

Hastings Group Holdings plc
Annual Report 2017

Maintaining our momentum



Company Number: 09635183

Maintaining our momentum

Since we sold our first policy 20 years ago Hastings has become one of the fastest growing general insurance providers in the UK. We are proud to now have over 2.6 million live customer policies and to employ over 3,100 colleagues across sites in Bexhill, Leicester, London and Gibraltar.

We are committed to doing the right thing for our colleagues, customers, company and community – that's why we stand out and why we have maintained our momentum of profitable, sustained growth.

For further information please visit:
hastingsplc.com

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We have a strong culture...

We invest in and listen to our colleagues so they are encouraged to be who they are, make decisions and contribute and thrive at Hastings.

"Hastings has been incredibly supportive in my development. I have two new roles – one as mother to James and the other leading Underwriting Services – both are equally rewarding and fun!"

Lucy Johnson
Managing Director – Underwriting Services

Discover more about our
corporate responsibility
36-42

Our 4Cs

Doing the right thing for our 4Cs – colleagues, customers, company and community – drives our decision making at Hastings. Our 4Cs ways of working guides us as we continue to grow a sustainable and financially stable Group in a responsible manner.

Our 4Cs ways of working

Our belief is that if we provide our colleagues with the right tools, leadership, training, environment, systems, premises and information they will be able to do more for our customers who will, in turn, buy more from us, enabling us to grow the business profitably and in a sustained way. This allows us to invest in the communities we serve and be a responsible member of the financial services community. We use the 4Cs to measure performance and success as individuals and as a Group, so we have a clear, consistent and balanced approach to delivering our objectives.

...and 20 years' experience...

Creating opportunities

"Hastings not only provided me with a varied, rewarding career path – from Customer Representative to Quality Assessor – it's where I met my husband and we're also celebrating 20 years!"

Sam Turner
Quality Assessor

1997

First policy sold on 20 January

2009

Management and staff buyout

2012

Hastings Group is formed
(Advantage Insurance Company
Limited & Hastings Insurance
Services Limited)

2014

Goldman Sachs invests
in Hastings Group

A track record of investing in colleagues

"Hastings has invested both time and money in developing my career. Over the past two decades we have given over £1m of support to charities and local communities and I am very proud to be part of a company that puts its colleagues and community at the heart of what it does."

Jay Wootten
Events & Community Relations Manager

Discover more about our corporate responsibility
36-42

Progression with my career

"Since joining in 1996, I have been fortunate to work in a number of roles which is testament to the fact that Hastings is a company where you can contribute, thrive and be who you are. I look forward to seeing what the next 20 years will bring."

Paul Baker
Commercial Manager

2015

Hastings Group becomes a listed company and achieves 2 million live customer policies

2017

Hastings Group celebrates 20 years since selling its first policy and achieves 3,000 colleague milestone

2016

Our third UK site opens in Leicester and Hastings Group sponsors Be the Change

2017

RMI Holdings acquires 29.9% of the Hastings Group

...targeting growth opportunities...

It has been another strong year for the business with our share of the UK private car insurance market increasing to 7.3%. Live customer policies (LCP) have increased 13% to 2.64 million driving growth across all key metrics and putting us on track to deliver our target of achieving 3 million live customer policies during 2019.

“Our digitally focused business model is built for how customers increasingly want to buy their general insurance.”

Ciaran Astin
Commercial Director

Discover more about our growth strategy
22-23

Motor

PCW share of private car market

As a result of rising premiums across the market, more customers are shopping around and switching provider. Many customers who switch insurance providers are doing so via price comparison websites (PCW), leading to an increase in penetration of motor new business via PCW of 2% in 2017 to 70%.

Retail is also benefitting from the continued growth in its share of new business sales via PCW, combined with a profitable maturing renewal book and retention rates which remain strong and above the market average of circa 70%.

