January 2014.

	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	Total £m
Development							
At end of current period	765.2	172.6	245.8	316.3	375.2	460.6	2,335.7
One period earlier	762.8	170.4	250.2	308.8	374.4	–	1,866.6
Two periods earlier	753.4	179.1	256.6	310.7	–	–	1,499.8
Three periods earlier	750.6	176.3	242.9	–	–	–	1,169.8
Four periods earlier	740.3	169.1	–	–	–	–	909.4
Payments to date	(727.0)	(153.8)	(200.9)	(233.9)	(258.9)	(187.2)	(1,761.7)
Gross outstanding claims liabilities, net of salvage and subrogation recoveries	38.2	18.8	44.9	82.4	116.3	273.4	574.0
Reconciliation to gross outstanding claims liabilities							
Anticipated salvage and subrogation recoveries							21.1
Fair value acquisition adjustment							(3.4)
Gross outstanding claims liabilities							591.7

20. Reinsurance assets and insurance contract liabilities continued

Claims development continued

The following table shows the development of the outstanding claims liabilities net of salvage and subrogation recoveries as before but on a net basis, together with a reconciliation of these to the gross outstanding claims liabilities on the Consolidated Balance Sheet as at 31 December 2015.

	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	Total £m
Development							
At end of current period	641.1	96.4	107.5	129.5	171.4	209.5	1,355.4
One period earlier	640.9	96.9	111.4	135.1	169.3	–	1,153.6
Two periods earlier	637.8	99.4	117.2	140.7	–	–	995.1
Three periods earlier	642.3	100.4	119.7	–	–	–	862.4
Four periods earlier	644.4	99.4	–	–	–	–	743.8
Payments to date	(633.3)	(91.3)	(95.9)	(108.9)	(129.4)	(93.8)	(1,152.6)
Net outstanding claims liabilities, net of salvage and subrogation recoveries	7.8	5.1	11.6	20.6	42.0	115.7	202.8
Reconciliation to net outstanding claims liabilities							
Anticipated salvage and subrogation recoveries							21.1
Reinsurers' share of salvage and subrogation recoveries							(10.3)
Fair value acquisition adjustment							(2.6)
Net outstanding claims liabilities							211.0
Reinsurers' share of outstanding claims liabilities							380.7
Gross outstanding claims liabilities							591.7

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.

Notes to the Consolidated Financial Statements continued

20. Reinsurance assets and insurance contract liabilities continued

Movements in reinsurance assets and insurance contract liabilities

	As at 31 December 2015			As at 31 December 2014		
	Gross £m	Reinsurers' share £m	Net £m	Gross £m	Reinsurers' share £m	Net £m
Outstanding claims liabilities brought forward at start of year	455.9	(293.2)	162.7	–	–	–
Acquired through business combinations (note 35)	–	–	–	371.9	(219.6)	152.3
Claims paid	(336.1)	177.8	(158.3)	(286.7)	137.8	(148.9)
Movement in liabilities	471.9	(265.3)	206.6	370.7	(211.4)	159.3
Outstanding claims liabilities carried forward at end of year	591.7	(380.7)	211.0	455.9	(293.2)	162.7
Unearned premiums reserve brought forward at start of year	248.8	(133.3)	115.5	–	–	–
Acquired through business combinations (note 35)	–	–	–	214.8	(121.5)	93.3
Deferral in period	614.9	(320.9)	294.0	475.4	(254.1)	221.3
Release in period	(543.3)	287.4	(255.9)	(441.4)	242.3	(199.1)
Unearned premiums reserve carried forward at end of year	320.4	(166.8)	153.6	248.8	(133.3)	115.5
Total insurance contracts liabilities	912.1	(547.5)	364.6	704.7	(426.5)	278.2

Outstanding claims liabilities and unearned premiums reserve acquired through business combinations in the prior year comprise amounts acquired upon acquisition of the HIG Group on 8 January 2014.

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

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

Process for estimating ultimate claims liability

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 the claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. 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, generally based upon 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, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous years.

Where possible the Group adopts multiple techniques to estimate the required level of claims liabilities. This assists in giving 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.

20. Reinsurance assets and insurance contract liabilities continued

Process for estimating ultimate claims liability continued

Large claims, including PPOs, impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

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.

The estimation of claims 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.

Short-tail claims are normally reported soon after the incident and are generally settled within months following the reported incident. Hence any development on short-tail claims is normally limited to the period the incident occurred and the following period. For long-tail claims it can be more than a period before a claim is reported and several periods before it is settled, hence the original estimation involves greater uncertainty and so inherently there is more likely to be 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.

Sensitivity of recognised amounts to changes in assumptions

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 net of reinsurance used for each accident year for which material amounts remain outstanding on a net basis.

	Year ended					
	31 December 2011	31 December 2012	31 December 2013	31 December 2014	31 December 2015	Total
Impact of 1% change (£m)	2.1	2.8	3.2	3.8	4.6	16.5

21. Deferred acquisition costs

	Year ended	
	31 December 2015 £m	31 December 2014 £m
Deferred acquisition costs brought forward at start of year	15.7	–
Acquired through business combinations (note 35)	–	2.5
Additions	41.4	32.7
Recognition of acquisition costs in profit or loss	(37.2)	(19.5)
Deferred acquisition costs carried forward at end of year	19.9	15.7

Deferred acquisition costs acquired through business combinations in the prior year comprise deferred acquisition costs acquired upon acquisition of the HIG Group on 8 January 2014.

