



Hastings Insurance Services Limited

Annual Report

for the year ended 31 December 2018

Registered number: 03116518



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Directors and other information

Directors	T van der Meer
	T J Money
	P Blanc Chairman
	S Sagayam
	S A Amies-King
	V M Dias
Secretary	A S Leppard
Auditor	KPMG LLP
	15 Canada Square
	London
	E14 5GL
Banker	Barclays Bank Plc
	1 Churchill Place
	London
	E14 5HP
Registered office	Conquest House
	Collington Avenue
	Bexhill-on-Sea
	East Sussex
	TN39 3LW
Registered number	03116518 (England and Wales)

Strategic report

Principal Activity

The principal activity of Hastings Insurance Services Limited (the 'Company') is the provision of insurance broking services to the UK private car, van, motorbike and home markets. There have been no significant changes to the underlying activities of the Company during the year and no significant changes in the nature of the business are expected in 2019.

Performance

The Directors are pleased to report another solid set of results for the year and further development of the business. The Company has a proposition of providing straightforward insurance products and together with its digital business model, agile approach and counter-fraud capabilities, continues to deliver profitable results.

Financial highlights

- **Revenue** remained broadly flat at £331.6m for the year ended 31 December 2018, despite a competitive market environment (2017: £335.3m)
- **Other expenses** reduced by 6% to £208.2m (2017: £220.4m) including £14.6m of prior year VAT recovery recognised in the year
- **Sustained strong profitability with adjusted operating profit¹** up 8% to £124.7m (2017: £115.1m). Excluding £14.6m of prior year VAT recovery recognised during the year, adjusted operating profit was down 4% at £110.1m
- **Continued increase in profit before tax** of 7% to £117.1m (2017: £109.7m)

The Company's live customer policies ('LCP') increased 2.5% during the year to 2.71 million driven by attracting new customers and retention of existing customers. The Company has also expanded its panel of home underwriters with Lloyds Bank General Insurance, Integra and RSA having joined our panel during the second half of 2018. Revenue remained broadly flat at £331.6m (2017: £335.3m), with minor pricing structure changes decreasing average revenue per policy compared to prior year, offset by the increase in live customer policy numbers. Other expenses decreased by 6% to £208.2m and includes the £14.6m prior year VAT recovery received in the year. Excluding this VAT benefit underlying expenses increased by 1%, a marked reduction in the rate of expense growth compared to the prior year despite the continued investment in enhanced anti-fraud capabilities and digital functionality.

Profit before tax increased by 7% to £117.1m (2017: £109.7m). The Company paid dividends of £61.7m (2017: £79.2m), whilst maintaining at all times a significant excess over FCA regulatory capital requirements.

Non-financial highlights

- **Sustained growth in live customer policies** to 2.71m, increasing 2.5% from 2.64m last year
- **Growing share** of the UK private car insurance market to 7.5% as at 31 December 2018 (7.3% as at 31 December 2017)
- **Successful completion of the Guidewire programme**, with the car and home build complete and the majority of customers are on the new platform in the first half of 2019, supporting operational efficiency
- **New anti-fraud capabilities introduced including digital fraud tracking systems**. Action taken against 99 ghost broking rings this year
- **Roll out of a new mobile app and enhanced functionality on the customer portal** enabling the most common policy changes to be made online, with additional functionality to be launched in 2019
- **RAC partnership launched in the summer**, providing market leading breakdown service to customers
- **Launch of gender, ethnic and age workforce diversity programmes**, strengthening the diversity and power of the workforce
- **Expanded panel of home underwriters** with additional three underwriters, demonstrating good performance since launch

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

The Company continued to invest in the development of enhanced anti-fraud capabilities and digital functionality, including delivering electronic claims notification, claims tracking and online self-serve functionality this year. A key milestone has been to complete the Guidewire programme, which is now live for car and home customers. Together with the existing Guidewire claims platform, this provides an end to end, state of the art platform to handle all claims and policy administration functions. This investment has already started to provide benefits and, as well as future operational efficiencies, enables the Company to strengthen its digital advantage and increase digital functionality for customers.

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

The Company is committed to making sure that its workforce is representative in terms of diversity. The Company signed up to the Women in Finance Charter supporting the progression of women into senior roles in the financial services sector by focusing on the executive pipeline and the mid-tier level. Currently 50% of the Company's Board members are women, and the Hastings Group are also signatories to the 30% Club committing to having 30% female senior leaders at Hastings by 2020.

The Company undertakes a proactive role in helping local charities, making financial, professional and physical support available to the local community. This year the Company has continued to make various donations to support local causes. In 2018 the Company started the fourth year of the 'Be the Change' programme in Bexhill and Leicester which aims to raise the aspirations of local 13 – 14 year olds. The programme is designed to help remove barriers that make students disengage from school and in life by providing them with life skills to help shape their future. Colleagues volunteer as business mentors to help support the students with anecdotal and professional advice and guidance. The Company continues to be the only corporate organisation to sponsor a full and bespoke Be the Change programme in the UK.

Key performance indicators

The Directors use Key Performance Indicators ('KPIs') to monitor the performance of the Company. The KPIs most relevant to the business are revenue, adjusted operating profit, profit before tax and live customer policy count.

	31 December 2018	31 December 2017
	£'m	£'m
Revenue	331.6	335.3
Adjusted operating profit	124.7	115.1
Profit before tax	117.1	109.7
Live customer policies as at 31 December (million)	2.7	2.6

The Directors review performance on a regular basis and take appropriate remedial action for any underperformance. In addition, the Board continues to look for opportunities to maximise shareholder return, add value to the business and support continued growth.

Principal risks and uncertainties

The Directors' Report details the key financial risks the Directors look to manage. These risks are also viewed as principal risks and uncertainties that the Company faces as part of its ongoing strategy as many of these risks are related to key business decisions that the Directors review and discuss on a regular basis:

- Competition risk
- Price risk
- Credit risk
- Liquidity risk
- Legislative and Regulatory risk
- Fraud risk

Brexit risk

The assessment of risks associated with Brexit is a key focus for the Company, and a working group is in place to assess the impact of a Brexit agreement or a no deal scenario. The UK leaving the EU is not likely to impact the need for UK motorists and households to obtain insurance and is therefore unlikely to significantly affect demand for the Company's products.

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

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

Going concern

After a full review of the Company's financial position, cash flows and forecasts for the next 12 months, and after making appropriate enquiries, 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 annual report and financial statements.

The Strategic Report has been approved by the Board of Directors and signed on its behalf by:



T van der Meer

Director

29th April 2019

Registered number: 03116518

Directors' report

The Directors submit their report and the audited financial statements of Hastings Insurance Services Limited for the year ended 31 December 2018.

Directors

The Directors who served during the year, and up to the date of signing of this report, are listed below:

- | | |
|------------------|--|
| - G A Hoffman | Resigned 1 March 2018 |
| - T van der Meer | |
| - T J Money | |
| - P Blanc | Chairman |
| - S Sagayam | Non-executive |
| - S A Amies-King | Non-executive |
| - V M Dias | Non-executive |
| - C Astin | Appointed 4 July 2018, resigned 31 December 2018 |

As permitted by the Companies Act 2006, the Company has maintained insurance cover for Directors and officers against liabilities arising in relation to the Company.