Home

PCW share of household market

Consumers are also increasingly buying home insurance via PCW, with 55% of the market now choosing to buy their home insurance via this route compared to 26% in 2011. Our retail optimisation skills in motor are transferrable making home an attractive segment and a big opportunity for us.

Underwriting have developed and launched a new home proposition and started to underwrite home insurance as lead insurer during 2017. This has started with low volumes initially to test, learn and build capabilities, including people, data and models.

...and delivering value...

Hastings continues its momentum with increasing customer policy numbers, higher average premiums and growing retail income driving profitable growth and strong cash-generation. Continued premium increases ahead of claims inflation and focus on underwriting discipline have delivered a loss ratio better than our target range.

“The real value we provide is helping our customers through the difficult first stages following a motor accident. It can be a stressful time so our team focuses on resolving every claim as quickly as possible.”

Emma Stevens
Head of Claims Customer Service

Financial highlights

Strong increase in gross written premiums

£930.8m

2016: £769.0m

Continuing growth in net revenue

£715.6m

2016: £590.3m

Sustained increase in adjusted operating profit¹

£184.1m

2016: £132.1m

Significant increase in profit after tax

£126.7m

2016: £78.4m

¹ Adjusted operating profit is defined as profit before taxation expense, finance costs, amortisation and depreciation and non-trading costs (Note 11 to the Consolidated Financial Statements).

Operational highlights

Continued growth of live customers policies

2.64m

2016: 2.35m

Increased market share for UK private car insurance

7.3%

2016: 6.5%

Improved loss ratio

73.0%

2016: 77.7%

Stable expense ratio

14.0%

2016: 13.6%

Discover more about our results
27-35

...for a sustainable future.

Our business model is at the core of our ability to deliver on our strategy and vision of protecting 1 in 10 by 2020. It enables us to operate efficiently and effectively, and continue to generate value for our stakeholders, for a sustainable future.

“I’m excited by the opportunities that advances in data, digital and vehicle technologies provide for us to do more for our customers and colleagues.”

Toby van der Meer
Managing Director – Retail

Discover more about our business model
20-21

Strategy

We have a straightforward approach; to provide our UK car, van, bike and home insurance customers with great service and straightforward products at competitive prices, however they choose to interact with us.

Business model

Our business model has been designed to be successful in the dynamic digital distribution segment of the UK insurance market, and it is underpinned by sophisticated IT systems, which are driving our strong track record of sustainable growth.

The Group operates across the insurance value chain with clear separation to ensure the Underwriting business focuses on pricing the risk whilst the Retail business maximises customer conversion and value, without impacting Underwriting profitability.

Pricing capabilities are at the heart of the Retail business model, with a team of highly specialised decision scientists who are empowered to drive sophisticated pricing structures and assess overall customer lifetime value.

Underwriting has a disciplined approach with expertise in risk selection, which combined with award winning counter fraud capabilities enables sustainable and profitable growth, delivering a strong loss ratio at or below our target range of 75-79%.

Delivering value and efficiencies

Digital interaction is expected to continue to grow for the foreseeable future, partly due to increased use of mobile technology. Our digital business model, new Guidewire platform and agile approach enable us to identify such opportunities, outperform and deliver value for our shareholders.

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

We have realised significant benefits following the launch of the Guidewire claims module, and continue to improve and enhance the system based on colleague feedback and customer experience. We are following a staged roll out of the broker platform and by the end of 2017 we had all major price comparison websites live on Guidewire for private car insurance. In addition, we have now commenced transferring private car insurance renewals to Guidewire.

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

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

Maintaining strong leadership

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

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

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

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

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

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

Mike Fairey
Chairman

Discover more about our
corporate governance
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Final dividend

8.5p per share

Full year dividend

12.6p per share

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

In my statement last year, I explained that on 1 March 2017, Rand Merchant Investment Holdings Limited (RMI), a South African investment holding company acquired 29.9% of the Company's issued share capital. Under the terms of a relationship agreement between RMI and the Company, as long as RMI holds at least 15% of the Company's issued share capital, RMI is entitled to appoint one Director to the Company's Board. Herman Bosman, Chief Executive Officer of RMI was appointed as a Director of the Company on 14 March 2017 and at the same time, Michele Titi-Cappelli (representative of the Goldman Sachs Shareholders) and Edward Fitzmaurice (representative of the Founder Shareholders), resigned as Directors.