Notes to the Consolidated Financial Statements continued

22. Insurance and other receivables

	As at 31 December 2015 £m	As at 31 December 2014 £m
Insurance receivables	206.6	164.8
Salvage and subrogation recoveries	21.1	19.8
Reinsurance receivables	11.1	16.9
Interest receivable	4.6	3.4
Other receivables	18.2	7.7
Total insurance and other receivables	261.6	212.6

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 2015			
Current	262.5	(0.9)	261.6
Overdue	3.5	(3.5)	–
Total	266.0	(4.4)	261.6
As at 31 December 2014			
Current	213.0	(0.4)	212.6
Overdue	3.3	(3.3)	–
Total	216.3	(3.7)	212.6

Movements on the Group's provision for impairment are as follows:

	As at 31 December 2015 £m	As at 31 December 2014 £m
Provision for impairment brought forward at start of year	3.7	–
Acquired through business combinations (note 35)	–	5.5
Utilised during the year	(2.4)	(4.4)
Impairments recognised during the year	3.1	2.6
Total provision for impairment carried forward at end of year	4.4	3.7

Provisions acquired through business combinations in the prior year comprise provisions assumed upon acquisition of the HIG Group on 8 January 2014.

23. Cash and cash equivalents

	As at 31 December 2015 £m	As at 31 December 2014 £m
Cash at bank and in hand	47.5	48.9
Money market funds	104.7	74.5
Total cash and cash equivalents	152.2	123.4

The carrying amount of cash and cash equivalents presented on the Consolidated Balance Sheet is the same as that used for the purposes of the Consolidated Statement of Cash Flows as there are no bank overdrafts used which are repayable upon demand.

Cash and cash equivalents include balances of £6.8m (31 December 2014: £5.5m) relating to cash and cash equivalents held on an agency basis on behalf of other insurers.

24. 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 2015 £m	As at 31 December 2014 £m
Financial assets		
Insurance and other receivables	261.6	212.6
Cash and cash equivalents	152.2	123.4
Total financial assets at amortised cost	413.8	336.0
Financial liabilities		
Senior Secured Notes	–	403.6
Preference shares	–	319.3
Term Loan	295.7	–
Insurance and other payables	155.9	146.9
Total financial liabilities at amortised cost	451.6	869.8

The fair value of the Senior Secured Notes as at 31 December 2014 was £425.8m (Level 1 basis as defined in note 2).

The carrying value of all other financial instruments carried at amortised cost at 31 December 2015 and 31 December 2014 is considered to be an approximation of fair value.

Notes to the Consolidated Financial Statements continued

24. Financial instruments, capital management and related disclosures continued

At fair value

The table below analyses financial assets carried at fair value by valuation method. The different valuation levels have been defined in note 2. The level in which financial assets 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.

	As at 31 December 2015			As at 31 December 2014		
	Level 1 £m	Level 2 £m	Total £m	Level 1 £m	Level 2 £m	Total £m
Fair value through profit or loss						
Debt securities	–	–	–	2.9	159.0	161.9
Investment funds	–	51.9	51.9	–	63.0	63.0
Total financial assets at fair value through profit or loss	–	51.9	51.9	2.9	222.0	224.9
Available for sale						
Debt securities	–	264.6	264.6	–	–	–
Total available for sale financial assets	–	264.6	264.6	–	–	–
Total financial assets at fair value	–	316.5	316.5	2.9	222.0	224.9

On 1 January 2015, the Group undertook a significant change in investment strategy and realigned its investment portfolio following the Goldman Sachs investment. Debt security investments have been classified as available for sale as this reflects the Group's longer term investment strategy.

The table below analyses the movement in financial assets carried at fair value by classification.

	Investment funds £m	Debt securities £m	Total £m
As at 1 January 2014	–	–	–
Additions through business combinations (note 35)	62.5	109.0	171.5
Net increases to the fair value of assets held recognised in profit or loss	0.4	1.8	2.2
Net additions to assets held	0.1	51.1	51.2
As at 31 December 2014 and 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 additions/(disposals) to assets held	(12.1)	104.2	92.1
As at 31 December 2015	51.9	264.6	316.5

Additions through business combinations in the prior year comprise assets acquired upon acquisition of the HIG Group on 8 January 2014.

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.

24. Financial instruments, capital management and related disclosures continued

Objectives, policies and procedures for managing financial risks

The Group is exposed to financial risk through its financial assets and liabilities. The key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from liabilities as they fall due. The most important components of financial risk for the Group are credit risk, market risk and liquidity risk.

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The main areas where the Group is exposed to credit risk are 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 Risk Committee.

Investment funds and debt securities are assessed by management to ensure that the level of credit risk is acceptable, 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 2015				
AAA (or equivalent)	64.1	4.1	104.7	172.9
AA (or equivalent)	68.3	8.6	24.3	101.2
A (or equivalent)	42.3	33.1	23.2	98.6
BBB (or equivalent)	89.9	(1.2)	–	88.7
Less than BBB (or equivalent) or unrated	–	7.3	–	7.3
Total	264.6	51.9	152.2	468.7
As at 31 December 2014				
AAA (or equivalent)	19.4	3.6	74.5	97.5
AA (or equivalent)	9.9	8.3	15.8	34.0
A (or equivalent)	46.0	12.1	33.1	91.2
BBB (or equivalent)	71.8	10.3	–	82.1
Less than BBB (or equivalent) or unrated	14.8	28.7	–	43.5
Total	161.9	63.0	123.4	348.3

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

	As at 31 December 2015 £m	As at 31 December 2014 £m
AA (or equivalent)	337.2	198.8
A (or equivalent)	210.3	227.7
Total reinsurance assets	547.5	426.5

The Group has investment guidelines that restrict the amount of the investment portfolio that can be placed with a single counterparty.