Employment policies

The Directors seek to achieve a common awareness among the Company's employees on matters of interest and concern to them and on matters affecting the Company's performance. Colleague surveys are conducted annually and the views of colleagues are widely sought and taken into account in making decisions which affect them. Information is conveyed through colleague roadshows, meetings and the distribution of circulars.

The Company is an equal opportunities employer. The Company's equal opportunities policy is designed to treat all job applicants and employees equally, based on individual ability regardless of race, religion and belief, gender, age or disability. This principle applies to recruitment and selection, promotion, transfer, training, discipline and grievance and all terms and conditions of employment.

Environment policy

The Company is committed to reducing its impact on the environment by:

- Minimising energy, water and paper use;
- Optimising waste recycling by providing facilities and encouraging employees to recycle;
- Reducing travel, encouraging employees to communicate without travelling when practicable;
- Encouraging staff members to cycle to work, use public transport and car share through its Travel Green Scheme;
- Ensuring appropriate regulatory compliance.

Dividends

The Directors declared and paid dividends of £61.7m during the year (2017: £79.2m).

Financial risk management

The Company's operations expose it to a number of financial risks. The Company has in place a risk management framework that seeks to limit the adverse effects of these risks on the financial performance of the Company.

a) Competition risk

Competitive pressure in the UK is a continuing risk for the Company, which could result in it losing sales to its competitors. The Company constantly reviews margins to ensure competitive pricing and also manages this risk through its advanced pricing capabilities and continual investment in technology to support these capabilities. Competitor reviews are also carried out on a regular basis to identify any emerging risks and opportunities. The Company further manages this risk by providing added value services to its customers, having fast response times, not only in supplying products but also in handling all customer queries and by maintaining strong relationships with customers.

b) Price risk

The Company is exposed to price risk due to market movements in the purchase price of goods and services it purchases in the UK.

c) Credit risk

The Company is exposed to credit risk on cash and cash equivalents held by credit institutions and on instalment sales from customers who pay monthly. These balances are monitored regularly.

d) Liquidity risk

The Company actively manages a mixture of cash, current asset investments and intercompany balances that are designed to ensure the Company has sufficient available liquid resources for its operations.

e) Legislative and Regulatory risk

The Company actively manages its compliance with all relevant legislative and regulatory requirements. The Company is proactive in establishing robust policies and procedures to ensure effective compliance with requirements of the Financial Conduct Authority ('FCA'), the Company's primary regulator. This includes ensuring that there is sufficient capital to meet regulatory capital requirements; the Company ensures that it operates at all times above a minimum threshold in excess of the FCA requirements. An ongoing FCA review into pricing practices to ensure consumers are being treated fairly has resulted in a general insurance market study focusing in 2019 on pricing practices for home and motor insurance. The Company is supporting and engaging with this review, and will closely monitor and assess the potential, and ultimate, outcome.

f) Fraud

The Company employs a number of sophisticated identification and validation methodologies and databases to help prevent potentially fraudulent activity at various points in the application, sale and claims process. The Company has a market leading counter-fraud capability, which to date has generated significant benefits and which supports demand for participation by its insurer panel. The Company's counter-fraud operations team, Insight, operates as an integrated, comprehensive risk selection and loss validation division. Insight includes a dedicated team that includes new business review agents, analysts, intelligence operatives, claims handlers, former police officers and field based investigators.

Provision of information to auditor

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as the Directors are aware, there is no relevant information of which the Company's auditor has not been made aware; and
- each Director has taken all the steps that ought to have been taken as a Director in order to be aware of any information needed by the Company's auditor in connection with preparing their report and to establish that the Company's auditor is aware of that information.

Auditor

KPMG LLP are continuing in office and are therefore deemed to be re-appointed in accordance with section 487 of the Companies Act 2006.

Approved by the Board of Directors and signed on its behalf by:



T van der Meer
Director

Date: 29th April 2019

Registered number: 03116518

Statement of Directors' responsibilities in respect of the Strategic report, the Directors' report and the Financial Statements

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRSs as adopted by the EU') and applicable law.

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 Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

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

Independent auditor's report to the members of Hastings Insurance Services Limited

Opinion

We have audited the financial statements of Hastings Insurance Services Limited ("the Company") for the year ended 31 December 2018 which comprise the Statement of Profit or Loss, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows, and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

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

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the Directors, related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

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

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and Directors' report

The Directors are responsible for the strategic report and the Directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 9, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

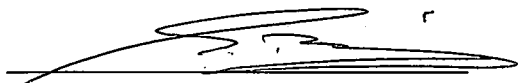
Auditor's responsibilities

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

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

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

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



Salim Tharani (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

Date 29 April 2019

Statement of Profit or Loss
for the year ended 31 December 2018

	Note	Year ended	
		31 December 2018 £'m	31 December 2017 £'m
Revenue	4	331.6	335.3
Other expenses	5	(208.2)	(220.4)
Finance income	7	1.3	0.2
Adjusted operating profit¹		124.7	115.1
Amortisation and depreciation	5	(7.1)	(5.4)
Finance costs	20	(0.5)	-
Profit before tax		117.1	109.7
Taxation expense	8	(22.2)	(21.3)
Total profit for the year		94.9	88.4

All results arose from continuing operations.

The Company did not have any other comprehensive income in the current or prior period.

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

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

Balance Sheet
as at 31 December 2018

	Note	31 December 2018 £'m	31 December 2017 £'m
Non-current assets			
Intangible assets	9	75.2	60.5
Property and equipment	10	19.4	8.6
Deferred income tax asset	12	-	2.5
Contract costs	11	21.3	-
Total non-current assets		115.9	71.6
Current assets			
Contract costs	11	25.5	-
Trade and other receivables	13, 15	347.6	317.5
Prepayments		7.0	5.3
Cash and cash equivalents	14, 15	55.9	59.5
Total current assets		436.0	382.3
TOTAL ASSETS		551.9	453.9
Equity			
Share capital	16	8.0	8.0
Capital contribution from Parent	17	5.9	4.6
Retained earnings		144.2	82.3
Total equity		158.1	94.9
TOTAL EQUITY		158.1	94.9
Non-current liabilities			
Deferred income	19	1.9	2.0
Deferred income tax liability	12	0.6	-
Total non-current liabilities		2.5	2.0
Current liabilities			
Trade and other payables	15, 18	369.1	339.2
Deferred income	19	10.8	8.8
Current tax liabilities		11.4	9.0
Total current liabilities		391.3	357.0
TOTAL LIABILITIES		393.8	359.0
TOTAL EQUITY AND LIABILITIES		551.9	453.9

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

These Financial Statements were approved by the Board of Directors on **26th** April 2019 and were signed on its behalf by:



T van der Meer

Director

Company Number: 03116518

Statement of Changes in Equity
for the year ended 31 December 2018

		Share capital	Capital contribution from Parent	Retained earnings	Total equity
	Note	£'m	£'m	£'m	£'m
As at 1 January 2017		8.0	1.8	72.7	82.5
Total profit for the year		-	-	88.4	88.4
Capital contribution from Parent	17	-	2.8	-	2.8
Tax on share based payments		-	-	0.4	0.4
Dividends paid	23	-	-	(79.2)	(79.2)
As at 31 December 2017 as previously stated		8.0	4.6	82.3	94.9
Impact of implementing IFRS 15	25	-	-	39.8	39.8
Impact of implementing IFRS 16	25	-	-	(1.1)	(1.1)
Impact of implementing IFRS 9	25	-	-	(2.9)	(2.9)
Tax impact of implementing IFRS 15	25	-	-	(7.4)	(7.4)
Tax impact of implementing IFRS 16	25	-	-	0.2	0.2
Tax impact of implementing IFRS 9	25	-	-	0.5	0.5
Adjusted as at 1 January 2018		8.0	4.6	111.4	124.0
Total profit for the year		-	-	94.9	94.9
Capital contribution from Parent	17	-	1.3	-	1.3
Tax on share based payments		-	-	(0.4)	(0.4)
Dividends paid	23	-	-	(61.7)	(61.7)
As at 31 December 2018		8.0	5.9	144.2	158.1

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

Statement of Cash Flows
for the year ended 31 December 2018

		31 December 2018	31 December 2017
	Note	£'m	£'m
Profit after tax		94.9	88.4
<i>Adjustments for:</i>			
Finance income	7	(1.3)	(0.2)
Taxation expense	8	22.2	21.3
Amortisation of intangible assets	5, 9	2.5	2.9
Depreciation of property and equipment	5, 10	4.6	2.5
Loss on disposal of property and equipment		(0.1)	-
Share based payment charge	17	2.1	2.9
Change in trade and other receivables		(33.5)	(53.0)
Change in contract assets		(5.3)	-
Change in trade and other payables		18.6	40.0
Change in prepayments		(4.4)	(3.9)
Taxation paid		(20.8)	(17.1)
Contribution to parent share based payment scheme		(0.6)	-
Net cash flows from operating activities		78.9	83.8
Acquisition of property and equipment		(3.0)	(2.1)
Acquisition of intangible assets		(17.2)	(12.3)
Interest received	7	1.3	0.2
Net cash flows from investing activities		(18.9)	(14.2)
Repayment of lease liabilities		(1.9)	-
Dividends paid	23	(61.7)	(79.2)
Net cash flows from financing activities		(63.6)	(79.2)
Net decrease in cash and cash equivalents		(3.6)	(9.6)
Cash and cash equivalents at beginning of year		59.5	69.1
Cash and cash equivalents (outflow)/inflow for the year		(3.6)	(9.6)
Cash and cash equivalents at end of year	14	55.9	59.5

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

Notes to the Financial Statements

1. Basis of preparation

Hastings Insurance Services Limited (the 'Company', 'HISL') is a company incorporated in England and Wales. Its registered office is at Conquest House, Collington Avenue, Bexhill-on-Sea, TN39 3LW, United Kingdom. The Company's registered number is 03116518.

The principal activities of the Company are to broker private car, van, bike and home insurance within the United Kingdom ('UK') and to provide insurance outsourcing services.

The Financial Statements comprise the results of the Company for the year ended 31 December 2018 and comparative figures for the year ended 31 December 2017.

The Company has prepared its Financial Statements in accordance with the Companies Act 2006 and International Financial Reporting Standards as adopted by the European Union that are in effect as at 31 December 2018 ('IFRS'). IFRS comprise standards and interpretations approved by the International Accounting Standards Board ('IASB') and the International Financial Reporting Interpretations Committee.

The Company has taken the exemption from preparing consolidated financial statements under IFRS 10 Consolidated Financial Statements and S.400 of the Companies Act 2006. Hastings Group Holdings plc ('HGH') is the Company's ultimate parent and produces consolidated financial statements prepared under IFRS which can be obtained from its registered address at Conquest House, Collington Avenue, Bexhill-on-Sea, East Sussex, TN39 3LW, UK.

a) Going concern

Further information regarding the Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report and Directors' Report. The Balance Sheet of the Company, its cash flows, liquidity position and borrowing facilities are set out in the primary statements and described in the notes to the financial statements.

Having considered the foregoing items and the most recently prepared budgets and cash flow forecasts for the next 12 months and beyond, and after making enquiries, 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 Financial Statements.

b) Basis of measurement

The functional currency is sterling and the financial statements are presented in pounds sterling. Amounts are rounded to the nearest million with one decimal place (e.g. £0.1m) except where otherwise indicated.

The 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 amount, events or 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.

c) Adoption of new IFRS

This is the first set of the Company's financial statements in which IFRS 15 Revenue from Contracts with Customers, IFRS 9 Financial Instruments and IFRS 16 Leases have been applied.

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

The Company implemented IFRS 15, which replaced IAS 18 Revenue, with effect from 1 January 2018 and applied to Brokerage and fees and Other income revenue streams recognised from this date.

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

The Company has used the cumulative effect method whereby comparatives are not restated and the cumulative impact of adjustments is recognised in the balance sheet at the date of initial application. The Company's revised accounting policy for revenue has been provided in Note 2 and transition disclosures are provided in Note 25.

Notes to the Financial Statements

IFRS 9 Financial Instruments ('IFRS 9')

The Company implemented IFRS 9, which replaced IAS 39 Financial Instruments, with effect from 1 January 2018 and has been applied to the Company's financial instruments from this date. IFRS 9 requires that all expected credit losses are recognised upon initial recognition of financial assets. Income from Premium financing is recognised in accordance with IFRS 9 Financial Instruments.

On transition, the Company used a modified retrospective method whereby comparatives have not been restated and the cumulative impact of opening balance adjustments is recognised in retained earnings at the date of initial application. The Company's revised accounting policy for loans and receivables has been provided in Note 2 and transition disclosures are provided in Note 25, there was no impact to any other accounting policies of the Company under IFRS 9.

IFRS 16 Leases ('IFRS 16')

The Company early adopted IFRS 16 and implemented this from 1 January 2018 applying the accounting requirements to all leases and contracts containing leases entered into from 1 January 2018. For contracts entered into before 1 January 2018, the Company applied IFRS 16 accounting provisions to contracts that had already been recognised as operating leases under IAS 17 Leases ('IAS 17') and IFRIC 4 Determining whether an Arrangement contains a Lease ('IFRIC 4'), in accordance with the transition provisions. The Company has elected to apply the exemption in respect of short term and low value leases as these are not material to the Company.

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

The Company's lease contracts are primarily for the use of property and computer hardware. On transition, the Company used a modified retrospective method whereby comparatives have not been restated and the cumulative impact of opening balance adjustments is recognised in retained earnings at the date of initial application. The Company's revised accounting policy for leases has been provided in Note 2 and transition disclosures are provided in Note 25.

Amendments

On 1 January 2018, the Company also adopted the following clarifications and amendments to the standards which were effective from 1 January 2018. These did not have a material impact upon the financial statements:

- IFRIC 22 Foreign Currency Transactions and Advance Consideration - endorsed by the EU on 28 March 2018. Clarifies which exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency.
- Amendments to IFRS 2 classification and measurement of share based payment – endorsed by the EU on 26 February 2018. Clarifies the measurement basis for cash settled share based payments, share based payment transactions with a net settlement feature for withholding tax obligations, and the accounting for modifications that change an award from cash-settled to equity-settled.
- Amendments to IAS 40 Transfers of Investment Property – endorsed by the EU on 14 March 2018. Clarifies whether IAS 40 Investment Properties allows a property under construction to be transferred from inventory to investment property when there is an evident planned change in use.