On behalf of the Board, I welcome Herman as a Director who brings a wealth of experience in the insurance and banking sectors. In August this year, Richard Brewster, also a representative of the Founder Shareholders, resigned as a Director. He was succeeded by Founder Shareholder nominee, Selina Sagayam in August this year. I express my gratitude to Michele, Edward and Richard for their contribution as Directors of the Company and welcome Selina.

The diversity of the Board was also reviewed by the Nomination Committee and a detailed explanation of the Board approved policy on diversity is set out in that Committee's report on page 79. As announced on 2 February 2018, Malcolm Le May tendered his resignation as a Non-Executive Director of the Company following his appointment as Group Chief Executive Officer of Provident Financial plc. The date on which Malcolm's resignation will become effective has yet to be decided and the Company is in discussions regarding an appropriate period of notice.

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

Further information on the changes to the composition of the Board and its Committees are covered within the Corporate Governance section later on in this report.

Optimising shareholder value – dividends

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

Farewell

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

Mike Fairey Chairman

28 February 2018

Maintaining our momentum

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

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

Gary Hoffman
Chief Executive Officer

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

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

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

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

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

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

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

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

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

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

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

Maintaining our momentum continued

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

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

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

What is your outlook on premium rate increases?

We began increasing premiums in the first half of 2014, ahead of the market that started raising rates in 2015, after a three year period of sustained price reductions. Premiums continued to rise across the market driven by continuing claims inflation, with additional increases seen following the change to the Ogden rate announced in February 2017, which increased both claims costs and the cost for excess of loss reinsurance. In the last quarter of 2017, we started seeing pricing fluctuations following the UK Government's subsequent announcement regarding further proposed changes to the Ogden rate calculation.

As you look into the future, we would expect premium rate changes to follow claims inflation, with some uncertainty surrounding the proposed changes to the Ogden rate, and also from the planned whiplash reforms. As ever, we continue to focus on the quality of our underwriting, and the agility of our pricing model means we can react quickly to claims, market or regulatory changes.

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

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

Live customer polices

2.6 million

Adjusted operating profit

£184.1m

Can you tell us about corporate responsibility at Hastings?

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

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

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

What has been your personal highlight of 2017?

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

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

Looking forward, why the change from Chief Executive Officer to Chairman?

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

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

What do you think Toby van der Meer will bring to the role of Chief Executive Officer?

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

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

**Gary Hoffman
Chief Executive Officer**

28 February 2018

What's shaping our market

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

Distribution trends

The private car, van and bike insurance markets in the UK are some of the most competitive markets in the world. The internet and digital age have enabled customers to access a large amount of information about their car insurance quickly and the growth of price comparison websites (PCW) has been instrumental in creating such an environment.

The number of cars on the road has remained relatively stable and grew by an average of 1% per year between 2007 and 2017. However, over the same period the proportion of car new business sales from PCW has increased from 24% to 70%. Consumers are increasingly using digital devices and technology to purchase their insurance products. In such an intensely competitive market, only the most agile and adaptive businesses can outperform. At Hastings, our way of thinking, processes and procedures are optimised for the digital distribution and PCW

market, and the implementation of our Guidewire platform is further enhancing our capability. We continually monitor all segments of the market and are able both to react quickly to changes, and to identify and quickly explore opportunities.

Claims trends

In recent years we have seen continued claims inflation of 5-6% per annum, attributable to increases in the average cost per claim, driven in part by increasingly expensive technology built into vehicle components as well as the change to the Ogden rate in February 2017.