24. Financial instruments, capital management and related disclosures continued

Credit risk continued

The Group's maximum exposure to credit risk at 31 December 2015 is £1,277.8m (31 December 2014: £987.4m), being the carrying value of insurance and other receivables, reinsurance assets, financial assets and cash and cash equivalents. The exposure is not hedged by the use of derivatives or similar instruments. Insurance receivables are monitored closely with a view to minimising the collection period of those items. The exposure to bad debt expense relates to policyholder debt charged to profit or loss and the value of past due financial assets, which has not resulted in impairment in either the current or prior period. There were no other impairments in either the current or prior period.

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 in relation to reinsurance assets. Since other assets such as cash and cash equivalents and financial assets at fair value are well diversified, the Directors believe that the Group does not hold any significant concentrations of risk.

Market risk

The only significant market risk 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 produce adverse results on the values of financial assets and liabilities, or the future cash flows from them. This is only applicable to cash and cash equivalents, financial assets at fair value through profit or loss and the loans and borrowings issued by the Group. The assets held as available for sale mainly comprised fixed income securities and as such, movements in market interest rates will not affect the future cash flows arising from these assets.

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.

For the year ended 31 December 2015 a 1% increase in interest rates would have reduced profit after tax by £1.0m (31 December 2014: increased profit after tax by £0.7m). A 1% increase in interest rates could also reduce the fair value of available for sale financial assets, and therefore reduce equity by approximately £6.8m (31 December 2014: £nil). However, this effect would reverse over the remaining future life of the securities and would have no impact on the expected cash flows or profit after tax.

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 when 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, the associated interest and an amount due to a reinsurer within insurance and other payables (see note 27) are due within 12 months. Loans and borrowings are secured for a five year term and as at 31 December 2015 are due for repayment in 2020 (31 December 2014: repayment in 2019 and 2020).

The assets backing the 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.

As part of the reorganisation on 12 August 2015 detailed in note 30, all of the Group's 11.5% and 16.0% preference shares, including dividends and interest accrued thereon, were converted into equity.

24. Financial instruments, capital management and related disclosures continued

The following table indicates the expected timing of net cash outflows resulting from insurance contract liabilities and reinsurance assets at the year end:

	0-1 year £m	1-2 years £m	Over 2 years £m	Total £m
As at 31 December 2015				
Outstanding claims liabilities	165.3	66.7	359.7	591.7
Unearned premiums provision	131.3	100.1	89.0	320.4
Less reinsurance assets	(145.7)	(83.1)	(318.7)	(547.5)
Net cash outflows	150.9	83.7	130.0	364.6
As at 31 December 2014				
Outstanding claims liabilities	150.7	98.9	206.3	455.9
Unearned premiums provision	102.0	77.7	69.1	248.8
Less reinsurance assets	(136.3)	(100.0)	(190.2)	(426.5)
Net cash outflows	116.4	76.6	85.2	278.2

The gross 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	Over 5 years £m	Total £m
As at 31 December 2015					
Term Loan	20.7	20.2	308.6	–	349.5
Total	20.7	20.2	308.6	–	349.5
As at 31 December 2014					
Senior Secured Notes	31.2	31.2	243.2	287.3	592.9
Preference shares	–	–	–	319.3	319.3
Total	31.2	31.2	243.2	606.6	912.2

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 26). As at 31 December 2014, the Group's capital also included preference shares issued by the Group on 8 January 2014 which were subsequently converted into equity (see note 25).

The Directors regularly review the amount of capital of the Group through monitoring of the financial performance of its subsidiaries. Regular cash flow forecasts are produced to accurately predict when liabilities will fall due and trends in these forecasts are used to aid the prediction of future cash flows.

The Group's subsidiary AICL, as an insurance company, is subject to the provisions of the solvency regulations set by the FSC in Gibraltar. It exceeded the minimum requirements for capital at all times since AICL has been part of the Group.

Notes to the Consolidated Financial Statements continued

24. Financial instruments, capital management and related disclosures continued

Objectives, policies and procedures for managing capital continued

The table below shows the minimum required capital for AICL and the regulatory capital held against it.

	As at	
	31 December 2015 £m	31 December 2014 £m
Regulatory capital held ('Admissible Assets')	191.4	107.9
Minimum regulatory capital ('Required Minimum Margin')	51.3	40.2
Excess	140.1	67.7

The Group's subsidiary HISL, as an insurance intermediary in the UK, is also subject to a minimum capital requirement under Financial Conduct Authority ('FCA') rules; it exceeded that minimum capital requirement at all times during the year.