The following accounting standards have been issued by the IASB but are not yet effective in the EU and have not yet been adopted within these financial statements:

IFRS	EU Status
IFRS 17 Insurance contracts	Not yet endorsed by the EU
Amendments to IFRS 9 - Prepayment features with negative compensation	Endorsed by the EU on 22 March 2018 and effective from 1 January 2019
Amendments to IAS 28 - Long-term interests in Associates and Joint Ventures	Endorsed by the EU on 8 February 2019 and effective from 1 January 2019
IFRIC 23 Uncertainty over income tax treatments	Endorsed by the EU on 23 October 2018 and effective from 1 January 2019

Notes to the Financial Statements (continued)

IFRS 17 Insurance Contracts ('IFRS 17')

The IASB issued IFRS 17 Insurance Contracts on 18 May 2017. IFRS 17 provides a comprehensive framework for accounting for insurance contracts. Management do not expect the adoption of IFRS 17 will have a significant impact on the Financial Statements as the Company does not underwrite insurance contracts. The standard is expected to be effective from 1 January 2022, subject to endorsement by the EU.

Amendments to IFRS 9 - Prepayment features with negative compensation

This amendment to IFRS 9 amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. This is not expected to have a material effect on the Company's financial statements when it comes into effect.

Amendments to IAS 28 - Long-term interests in Associates and Joint Ventures

The amendments to IAS 28 clarify that a company applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. This is not expected to have a material effect on the Company's financial statements when it comes into effect.

IFRIC 23 Uncertainty over income tax treatments ('IFRIC 23')

IFRIC 23 provides additional guidance on the application of IAS 12 Income Taxes. The adoption of these amendments are not currently expected to have a material impact on the Company's financial statements when it comes into effect.

Notes to the Financial Statements (continued)

2. Accounting policies

a) Revenue recognition

Revenue consists principally of brokerage, premium finance interest and other fees relating to the arrangement and handling of insurance contracts.

Revenue from contracts with customers

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

Revenue from brokerage and other fees is measured at the fair value of the income receivable and is recognised on satisfaction of the Company's performance obligations. The fair value measurement makes allowance for expected future refunds to customers in the event of cancellation before the expiry of the policy. Discounts on revenue are deducted from the revenue streams to which they relate.

The Company satisfies its performance obligations for insurance broking contracts at a point in time; revenue is recognised at arrangement date unless the Company retains the obligation to handle claims on policies placed, whereby a portion of revenue is deferred.

Revenue arising from insurance broking activities is measured on an agency basis, net of cost, at the fair value of the income receivable after adjusting for any allowance for expected future cancellation refunds.

The Company may also provide contracts for the provision of other ad hoc, point in time services to customers. Such income is recognised when the performance obligation has been satisfied at the expected value of consideration and is included within other income.

The duration of all contracts is one year or less, therefore the transaction price allocated to any unsatisfied contracts is not disclosed as permitted under IFRS 15.

Premium finance interest

Premium finance interest, earned on instalment 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.

All revenue arises within the UK and is recorded net of sales tax.

b) Employee benefits

Pension contributions

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

Share based payments

The Company's ultimate parent company, HGH, operates equity-settled share based payment schemes under which the Company's employees may receive free share awards or nil cost options, depending on the scheme. Awards may have service and performance conditions attached.

The fair value of a share based payment award is determined at grant date and expensed on a straight line basis over the vesting period, with a corresponding credit recognised as a capital contribution within equity where the Company does not settle the obligation or repay the parent Company. Where the Company settles the shares the scheme is accounted for as cash settled with a corresponding asset or liability for payments made less fair value earned. Expected vesting in respect of both service conditions and non-market performance conditions are reviewed annually and adjustments are made retrospectively to the cumulative expense recognised.

Notes to the Financial Statements (continued)

c) Finance income

Finance income comprises interest due on cash and cash equivalents and is recognised in profit or loss using the effective interest method.

d) Taxation

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

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

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

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

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

e) Intangible assets

Computer 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 between three and ten years for all of the Company'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.

Work in progress

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

Notes to the Financial Statements (continued)

f) Tangible assets

Tangible assets consisting of fixtures, fittings and 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.

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

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

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

- | | |
|--------------------------|---|
| • Leasehold improvements | Shorter of 4-10 years or the remaining lease period |
| • Computer equipment | 2-5 years |
| • Fixtures and fittings | 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 includes tangible assets in the course of development which are considered to be eligible for capitalisation but which have not yet reached the state where they are ready for their intended use. As such no depreciation has yet been charged on these assets.

g) Contract assets

Contract Assets consist of costs incurred to obtain and fulfill a contract. They are recognised over the life of the expected customer relationship.

Costs to obtain the contract are only recognised as a contract asset if they are recoverable and would only have been incurred if the contract is obtained. Costs that would have been incurred regardless of whether the contract was obtained are recognised as an expense when incurred.

Costs to fulfil a contract are only recognised as a contract asset if they meet the following criteria; they are not within the scope of another standard, relate directly to a contract, generate or enhance resources that will be used in satisfying (or in continuing to satisfy) performance obligations in the future and are expected to be recovered.

h) Leases

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

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

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

Notes to the Financial Statements (continued)

i) Financial assets

The Company's financial assets comprise trade and other receivables which are classified as loans and receivables.

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 less any expected future credit losses and are subsequently measured at amortised cost using the effective interest method, less any additional accumulated impairment losses.

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

Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the Company 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 Company 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.

Impairment of financial assets

The Company 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 Company 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.

For loans and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding expected future credit losses that had not been incurred). The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in profit or loss.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. The expected credit losses have been calculated using the prior two years' credit loss experience and the credit risk of the book is monitored by management as part of the day to day running of the company. Potential future changes to the risk profile for the next year are considered as part of this monitoring process and are currently assessed as immaterial.

j) Cash and cash equivalents

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

k) Financial liabilities

The Company's financial liabilities comprise trade 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.

Notes to the Financial Statements (continued)

l) 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 Company provides financing to customers for instalment premiums payable to third party insurers. Payables arise where the Company has an obligation to remit premiums received to third party insurers.

m) 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.

n) Dividends

Dividends are recognised directly in equity when approved and payable.

Notes to the Financial Statements (continued)

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 Company's accounting policies that have the most significant effect on the amounts 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:

a) 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 tangible assets 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 or IAS 38 Intangible Assets have been fulfilled.

b) 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. Impairment historically relating to income not expected to be recoverable is measured in the same manner and takes into account recovery trends.

c) Revenue

Revenue 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.

A portion of revenue received for the arrangement of insurance contracts is deferred where the Company retains the obligation to handle claims on policies placed. The amount of revenue deferred is based on the expected number of claims to be handled at the reporting date.

Notes to the Financial Statements (continued)

4. Revenue

	Year ended	
	31 December 2018 £'m	31 December 2017 £'m
Brokerage and fees	227.2	240.3
Premium finance interest	104.0	94.4
Other income	0.4	0.6
Total revenue	331.6	335.3

Brokerage and fees and Other income are recognised as revenue from contracts with customers as defined by IFRS 15.