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

We continue to monitor the progress of the whiplash reforms, following the announcement of a cap to the amount people can claim for whiplash injuries in the Chancellor's 2016 autumn statement, and a ban on the right to cash compensation. An increase is also planned to the small claims court limit for all personal injury claims from £1,000 to £5,000 with the aim of reducing the volume of fraudulent whiplash claims across the industry.

Hastings continues to benefit from its risk selection techniques and use of technology to monitor and report claims in order to minimise costs and the impact on its customers. We also actively monitor fraud activity in the market and continue to invest in our counter-fraud capabilities.

Pricing trends

Price increases have continued across the market during 2017, sustaining the momentum of premium inflation since the beginning of 2015, with premium increases exceeding claims inflation. We expect future premium rate changes to follow claims inflation, which may be impacted by the proposed changes to the Ogden rate, and any effect this may have on personal injury settlement amounts and excess of loss reinsurance rates.

The level of pricing sophistication in the car, van, bike and home insurance markets continues to increase through an improvement in both the breadth and quality of data being used and the mathematical techniques utilised by insurers to analyse the data. Our passion for data and analytics underpins our advanced risk selection and, alongside our award winning counter-fraud capabilities, enables the Group to sustain strong loss ratios whilst gaining market share.

Year on year change in average comprehensive car insurance premiums

Our approach to value creation

Our business model is at the heart of our ability to deliver on our strategy, operate efficiently and effectively, and continue to generate value for our stakeholders. We have an ongoing programme of investment in the key areas that drive our value creation process.

Our vision: protecting 1 in 10 by 2020

By investing in our 4Cs...

Our colleagues

Talent, expertise, training & development

Our customers

Data capture, pricing, products & marketing

Our company

Brands, technology & distribution

Our community

Local initiatives & charitable donations

...we leverage our key differentiators...

Straightforward service proposition

Sophisticated data capture

Refined and optimised our pricing strategies

A differentiated product portfolio

Disciplined risk selection and counter-fraud

Leading edge technology

Underpinned by our strategic drivers

Growth

Discipline

Focus

...to create value.

We have a straightforward approach, to provide our UK car, van, bike and home insurance customers with great service and straightforward products at competitive prices, however they choose to interact with us.

Both Retail and Underwriting employ teams of highly specialised people who are empowered to drive sophisticated pricing capabilities. A dedicated team of decision scientists are focused on improving pricing and assessing overall customer lifetime value within Retail, whilst the underwriting team is built on a bedrock of sophisticated risk selection.

Sophisticated data capture allows us to refine and optimise our pricing strategies. Our Underwriting business focuses on pricing the risk. Agile pricing in our Retail business maximises customer conversion.

Our disciplined approach to risk selection using data enrichment tools and processes, coupled with our strong counter-fraud capabilities, generates value for our shareholders.

The business is underpinned by sophisticated IT systems to analyse and process applications and efficiently process claims. These help to optimise the claims process by providing colleagues with greater control, reducing the claims lifecycle workflow and facilitating activity management and early liability decisions.

Our colleagues **3,100**
Colleagues in Bexhill, Leicester, Gibraltar and London

Our customers **2.6 million**
Live customer policies

Our company **£184.1m**
Adjusted operating profit

Our community **£88,000**
Charitable donations in the year

Agile**Invest****Expand**

Our growth strategy

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

Our strategic pillars

Growth

Driving profitable growth by targeting 3 million customer policies during 2019

Discipline

Focus on prudent underwriting

Focus

Continued focus on cash generation and deleveraging

Agile

Ability to respond quickly to market changes

Invest

Invest in digital capability and mobile distribution channels

Expand

Expand our product offering and invest in our competitive position

Discover more about our
business model

20-21

KPIs

Key risks

Our focus for 2018/19

- Policy growth not at the expense of profitability

Discover more
47-50

- No changes to our underwriting approach
- Deliver loss ratios in the target range of 75-79%