25. Preference shares

	As at	
	31 December 2015 £m	31 December 2014 £m
16.0% preference shares and accrued dividends	–	40.5
11.5% preference shares and accrued dividends	–	278.8
Total preference shares	–	319.3
Current	–	–
Non-current	–	319.3
Total preference shares	–	319.3

On 8 January 2014, the HIG(H) Group authorised and issued:

- 35,000,000 cumulative redeemable £0.01 preference shares at £1.00 each (the 'paid up amount') with a fixed dividend rate of 16.0% on the paid up amount; and
- 250,641,360 cumulative redeemable £0.01 preference shares at £1.00 each, issued in one of the Company's subsidiaries, HIG(I), with a fixed dividend rate of 11.5% on the paid up amount.

On 12 August 2015, as part of the reorganisation, all preference shares, including dividends and interest accrued thereon, amounting to £343.0m, were converted into Ordinary Shares (see note 1).

26. Loans and borrowings

	As at	
	31 December 2015 £m	31 December 2014 £m
8% Senior Secured Fixed Rate Notes due 2020	–	258.9
LIBOR + 6% Senior Secured Floating Rate Notes due 2019	–	144.7
Term Loan	295.7	–
Total loans and borrowings	295.7	403.6
Current	9.1	–
Non-current	286.6	403.6
Total loans and borrowings	295.7	403.6

The amounts in the table reflect the fair value of the loans and borrowings issued by the Group at the time of issue, including any applicable discounts, less any directly attributable transaction costs. Interest on loans and borrowings is accrued in the Consolidated Balance Sheet using the effective interest method and is recognised in insurance and other payables (see note 27).

Loan facility agreement

On 12 August 2015, the Group entered into a £320.0m five year committed loan facility agreement with a group of financial institutions comprising a £300.0m Term Loan and a £20.0m Revolving Loan Facility. The Term Loan is repayable in full in five years from the date of admission to the London Stock Exchange on 15 October 2015, with instalment repayments due up to the amount of any dividend paid limited to £10.0m per annum. The Term Loan, which was fully drawn down on 25 November 2015, incurs interest at LIBOR plus a variable margin linked to net debt leverage multiple, initially set at 2.75%. The Revolving Loan Facility remained undrawn as at 31 December 2015.

The Term Loan is unsecured and the Group is subject to certain financial covenants of which the first testing date will be as at 30 June 2016. Any repayments rank at least pari passu with the claims of all its other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally. Under the agreement, certain entities in the Group, including the Company, are obligors to the agreement, either by virtue of being a borrower or a guarantor to the agreement: namely, HIG(H), Hastings Insurance Group (Investment) plc ('HIG(I)'), HIG(F), HIG, Advantage Global Holdings Limited ('AGH'), Hastings (Holdings) Limited ('HHL'), Hastings (UK) Limited ('HUK') and Hastings Insurance Services Limited ('HISL').

Senior Secured Notes

On 21 October 2013, the HIG(H) Group issued £416.5m of Senior Secured Notes at £415.0m and entered into a £20.0m multi-currency Revolving Credit Facility in order to part fund the acquisition of HIG (see note 35). The Senior Secured Notes were redeemed in full and the Revolving Credit Facility was terminated in the year ended 31 December 2015 and at redemption, the liability, together with the related security interests granted over certain assets of some of the subsidiaries were discharged in full.

Notes to the Consolidated Financial Statements continued

27. Insurance and other payables

	As at 31 December 2015 £m	As at 31 December 2014 £m
Amounts owed to reinsurers	72.2	70.2
Reinsurers' share of salvage and subrogation recoveries	10.3	13.0
Insurance premium tax	13.8	7.7
Accrued interest	1.1	5.3
Accrued expenses	31.1	23.0
Deferred income	8.7	12.6
Other payables	18.7	15.1
Total insurance and other payables	155.9	146.9
Current	147.8	121.5
Non-current	8.1	25.4
Total insurance and other payables	155.9	146.9

Insurance and other payables are unsecured, non-interest-bearing and are normally settled within 12 months. The balance has not been discounted because the effect of the time value of money is not material. The carrying amount of payables is a reasonable approximation of the fair value of the liabilities because of the short-term nature of the liabilities.

28. Provisions

	Lease commitments £m	Dilapidations £m	Total provisions £m
As at 1 January 2014	–	–	–
Acquired through business combinations (note 35)	0.8	0.1	0.9
Utilised in the year	(0.6)	–	(0.6)
As at 31 December 2014 and 1 January 2015	0.2	0.1	0.3
Recognised in the year	–	0.3	0.3
Written off in the year	(0.2)	(0.1)	(0.3)
As at 31 December 2015	–	0.3	0.3

Provisions acquired through business combinations in the prior year comprise provisions assumed upon acquisition of the HIG Group on 8 January 2014.

29. Share based payments

On 28 September 2015, certain key management personnel 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 as at 31 December 2015, no awards had vested. A share based payments expense of £0.5m was recognised in the year with a corresponding credit to retained earnings (year ended 31 December 2014: £nil).