5. Other expenses

	Year ended	
	31 December 2018 £'m	31 December 2017 £'m
<i>Profit before taxation is stated after charging</i>		
Buildings operating lease rentals	-	2.2
Equipment operating lease rentals	-	0.2
Auditor's remuneration		
Fees for audit services in respect of these financial statements	0.1	0.1
Employee benefits	88.8	83.9
VAT refund in respect of prior periods	(14.6)	-
Administration and distribution costs	133.9	134.0
Other expenses	208.2	220.4
Amortisation of intangible assets (Note 9)	2.5	2.9
Depreciation of property and equipment (Note 10)	4.6	2.5
Amortisation and depreciation	7.1	5.4

6. Employee benefits

Included in other operating expenses were the following employee benefits:

	Year ended	
	31 December 2018 £'m	31 December 2017 £'m
Salaries	78.1	71.7
Social security charges	6.7	7.8
Defined contribution pension plan costs	1.9	1.5
Share based payment charge	2.1	2.9
Total employee benefits	88.8	83.9

Notes to the Financial Statements (continued)

Staff numbers (including Directors)

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

	Year ended	
	31 December 2018	31 December 2017
Operational staff	2,655	2,383
Support staff	169	165
Total staff	2,824	2,548

Key management personnel emoluments

Information relating to aggregate key management personnel emoluments is disclosed in the table below.

	Year ended	
	31 December 2018 £'m	31 December 2017 £'m
Short term employee benefits	1.6	1.9
Post employment benefits	0.1	0.1
Share based payments	0.4	1.1
Total directors compensation	2.1	3.1

Directors' emoluments

During the year, the compensation of the highest paid Director was £0.3m (2017: £0.4m).

Information relating to aggregate Directors' emoluments is disclosed in the table below.

	Year ended	
	31 December 2018 £'m	31 December 2017 £'m
Short term employee benefits	0.9	1.0
Share based payments	0.4	0.8
Total Directors' compensation	1.3	1.8

Notes to the Financial Statements (continued)

7. Finance income

	Year ended	
	31 December 2018	31 December 2017
	£'m	£'m
Interest on cash and cash equivalents	1.3	0.2
Total finance income	1.3	0.2

8. Taxation expense

	Year ended	
	31 December 2018	31 December 2017
	£'m	£'m
<i>Current tax</i>		
Corporation tax on profits for the year	26.8	22.1
Adjustments for prior years	(0.3)	0.1
Current taxation expense	26.5	22.2
<i>Deferred tax</i>		
Deferred taxation movement relating to temporary differences	(4.3)	(0.7)
Adjustments for prior years	-	(0.2)
Deferred taxation expense	(4.3)	(0.9)
Total taxation expense	22.2	21.3

Tax reconciliation:

	Year ended	
	31 December 2018	31 December 2017
	£'m	£'m
Profit before tax	117.1	109.7
<i>Applicable tax charge at the statutory tax rate 19% (2017: 19.25%):</i>	<i>22.3</i>	<i>21.1</i>
Expenses and provisions not deductible for tax purposes	0.2	0.3
Adjustments to tax charge for prior years - current tax	(0.3)	0.1
Adjustments to tax charge for prior years - deferred tax	-	(0.2)
Total taxation expense	22.2	21.3

The UK Corporation tax rate applicable to the Company was 19.0% for the year ended 31 December 2018 (2017: 19.25%).

Notes to the Financial Statements (continued)

9. Intangible assets

	Computer Software £'m	Work in progress £'m	Total £'m
<i>Cost</i>			
As at 1 January 2017	20.7	39.5	60.2
Additions	0.9	13.8	14.7
Transfers	1.0	(1.0)	-
As at 31 December 2017	22.6	52.3	74.9
<i>Accumulated amortisation</i>			
As at 1 January 2017	11.5	-	11.5
Amortisation for the year	2.9	-	2.9
As at 31 December 2017	14.4	-	14.4
Net book value as at 31 December 2017	8.2	52.3	60.5
<i>Cost</i>			
As at 1 January 2018	22.6	52.3	74.9
Additions	0.9	16.3	17.2
Transfers	62.0	(62.0)	-
Disposals	(2.5)	-	(2.5)
As at 31 December 2018	83.0	6.6	89.6
<i>Accumulated amortisation</i>			
As at 1 January 2018	14.4	-	14.4
Amortisation for the year	2.5	-	2.5
Disposals	(2.5)	-	(2.5)
As at 31 December 2018	14.4	-	14.4
Net book value as at 31 December 2018	68.6	6.6	75.2

Computer software held as at 31 December 2018 includes internally generated software carried at £65.9m (2017: £5.9m). During the year the Group completed its implementation of Guidewire, a state of the art, integrated end to end platform for claims handling, broking and billing, and as such £62.0m of internally generated software was transferred from work in progress to software at the end of the year. The internally generated Guidewire software has a remaining useful economic life of up to 10 years (2017: 5 years). Management performed a review of the expected useful economic life of software during the year resulting in an increase in the maximum life from seven to ten years.

Notes to the Financial Statements (continued)

10. Property and equipment

	Leasehold improvements	Computer equipment	Fixtures, fittings and equipment	Work in progress	Right of use assets	Total
	£'m	£'m	£'m	£'m		£'m
<i>Cost</i>						
As at 1 January 2017	5.2	12.7	2.4	0.1	-	20.4
Additions	2.0	1.8	0.1	0.2	-	4.1
Transfers	-	0.1	-	(0.1)	-	-
Disposals	(0.5)	-	(0.4)	-	-	(0.9)
As at 31 December 2017	6.7	14.6	2.1	0.2	-	23.6
<i>Accumulated depreciation</i>						
As at 1 January 2017	2.2	9.5	1.5	-	-	13.2
Charge for the year	0.6	1.6	0.3	-	-	2.5
Disposals	(0.4)	-	(0.3)	-	-	(0.7)
As at 31 December 2017	2.4	11.1	1.5	-	-	15.0
Net book value as at 31 December 2017	4.3	3.5	0.6	0.2	-	8.6
<i>Cost</i>						
As at 1 January 2018	6.7	14.6	2.1	0.2	-	23.6
Opening adjustment (note 25)	-	-	-	-	12.3	12.3
Additions	0.6	0.6	-	1.6	0.2	3.0
Transfers	0.5	-	-	(0.5)	-	-
Disposals	(0.2)	(0.6)	-	-	-	(0.8)
As at 31 December 2018	7.6	14.6	2.1	1.3	12.5	38.1
<i>Accumulated depreciation</i>						
As at 1 January 2018	2.4	11.1	1.5	-	-	15.0
Charge for the year	0.6	1.7	0.3	-	2.0	4.6
Disposals	(0.2)	(0.7)	-	-	-	(0.9)
As at 31 December 2018	2.8	12.1	1.8	-	2.0	18.7
Net book value as at 31 December 2018	4.8	2.5	0.3	1.3	10.5	19.4

During the year a depreciation charge of £1.2m was recognised on property right of use assets and £0.8m on IT hardware right of use assets, which resulted in a net book value of £8.7m and £1.8m respectively as at 31 December 2018.

Notes to the Financial Statements (continued)

11. Contract costs

	As at	
	31 December 2018	31 December 2017
	£'m	£'m
Within 12 months	25.5	-
Over 12 months	21.3	-
Total contract assets	46.8	-

Contract assets consist of costs incurred to obtain and fulfill a contract. They are recognised over the life of the expected customer relationship.