30. Share capital and reserves

	Share capital £m	Share premium £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
As at 1 January 2014	7.6	749.4	(756.0)	–	(6.5)	(5.5)
Total loss attributable to the equity holders of the parent	–	–	–	–	(8.4)	(8.4)
Total comprehensive loss for the year	–	–	–	–	(8.4)	(8.4)
As at 31 December 2014 and 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 income/(loss) for the year	–	–	–	(0.7)	2.3	1.6
Transactions with equity holders						
Share based payments	–	–	–	–	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	5.5	(576.8)	–	–	1,086.8	515.5
As at 31 December 2015	13.1	172.6	(756.0)	(0.7)	1,074.2	503.2

Share capital and share premium

Share capital recognised as equity comprised shares authorised, issued and fully paid up as follows:

	As at 31 December 2015 £m	As at 31 December 2014 £m
Authorised, issued and fully paid up ordinary share capital		
657,217,641 Ordinary Shares of 2p (31 December 2014: 378,482,926)	13.1	7.6

On 11 June 2015, the Company was incorporated with an issued share capital consisting of one Ordinary Share of £1.00 nominal value, which was issued for cash consideration at par. On 3 August 2015, the £1.00 share was divided into 50 shares of £0.02 nominal value, each having the same rights and subject to the same restrictions as the single £1.00 Ordinary Share.

On 12 August 2015, pursuant to the reorganisation, the Company converted roll up loan notes amounting to £1,100.0m into Ordinary Share capital consisting of 549,999,946 additional Ordinary Shares with £0.02 nominal value, at a premium of £1.98 per share, fully paid and ranking pari passu with the existing 50 shares.

Of the Ordinary Shares issued, 171,517,055 were issued as part of the conversion of £343.0m of preference shares and accrued dividends thereon into Ordinary Share capital. This is reflected in the Consolidated Statement of Changes in Equity as an increase in share capital of £3.4m and share premium of £339.6m in the year.

The remaining 378,482,891 Ordinary Shares were issued in exchange for the entire issued share capital of HIG(H) and, under the principles of predecessor accounting described in note 1, the resulting share capital of £7.6m and share premium of £749.4m have been presented as if they were in issue at 1 January 2014, the beginning of the previous accounting period.

Upon admission to the London Stock Exchange on 15 October 2015, the Company allotted and issued 107,217,645 Ordinary Shares of £0.02 each at a premium of £1.68 per share, each credited as fully paid. This increased share capital by £2.1m and share premium by £180.1m, less associated costs of £7.5m, and £2.7m of costs incurred by the subsidiaries recognised in retained earnings.

Notes to the Consolidated Financial Statements continued

30. Share capital and reserves continued

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 both the current and prior periods. 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 24) and property held at revalued amounts (note 18) are recognised in other comprehensive income and accumulated within other reserves.

Share capital reduction

On 2 December 2015, the Company received approval from the Companies Court to undertake a share capital reduction. This reduced share premium and increased retained earnings by £1,089.0m.

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 2015 £m	31 December 2014 £m
Within one year	0.7	0.4
Within two to five years	2.7	0.4
Over five years	1.2	–
Total operating lease commitments	4.6	0.8

Operating lease payments largely represent rentals payable by the Group for its office properties.

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 2015 £m	31 December 2014 £m
IT transaction and support costs		
Within one year	7.4	1.2
Within two to five years	6.2	5.8
IT software development costs		
Within one year	1.8	2.0
Computer hardware costs		
Within one year	–	2.2
Total other financial commitments	15.4	11.2

32. Subsidiaries and other significant holdings

The Company's subsidiaries and other significant holdings are as follows:

Subsidiary	Country of incorporation	Class of shares held	% Ownership	Principal activity
Hastings Insurance Group (Holdings) plc ('HIG(H)')	Jersey	Ordinary	100%	Holding
Hastings Insurance Group (Investment) plc ('HIG(I)')*	Jersey	Ordinary	100%	Holding
Hastings Insurance Group (Layer Three) Limited ('HIG(L3)')*	Jersey	Ordinary	100%	Dormant
Hastings Insurance Group (Layer Two) Limited ('HIG(L2)')*	Jersey	Ordinary	100%	Dormant
Hastings F Nominees Limited*	England and Wales	Ordinary	100%	Dormant
Hastings G Nominees Limited*	England and Wales	Ordinary	100%	Dormant
Hastings Insurance Group (Finance) plc ('HIG(F)')*	Jersey	Ordinary	100%	Holding
Hastings Insurance Group Limited ('HIG')*	Jersey	Ordinary	100%	Holding
Advantage Global Holdings Limited ('AGH')*	British Virgin Islands	Ordinary	100%	Holding
Advantage Insurance Company Limited ('AICL')*	Gibraltar	Ordinary	100%	Underwriting
Conquest House Limited ('CQH')*	England and Wales	Ordinary	100%	Leasing of property
Hastings (Holdings) Limited ('HHL')*	England and Wales	Ordinary	100%	Holding
Hastings (UK) Limited ('HUK')*	England and Wales	Ordinary	100%	Holding
Hastings Insurance Services Limited ('HISL')*	England and Wales	Ordinary	100%	Broking
Renew Insurance Services Limited*	England and Wales	Ordinary	100%	Dormant
1066 Direct Limited*	England and Wales	Ordinary	100%	Dormant
Advantage Insurance Services Limited*	England and Wales	Ordinary	100%	Dormant
Hastings Direct Limited*	England and Wales	Ordinary	100%	Dormant
Hastings Direct Accident Management Limited*	England and Wales	Ordinary	100%	Dormant
People's Choice (Europe) Limited*	England and Wales	Ordinary	100%	Dormant
E Touch Solutions Limited ('E Touch')*	England and Wales	Ordinary	21%	Software development

* Held indirectly.

The Company holds 100% of the voting rights of both its directly and indirectly owned subsidiaries.

33. Ultimate controlling party

On 12 August 2015, Hastings Investco Limited ('Investco') became the Company's immediate parent company as part of the reorganisation described in note 1. Investco's registered office is at 47 Esplanade, St Helier, Jersey, JE1 0BD, Channel Islands. Hastings A L.P., a Limited Partnership registered in the Cayman Islands, was considered the ultimate controlling party both before and after this reorganisation.

34. Related party transactions

The following related party transactions with the Group took place during the year:

- As at 31 December 2015, the Group owned 21% of ordinary shares in E Touch (31 December 2014: 19%). The fair value of this investment is £nil and as such no investment in associate is recognised in the Consolidated Balance Sheet. In June 2014, E Touch converted the HIG(H) Group's option to purchase additional capital in E Touch into an unsecured variable rate loan note of £0.3m which was not recognised. Subsequently, the variable rate loan note was converted into equity, which increased the Group's interest in ordinary shares to 21%. The Group recognised expenses of £0.1m in respect of development fees charged by E Touch during the year (year ended 31 December 2014: £0.1m);
- The Group, under the terms of a discretionary investment management agreement with its subsidiary entity AICL, was charged £0.3m in fees by Goldman Sachs Asset Management International during the year (year ended 31 December 2014: £nil). As at 31 December 2015, the outstanding balance was £0.2m (31 December 2014: £nil);
- Goldman Sachs & Co charged the Group advisory fees of £0.5m during the year (year ended 31 December 2014: £0.2m) and Goldman Sachs International charged the Group fees for investment banking services in connection with the IPO of £1.5m (year ended 31 December 2014: £nil). As at 31 December 2015, the outstanding balance was £nil (31 December 2014: £0.2m); and
- During the period from 24 August 2015 to 31 December 2015, the Group was charged £0.1m by Eclipse Resources Limited for the provision of key management personnel services, including amounts considered for a performance related element (year ended 31 December 2014: £nil).

The following related party transactions with the HIG(H) Group took place during the year, prior to reorganisation on 12 August 2015:

- On 12 January 2015, HIG(H) issued 476,600 C2 time vesting and C2 performance ordinary shares to key management personnel at their nominal value of £0.01, which were fully paid; and
- On 30 April 2015, HIG(H) issued an additional 430,000 C2 time vesting and C2 performance ordinary shares to key management personnel at their nominal value of £0.01, which were fully paid.

During the year ended 31 December 2014, the HIG(H) Group issued the following share capital and preference shares to key management personnel:

Ordinary shares issued at their nominal value of £0.01

- 32,134,945 B ordinary shares;
- 1,249,852 C1 ordinary shares; and
- 4,410,000 C2 ordinary shares (both C2 time vesting and C2 performance ordinary shares).

Preference shares with nominal value of £0.01, issued for consideration of £1.00 per share

- 12,123,508 16.0% B preference shares;
- 440,705 16.0% C preference shares;
- 86,605,687 11.5% B preference shares; and
- 3,368,419 11.5% C preference shares.

Refer to note 12 for details of key management personnel compensation during the year.

35. Acquisition

On 8 January 2014, HIG(H) acquired 100% of the voting share capital of HIG, a related party of HIG(H) by virtue of the significant influence certain individuals had over both HIG and HIG(H). HIG is a Jersey registered company and parent of subsidiaries, together the HIG Group, whose principal activities are that of the provision of insurance and insurance broking services.

The acquisition was effected for consideration totalling £596.0m from HIG(F), one of HIG(H)'s subsidiaries, in exchange for the entire issued ordinary share capital of HIG, which was structured as an offer to all the holders of HIG's issued share capital on the date of the acquisition. Following the offer, the consideration comprised £454.9m in cash and a total of £141.1m in shares issued on the date of the acquisition. This consideration was funded through the Goldman Sachs investment and through the issue of the Senior Secured Notes by HIG(F) in October 2013.

The carrying amount of the consideration transferred was considered to be its fair value.

The acquisition of the HIG Group contributed net revenue of £393.5m and profit after tax of £82.5m to the Group for the period from acquisition to 31 December 2014.

If the acquisition had taken place on 1 January 2014, the Consolidated Statement of Profit or Loss would have presented net revenue of £390.4m and a loss after tax of £7.3m.

Goodwill primarily consists of intangible assets that do not qualify for separate recognition such as the value of a workforce, internal know-how and processes acquired.

The HIG(H) Group incurred acquisition-related costs of £9.7m in the year ended 31 December 2014 that have been included in other operating expenses in profit or loss.

The results of the HIG Group for the seven days ended 7 January 2014 were:

	Seven days ended 7 January 2014 £m
Gross written premiums	8.0
Gross earned premiums	7.9
Earned premiums ceded to reinsurers	(4.5)
Net earned premiums	3.4
Other revenue	3.9
Investment and interest income	0.1
Net revenue	7.4
Claims incurred	(6.0)
Reinsurers' share of claims incurred	3.3
Net claims incurred	(2.7)
Acquisition costs	(0.8)
Other operating expenses	(1.8)
Finance costs	(0.2)
Total expenses	(2.8)
Profit before tax	1.9
Taxation expense	(0.4)
Total profit and comprehensive income	1.5

Notes to the Consolidated Financial Statements continued

35. Acquisition continued

The fair value of the HIG Group's assets and liabilities that were acquired on 7 January 2014 were as follows:

	As at 7 January 2014 £m
Assets	
Intangible assets	126.2
Property and equipment	9.2
Deferred income tax asset	5.0
Reinsurance assets	341.2
Prepayments	2.2
Insurance and other receivables	203.3
Financial assets at fair value	171.5
Cash and cash equivalents	111.8
Total assets	970.4
Liabilities	
Loans and borrowings	83.8
Insurance contract liabilities	586.7
Insurance and other payables	138.1
Provisions	0.9
Deferred income tax liability	29.9
Current tax liabilities	5.0
Total liabilities	844.4
Net assets	126.0
Consideration transferred	596.0
Goodwill	470.0

As at the acquisition date, the gross amounts of insurance and other receivables were £208.8m and the best estimate of the contractual cash flows not expected to be collected was £5.5m. This comprised amounts due from customers who choose to pay by instalment which were not expected to be collected and resulted in the fair value of insurance and other receivables of £203.3m as presented above. For all other assets, the gross contractual amount is equivalent to the fair value.

36. Dividends

No dividends were paid during the year (year ended 31 December 2014: £nil). On the 14 March 2016, the Board recommended the payment of a final dividend in respect of the 2015 financial year of 2.2p per share, subject to shareholder approval at the AGM on 25 May 2016.

Parent Company balance sheet

as at 31 December 2015

	Note	31 December 2015 £m
Assets		
Investment in subsidiary	5	1,269.3
Deferred income tax asset		0.1
Cash and cash equivalents	6	6.8
Total assets		1,276.2
Liabilities		
Current liabilities	7	3.1
Total liabilities		3.1
Equity		
Share capital	9	13.1
Share premium	9	172.6
Retained earnings	9	1,087.4
Total equity		1,273.1
Total equity and liabilities		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 14 March 2016 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 period ended 31 December 2015

	Note	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
As at 11 June 2015		–	–	–	–
Total loss for the year 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

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

Parent Company statement of cash flows

for the period ended 31 December 2015

	Note	31 December 2015 £m
Profit/(loss) after tax		(2.1)
Adjustments for:		
Share based payments	8	0.3
Change in current liabilities		1.4
Net cash flows from operating activities		(0.4)
Outlays for 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)
Net cash flows from financing activities		176.3
Net increase in cash and cash equivalents		6.8
Cash and cash equivalents at beginning of period		–
Cash and cash equivalents inflow for the period		6.8
Cash and cash equivalents at end of period	6	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 initially incorporated as Hastings Group 123 Limited on 11 June 2015, with its registered office situated in England and Wales. The Company was renamed as Hastings Group Holdings Limited on 17 July 2015 and on 23 September 2015 it re-registered as a public company limited by shares and was renamed as Hastings Group Holdings plc. 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 Financial Statements comprise the results of the Company for the period from incorporation to 31 December 2015. The Company made a loss for the year ended 31 December 2015 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 2015. IFRS comprise standards and interpretations approved by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee ('IFRIC').

Going concern

Having considered the 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 below, developed in accordance with the standards effective under IFRS as at 31 December 2015, have been applied consistently to these Financial Statements.

2. Accounting policies

Employee benefits

The Company operates a defined contribution pension scheme. The amount charged to profit or loss in respect of pension costs is the amount of contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Parent Company Balance Sheet. The Company has no legal or constructive obligation to make any further payments to the plans other than the contributions due.

Investment in subsidiary

The investment in subsidiary is reported in the Parent Company Balance Sheet at cost less any impairment.

Financial assets

Financial assets comprise cash and cash equivalents. Such assets are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method.

Financial liabilities

Financial liabilities comprise intercompany payables and other payables. Financial liabilities are initially measured at fair value less any directly attributable transaction costs, which are capitalised and reduce the initial liability recognised. 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.

2. Accounting policies continued

Dividends

Dividends are recognised directly in equity when approved and payable.

3. Auditor remuneration

For the period ended 31 December 2015, auditor remuneration for audit services in respect of these Financial Statements amounted to £0.1m and for non-audit services relating to corporate finance transactions amounted to £1.3m.

Auditor remuneration for corporate finance transactions relates to Reporting Accountant work performed as part of the IPO process. £0.2m of this has been recognised in profit or loss and the remaining £1.1m has been recognised as a deduction from share premium.

All other auditor remuneration has been recognised in profit or loss.

4. Employee benefits

Total employee benefits, key management personnel compensation and Directors' emoluments comprised the following:

	Period ended 31 December 2015 £m
Short-term employee benefits	0.9
Total key management personnel compensation and Directors' emoluments	0.9

5. Investment in subsidiary

	As at 31 December 2015 £m
As at 11 June 2015	–
Additions	1,269.3
As at 31 December 2015	1,269.3

On 12 August 2015, the Company issued roll up loan notes to the value of £1,100.0m in exchange for the entire issued ordinary share capital, preference shares and roll up loan notes in HIG(H). On the same day, HIG(H) then converted its preference shares and roll up loan notes into ordinary share capital. As a result, the £1,100.0m investment in HIG(H) represented the entire share capital of HIG(H).

Subsequently, the Company increased its investment in HIG(H) through the purchase of additional share capital for cash consideration of £169.1m.

The investment in subsidiary also includes £0.2m relating to equity settled share based payments for certain key 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 2015 £m
Cash at bank and in hand	6.8
Total cash and cash equivalents	6.8

7. Current liabilities

	As at 31 December 2015 £m
Accrued expenses	0.1
Intercompany payables	1.0
Other payables	2.0
Total current liabilities	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 the 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 2015, costs of £0.3m relating to employees of the Company were recognised as employee expenses within profit or loss and costs of £0.2m relating to employees within the subsidiary undertakings, were recognised as an increase in the investment in subsidiary, with a corresponding £0.5m credit to retained earnings.