	As at	
	31 December 2018	31 December 2017
	£'m	£'m
Opening adjustment for IFRS 15 (note 25)	41.5	-
Additions	28.6	-
Releases	(23.3)	-
Total contract assets	46.8	-

12. Deferred income tax

	As at	
	31 December 2018	31 December 2017
	£'m	£'m
<i>Deferred income tax asset/(liability)</i>		
Brought forward at start of year	2.5	1.2
Opening adjustment (note 25)	(7.0)	-
Movement in year	3.9	1.3
Carried forward at end of year	(0.6)	2.5
Depreciation in excess of capital allowances	1.1	1.0
Leases	0.2	-
Bad debt provision	0.5	-
Share based payments	1.1	1.5
Spreading of contract costs	(3.5)	-
Deferred income tax asset/(liability) at end of year	(0.6)	2.5

Notes to the Financial Statements (continued)

13. Trade and other receivables

	As at	
	31 December 2018 £'m	31 December 2017 £'m
Contract with customer receivables		
Trade receivables	314.4	305.9
Receivable from related entity	0.7	0.3
Other receivables	0.9	0.9
Total Contract with customer receivables	316.0	307.1
Non-contract with customer receivables		
Receivable from related entity	31.0	10.0
Other receivables	0.6	0.4
Total non-contract with customer receivables	31.6	10.4
Trade and other receivables	347.6	317.5

The table below analyses trade and other receivables between current and overdue as well as an analysis of any provisions held. The current portion comprises balances that are due to be settled within 12 months. Overdue amounts comprise all amounts which remain uncollected after the date by which they were contractually due to be paid.

	Trade receivables £'m	Provision for impairment £'m	Net trade receivables £'m
As at 31 December 2018			
Current	318.1	(3.9)	314.2
Overdue	8.2	(8.0)	0.2
Total	326.3	(11.9)	314.4
As at 31 December 2017			
Current	306.4	(0.7)	305.7
Overdue	7.0	(6.8)	0.2
Total	313.4	(7.5)	305.9

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

	As at	
	31 December 2018 £'m	31 December 2017 £'m
Provision for impairment brought forward at start of year	7.5	5.9
Opening Adjustment for IFRS 9 (Note 25)	2.9	-
Utilised during the year	(4.5)	(3.4)
Impairments recognised during the year	6.0	5.0
Total provision for impairment carried forward at end of year	11.9	7.5

Notes to the Financial Statements (continued)

14. Cash and cash equivalents

	As at	
	31 December 2018 £'000	31 December 2017 £'000
Cash at bank and in hand	31.9	24.5
Money market funds	16.0	27.0
Short term deposits	8.0	8.0
Total cash and cash equivalents	55.9	59.5

Cash and cash equivalents include balances of £34.9 million (31 December 2017: £38.8 million) relating to cash and cash equivalents held on an agency basis on behalf of insurers.

15. Financial instruments, capital management and related disclosures

a) Financial assets and liabilities

At amortised cost

The table below analyses financial instruments carried at amortised cost:

	As at	
	31 December 2018 £'m	31 December 2017 £'m
<i>Financial assets</i>		
Trade receivables	314.4	305.9
Receivable from related entity	31.7	10.3
Other receivables	1.5	1.3
Total financial assets at amortised cost	347.6	317.5
<i>Financial liabilities</i>		
Trade and other payables to related entities	318.2	293.2
Other trade payables	13.5	16.6
Lease liabilities	11.4	-
Other payables	26.0	29.4
Total financial liabilities at amortised cost	369.1	339.2

The carrying value of all financial instruments carried at amortised cost at 31 December 2018 and 31 December 2017 is considered to be an approximation of fair value.

b) Objectives, policies and procedures for managing financial risks

The Company 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 Company are credit 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 Company is exposed to credit risk are brokerage not yet received, loans and receivables and cash and cash equivalent holdings. The Company's maximum exposure to credit risk at 31 December 2018 is £403.5m (2017: £377.0m), being the carrying value of trade and other receivables and cash and cash equivalents.

Notes to the Financial Statements (continued)

The Company 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 Company's banks are monitored on a regular basis and where there is adverse movement appropriate action would be determined by the Board's Risk Committee.

The credit rating of the banks with which the Company has significant credit risk, in relation to its investments in cash and cash equivalents were as follows:

	Rating	As at	
		31 December 2018	31 December 2017
		£'m	£'m
Money market funds	AAA	16.0	27.0
Cash at bank and in hand	A	31.9	24.5
Short term deposits	A	8.0	8.0
Total cash and cash equivalents		55.9	59.5

The Company has investment guidelines that restrict the amount of the investment portfolio that can be placed with a single counterparty other than members of the Hastings Group.

Trade and other receivables are monitored closely with a view to minimising the collection period of those items. Bad debt expense exposure relating to policyholder debt charged to the income statement and the value of past due financial assets are disclosed in Note 13.

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

Liquidity risk

Liquidity risk is the risk that cash may not be available to meet obligations when they fall due. The Company maintains significant holdings in liquid funds to mitigate this risk. The Company makes use of regular forecasts and budgets 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 are due within 12 months. In addition, the Company holds significant liquid assets and consequently, liquidity risk is not considered to be significant.

c) Objectives, policies and procedures for managing capital

The Company's capital is made up of equity.

The Directors regularly review the amount of capital of the Company through monitoring of the financial performance of the business. Daily cash flows are produced to accurately predict when the Company's liabilities will fall due and ensure that a sufficient level of capital is maintained.

The Company, as an insurance intermediary, is also subject to a minimum capital requirement under Financial Conduct Authority rules. The Company exceeded the minimum capital requirement at all times during the year.

Notes to the Financial Statements (continued)

16. Share capital

Share capital

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

	As at	
	31 December 2018	31 December 2017
	£m	£m
Authorised, issued and fully paid up ordinary share capital		
22,980,000 Ordinary Shares of 35p (31 December 2017: 22,980,000)	8.0	8.0

All shares in issue at 31 December 2018 are of a single class with common rights in relation to distribution, return of capital and voting.

Capital contributions from parent

The capital contribution relates to the share based payment charge in respect of employees of the Company that will be equity settled by Hastings Group Holdings plc ('HGH'), the Company's ultimate parent company, less any payments made by the Company in respect of the shares to be awarded.

17. Share based payments

The total charge for share based payments recognised in the profit and loss during 2018 was £2.1m (2017: £2.9m).

a) Admission awards

On 15 October 2015, HGH, the Company's ultimate parent company, granted certain management personnel of the Company share awards. The awards were for a fixed value of £3.4m, payable in HGH Ordinary Shares in two tranches, at 31 December 2017 and 31 December 2018. The awards are subject to a service condition that the members remain in employment by the HGH Group until vesting date and as at 31 December 2018 £1.4m had expired due to leavers or transfer to other entities within the group.

The awards are classified as equity settled share based payments and had a fair value of £2.8m at grant date. On 31 December 2017, the first tranche of £1.1m vested and was net settled by issue of 166,889 Ordinary Shares of HGH on 16 January 2018 and payment of £0.6m employee taxes arising. The second tranche of £0.9m vested on 31 December 2018 and was net settled by issue of 262,186 Ordinary shares of the Company on 4 January 2019.

b) Long term incentive plan

Certain management personnel are eligible to participate in the Hastings Long Term Incentive Plan ('LTIP') awarding them free shares in HGH. Vesting is subject to a three year service period and the achievement of certain performance conditions in respect of total shareholder return and adjusted earnings per share over a three year period.

During 2018, 2.3m options were granted, with a fair value of £4.4m (2017: 2.6m options with a fair value of £5.9m)

Awards subject to a market condition have been valued using the Monte Carlo pricing model and those not subject to a market condition were valued using the Black Scholes model. The model inputs are as follows:

Notes to the Financial Statements (continued)

	Year ended	
	31 December 2018	31 December 2017
Share price at grant date	272p	274p
Volatility per annum	25%	26%
Average comparator volatility per annum	29%	29%
Dividend yield per annum	n/a	n/a
Risk free rate per annum	0.88%	0.18%
Expected life	3 years	3 years

The expected life is the award period adjusted to reflect management's best estimate of holder behaviour. Volatility was determined with reference to insurance companies within the FTSE 350.

The following table details the outstanding number of LTIP share awards in issue:

	31 December 2018	31 December 2017
	Number of share awards million	Number of share awards million
At 1 January	4.5	2.3
Granted during the year	2.3	2.6
Exercised during the year	-	-
Forfeited during the year	(0.1)	(0.4)
At 31 December	6.7	4.5
Exercisable at 31 December	-	-

c) Share Incentive Plan

In April 2016, HGH, the Company's ultimate parent company, set up an employee Share Incentive Plan ('SIP'). Under the scheme, employees are entitled to purchase up to £150 a month of shares in HGH through an employee benefit trust. The Company matches employee contributions up to £30 a month through free share awards, subject to a three year service period before the matching shares are awarded. Dividends are paid on shares, including matching shares, held in the trust by means of dividend shares. The fair value of such awards is estimated to be the market value of the awards on grant date. The Company contributed £0.2m during the year for this scheme.

In the year ended 31 December 2018, 141,738 matching shares (2017: 112,939) were granted to employees, with an estimated fair value of £0.4m (2017: £0.3m). The average unexpired life of SIP awards is 2.0 years (2017: 2.0 years).

As at 31 December 2018 361,357 (2017: 216,740) matching shares were held on behalf of employees with a carrying value of £0.9m (2017: £0.5m) within the SIP scheme.

Capital Appreciation Plan

On 21 December 2017, certain key management personnel were invited to participate in the Group's Capital Appreciation Plan ('CAP'), under which they may be awarded up to five free shares in the Company for every share that they place into trust. The total number of awards granted was 1,685,296. The awards are conditional upon total shareholder return over a five year period to 31 December 2022, with the number of awards dependent upon the level of return. There is also a cap on the number of shares which may be placed in the trust by each individual. Total entitlement to shares at the end of the performance period shall be released in three tranches; one third at the end of the performance period, a further third twelve months later, and the final third twelve months after that.

The awards were valued using the Monte Carlo pricing model with inputs as follows:

Notes to the Financial Statements (continued)

	2017 CAP Grant
Share price at grant date	318p
Exercise price	0p
Volatility per annum	24%
Dividend yield per annum	n/a
Risk free rate per annum	0.8%
Expected life	5 years

No new share awards were granted under the CAP during 2018. The following table details the outstanding number of CAP share awards in issue:

	31 December 2018	31 December 2017
	Number of share awards million	Number of share awards million
Outstanding at 1 January	1.7	-
Granted during the year	-	1.7
Forfeited during the year	(0.3)	-
Outstanding at 31 December	1.4	1.7
Exercisable at 31 December	-	-

18. Trade and other payables

	As at	
	31 December 2018	31 December 2017
	£'m	£'m
Trade and other payables to related entities	318.2	293.2
Other trade payables	13.5	16.6
Lease liabilities	11.4	-
Other payables	26.0	29.4
Total trade and other payables	369.1	339.2

19. Deferred income

	As at	
	31 December 2018	31 December 2017
	£'m	£'m
Due within one year	10.8	8.8
Due in more than one year	1.9	2.0
Total deferred income	12.7	10.8

20. Financial commitments

The Company is committed to making the following payments in future years for leases:

	As at	
	31 December 2018	31 December 2017
	£'m	£'m
Within one year	3.3	2.1
Within two to five years	8.5	6.6
Over five years	4.0	3.1
Total operating lease commitments	15.8	11.8

Notes to the Financial Statements (continued)

The interest on the lease liabilities recognised in the profit or loss statement as at 31 December 2018 was £0.5m, details of lease related right of use assets capitalised are disclosed in Note 10, and cash outflows from lease liabilities are disclosed in the Statement of Cash Flows.

The Company is committed to making the following payments in future years under other contracts in place as at the year end:

	As at	
	31 December 2018	31 December 2017
	£'m	£'m
<i>IT transaction and support costs</i>		
Within one year	7.1	6.2
Within two to five years	3.5	4.8
<i>IT software development costs</i>		
Within one year	1.0	3.0
Within two to five years	1.0	-
<i>Computer hardware costs</i>		
Within two to five years	0.3	0.3
Total other financial commitments	12.9	14.3

21. Ultimate controlling party

The Company's immediate parent company is Hastings (UK) Limited, whose registered office is at Conquest House, Collington Avenue, Bexhill-on-Sea, East Sussex, TN39 3LW.

Hastings Group Holdings plc ('HGH') is the Company's ultimate parent company. The Group headed by HGH is the largest group in which the Financial Statements are consolidated into. The smallest group into which the Financial Statements are consolidated into is headed by Hastings Insurance Group Limited ('HIG'). The consolidated financial statements of HGH and HIG may be obtained from the Company's registered address at Conquest House, Collington Avenue, Bexhill-on-Sea, East Sussex, TN39 3LW.

22. Related party transactions

The Company's subsidiaries are as follows:

Subsidiary	Country of incorporation	Class of shares held	% ownership	Principal activity
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

All the above companies have a registered address of Conquest House, 32-34 Collington Avenue, Bexhill-On-Sea, East Sussex, TN39 3LW, UK.

During the year ended 31 December 2018 the Company had the following related party transactions, with entities within the HGH Group:

Notes to the Financial Statements (continued)

- Commission earned by the Company in the year in respect of policies sold that were underwritten by Advantage Insurance Company Limited ('AICL') was £116.2m (year ended 31 December 2017: £112.0m). Amounts owed to related companies include a balance relating to premiums on policies sold due to AICL of £300.8m (31 December 2017: £285.2m) relating to the net of premiums and IPT payable and commissions receivable on policies sold due to AICL and an intercompany payable balance of £16.9m (31 December 2017: £6.1m).
- Rent payable by the Company to Conquest House Limited during the year amounted to £0.4m (year ended 31 December 2017: £0.4m).
- At 31 December 2018 the Company has a balance payable to Hastings (Holdings) Limited of £nil (31 December 2017: £0.2m).
- At 31 December 2018 the Company had an intercompany balance receivable from Hastings Group Holdings plc of £0.7m (31 December 2017: payable of £0.3m).
- At 31 December 2018 the Company had an intercompany balance payable to Hastings Group (Finance) plc of £0.5m (31 December 2017: £1.5m).
- At 31 December 2018 the Company had an intercompany balance payable to Hastings Insurance Group (Investment) plc of £nil (31 December 2017: £0.2m).
- The Company provides an unsecured £50.0m revolving credit facility agreement to Hastings Group (Finance) plc ('HGF'). Loan amounts drawn down on the facility incur interest at a margin above LIBOR and the balance is repayable on demand. Under this agreement, the amount advanced to HGF as at 31 December 2018 was £31.0m (31 December 2017: £10.0m). The interest charged during the year was £0.6m (31 December 2017: nil).