9. Share capital

On 11 June 2015, the Company was incorporated with an issued share capital consisting of one Ordinary Share of £1.00 nominal value, which was issued for cash consideration at par. On 3 August 2015, the £1.00 Ordinary Share was divided into 50 Ordinary Shares of £0.02 nominal value each having the same rights and subject to the same restrictions as the single £1.00 Ordinary Share.

On 12 August 2015, pursuant to the reorganisation, the Company converted roll up loan notes amounting to £1,100.0m into Ordinary Share capital consisting of 549,999,946 additional Ordinary Shares of £0.02 each, at a premium of £1.98 per share, fully paid and ranking pari passu with the existing 50 Ordinary Shares.

Upon admission to the London Stock Exchange on 15 October 2015, the Company allotted and issued 107,217,645 Ordinary Shares of £0.02 each at a premium of £1.68 per share, each credited as fully paid. This increased share capital by £2.1m and share premium by £180.1m, less associated costs incurred by the Company of £7.5m.

On 2 December 2015, the Company received approval from the Companies Court to undertake a share capital reduction. This reduced share premium and increased retained earnings by £1,089.0m.

10. Ultimate controlling party

On 12 August 2015 Hastings Investco Limited ('Investco') became the Company's immediate parent company as part of the reorganisation described in note 1 in the Notes to the Consolidated Financial Statements. Investco's registered office is at 47 Esplanade, St Helier, Jersey, JE1 0BD, Channel Islands. Hastings A L.P., a Limited Partnership registered in the Cayman Islands, was considered the ultimate controlling party both before and after this reorganisation.

11. Related party transactions

During the period ended 31 December 2015 there were the following related party transactions with the Company:

- During the period Goldman Sachs International charged the Company fees for investment banking services in connection with the IPO of £1.5m;
- During the period from 24 August 2015 to 31 December 2015, the Company was charged £0.1m by Eclipse Resources Limited, for the provision of key management personnel services including amounts accrued under a discretionary management bonus scheme; and
- The Company has a balance payable to Hastings Insurance Services Limited of £1.0m relating to payments made on its behalf.

12. Dividends

No dividends have been paid since incorporation. On 14 March 2016 the Board recommended the payment of a dividend of 2.2p per share, subject to shareholder approval at the AGM on 25 May 2016.

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 Insurance Group (Holdings) plc and its subsidiaries for the period 1 January 2014 to 11 August 2015 and Hastings Group Holdings plc and its subsidiaries for the period 12 August 2015 to 31 December 2015.

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 portion of written premiums ceded to the Group's panel of reinsurers.

PCW
Price comparison websites.

Periodical payment orders
Periodical payment orders ('PPOs') may be awarded in respect of claims made under insurance contracts, typically for the larger bodily injury claims, and are generally for a fixed instalment over an indeterminate time period, generally over several years or over the lifetime of a policyholder.

Profit commission
Performance-based payments from reinsurers based on contractual performance targets.

Reinsurance
Agreement with a panel of insurers whereby the Group mitigates 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
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Company number 9635183

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Reigate
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London
E14 5HP

Joint corporate brokers
Barclays
5 The North Colonnade
Canary Wharf
London
E14 4BB

Credit Suisse
1 Cabot Square
London
E14 4QJ

Registrar
Capita Asset Services
The Registry
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Beckenham
Kent
BR3 4TU

Shareholder information

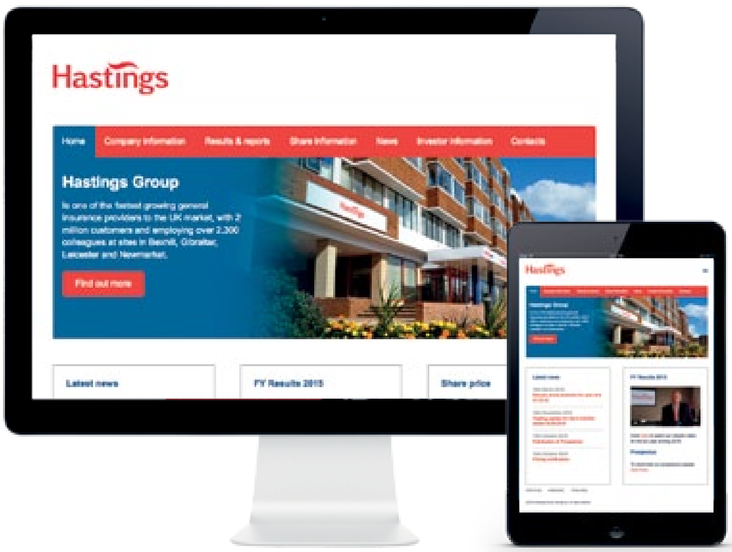
Corporate website

The Company's corporate website is **www.hastingsplc.com** where information about the Company and the Hastings 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

21 April 2016	Ex dividend date*
22 April 2016	Dividend record date*
25 May 2016	Annual General Meeting
31 May 2016	Dividend payment date*
11 August 2016	Interim results announcement

* Subject to shareholder approval at the AGM.



For further information please visit:
www.hastingsplc.com

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