During the year ended 31 December 2018, the Company had the following related party transactions with entities within the Rand Merchant Investment Holdings Group, a company with significant influence over the Company's ultimate parent:

- Fees of £2.7m were charged by Outsurance Shared Services Ltd for the provision of insurance intermediary support services (31 December 2017: £0.1m). At 31 December 2018 £nil was outstanding (31 December 2017: £0.1m).

23. Dividends

Dividends amounting to £61.7m were paid during the year (2017: £79.2m), equivalent to £2.68 per share (2017: £3.45 per share).

24. Contingent liabilities

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

On 16 March 2018, HMRC sought leave to appeal against the First-tier Tribunal decision and have the decision referred to the Upper Tribunal. HMRC were granted leave to appeal by the First-tier Tribunal on 14 June 2018 and submitted their Notice of appeal to the Upper Tribunal on 7 July 2018 and a date for a hearing at the Upper Tribunal has been set for 7 October 2019. Should HMRC prove successful in overturning the First-tier Tribunal judgement at the Upper Tribunal then the Company would potentially have to repay up to £18.4m of input VAT recovered to date as well as additional VAT recovered in respect of subsequent periods and associated costs. In the event that the Company lost at the Upper Tribunal, it would be open to the Company to seek leave to appeal the decision and have the case referred to the Court of Appeal, where if successful the Company would receive a refund of VAT repaid to HMRC. Having reviewed the strength of the First-tier tribunal decision and HMRC's appeal, and having considered legal advice received, the Board has assessed that it is more likely than not that the original judgement will be upheld. Therefore it is not considered probable that any refund will be required, and no provision or liability has been recognised.

Notes to the Financial Statements (continued)

The Company is part of a Group of which the ultimate parent is Hastings Group Holdings plc. All legal entities within the Group are subject to review and enquiries by tax authorities in the UK and Gibraltar. The Group commenced discussion with HMRC in December 2016 regarding aspects of its business model and the attribution of profits for tax purposes in the Group's operating subsidiaries. During the period the Group has engaged in correspondence and meetings with HMRC. Both the Company's and the Group's management have reviewed current and previous tax filings, and considered the nature of the ongoing discussion, and do not consider it appropriate to provide for any additional tax due. The Company provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities having taken consideration of any ongoing enquiries or reviews and based on guidance from professional firms. The final amounts paid may differ from the amounts provided depending on the ultimate resolution of such matters, and any changes to estimates or amounts payable in respect of prior periods are reported through adjustments relating to prior periods.

25. Impact of changes in accounting policies

IFRS 15 Revenue Recognition

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

IFRS 15 requires that contract acquisition costs and the costs of fulfilling the contract are spread over the life of the contract, including expected renewal periods. Under IAS 18, the Company expensed as incurred contract acquisition costs such as price comparison website fees, and other costs that enabled the fulfilling of the contract.

Acquisition costs incurred in obtaining customers and enabling the fulfillment of the contract with the customer are initially recognised within contract costs and are then recognised in the profit and loss account evenly on brokerage and at each renewal over the expected life of the customer relationship.

Under IFRS 15, the Company is deemed to be an agent, so the costs are netted against the revenue.

IFRS 9 Financial Instruments

The Company implemented IFRS 9 from 1 January 2018. The Company has used a cumulative effect method whereby comparatives are not restated and the cumulative impact of adjustments is recognised in the balance sheet at the date of initial application. The comparative period has been measured under IAS 39.

Under IAS 39 the Company provided for credit losses when there was objective evidence of impairment as a result of one or more events occurring after the initial recognition of the asset (a 'loss event'), and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Under IFRS 9 the Company recognises through the profit and loss the expected credit losses of financial assets at initial recognition. If there is a material change to the asset's credit risk due to a credit loss adjusting event then the loss increase or decrease is recognised through the profit and loss.

Under IFRS 9 telematics premium finance income received is spread evenly over 12 months.

IFRS 16 Leases

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

On initial application, property lease liabilities were recognised at the present value of the lease commitments taking into consideration management's intention to lease properties for the full rental period and this resulted in a difference in the cash flows when compared to those disclosed in Note 19 in the 2017 Financial Statements, as these showed the minimum commitment which was based on exercising the break clause.

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

Notes to the Financial Statements (continued)

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

In accordance with the IFRS 16 transition provisions, the Company used a modified retrospective approach under which prior year figures have not been restated and continue to be reported under IAS 17 and IFRIC 4, details of which are disclosed in the 2017 Financial Statements. The cumulative impact of initial application has been recognised as an adjustment to the opening balance sheets with a net decrease of £0.9m in opening retained earnings.

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

	As at	Adjustments			Adjusted
	31 December 2017 £'m	IFRS 9 transition £'m	IFRS 15 transition £'m	IFRS 16 transition £'m	1 January 2018 £'m
Non-current assets					
Property and equipment	8.6	-	-	12.3	20.9
Deferred income tax asset	2.5	0.5	-	0.2	3.2
Contract costs	-	-	41.5	-	41.5
Current assets					
Trade and other receivables	317.5	(2.9)	-	-	314.6
Equity					
Retained earnings	82.3	(2.4)	32.4	(0.9)	111.4
Non-current liabilities					
Deferred income tax liability	-	-	7.7	-	7.7
Current liabilities					
Trade and other payables	339.2	-	-	13.4	352.6
Deferred income	8.8	-	1.7	-	10.5
Current tax liabilities	9.0	-	(0.3)	-	8.7

Notes to the Financial Statements (continued)

The impact on the balance sheet as at 31 December 2018 for the transition to IFRS 15 from IAS 18 is shown in the table below:

	As at 31 December 2018		
	Under IAS 18 £'m	Impact of IFRS 15 £'m	As Reported £'m
Non-current assets			
Contract Costs	-	21.3	21.3
Current assets			
Contract Costs	-	25.5	25.5
Equity			
Retained earnings	107.5	36.7	144.2
Non-current liabilities			
Deferred income tax (asset)/liability	(2.9)	3.5	0.6
Current liabilities			
Trade and other payables	367.4	1.7	369.1
Current tax liabilities	6.5	4.9	11.4

The impact on the profit and loss for the year ended 31 December 2018 for the transition to IFRS 15 from IAS 18 is shown in the table below:

	For the year ended 31 December 2018		
	Under IAS 18 £'m	Impact of IFRS 15 £'m	As Reported £'m
Revenue	335.6	(4.0)	331.6
Other expenses	(217.5)	9.3	(208.2)
Finance income	1.3	-	1.3
Adjusted operating profit¹	119.4	5.3	124.7
Amortisation and depreciation	(7.1)	-	(7.1)
Finance costs	(0.5)	-	(0.5)
Profit before tax	111.8	5.3	117.1
Taxation expense	(21.2)	(1.0)	(22.2)
Total profit for the year	90.6	4.3	94.9