Discover more
47-50

- Continued focus on deleveraging with a revised target to achieve net debt leverage of 1.0x during 2019
- Dividend pay-out ratio target maintained at 50-60%

Discover more
47-50

- Completing the roll-out of Guidewire, thereby providing further operational efficiencies and giving customers an end to end insurance experience

Discover more
47-50

- Continued investment in the digital capabilities offered by our new broking platform
- Increased mobile digital capability through production of a mobile app

Discover more
47-50

- Following the launch of our home underwriting proposition in 2017, we have ambitions to build our expertise and increase scale

Discover more
47-50

A successful performance

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

Financial KPIs

Measure	Data	Performance
Adjusted operating profit Adjusted operating profit is the Group's primary profit measure used to assess operating performance. It is defined as profit before taxation expense, finance costs, amortisation and depreciation, non-trading costs and the effects of accounting for business combinations. This is a non-IFRS measure which is used by management as it includes the underlying trading results of the Group without the impact of Group reorganisations and business combinations.		The Group has maintained consistent profitable growth in 2017, with adjusted operating profit growing by 39% in the year to £184.1m for 2017. This primarily reflects the 13% increase in live customer policies and the continuing year on year premium rate increases earning through, as well as the £20.0m impact of the Ogden rate reduction in 2016.
Adjusted operating profit margin Adjusted operating profit margin measures the Group's operational efficiency. It represents adjusted operating profit divided by net revenue.		The Group's adjusted operating profit margin has increased to 25.7% for 2017, due to the profitable growth in the business and impact in the prior year of the reduction in the Ogden rate.
Profit/(loss) after tax Profit/(loss) after tax represents the Group's performance under IFRS, including interest expense, the effects of accounting for business combinations and non-trading costs.		The Group's profit after tax of £126.7m has improved significantly due to the profitable growth of the business, and the impact of the Ogden rate reduction in the prior year.
Calendar year loss ratio Calendar year loss ratio is a measure of underwriting performance, representing net claims incurred divided by net earned premiums. The Group's target is a loss ratio of between 75% and 79%.		<p>The Group's calendar year loss ratio has improved to be better than the target range, demonstrating the Group's continued focus on underwriting discipline and claims management, as well as the earn through of higher average premiums.</p> <p>The 31 December 2016 calendar year loss ratio also included the 4.0% impact of the Ogden rate change.</p>

Measure	Data	Performance
<p>Expense ratio</p> <p>Expense ratio is a measure of underwriting operational efficiency, representing incurred operational and acquisition expenses, net of certain reinsurance commissions, divided by net earned premiums. See page 157 for reconciliation to profit before tax.</p>		<p>The Group's expense ratio has remained competitive and is broadly flat for 2017 due to costs incurred in relation to strong new business growth achieved in the year offsetting the growth in earned premiums.</p>
<p>Combined operating ratio</p> <p>Combined operating ratio is a measure of the Group's overall underwriting performance.</p> <p>It is the sum of the calendar year loss ratio and the expense ratio, as defined above. See page 157 for reconciliation to profit before tax.</p>		<p>The Group continues to deliver a competitive combined operating ratio that reflects its underwriting discipline and operating efficiency.</p>
<p>Solvency II coverage ratio</p> <p>The Group's underwriting subsidiary, Advantage Insurance Company Limited (AICL), is subject to the Solvency II (SII) capital adequacy regime.</p> <p>The SII coverage ratio demonstrates AICL's capital adequacy and represents its own funds, as measured under SII, against its Solvency Capital Requirement (SCR), being the capital threshold determined by the EIOPA Solvency II Directive and, as a result, required by its regulator, the Gibraltar Financial Services Commission (GFSC).</p>		<p>AICL has benefitted from continued capital growth and the application of undertaking specific parameters (USPs) to the calculation of the SCR, as granted by the GFSC during the year.</p> <p>These USPs allow AICL to use its own data and experience for premium and reserve risk and therefore better reflect AICL's business model.</p> <p>AICL has consistently maintained a margin above the SCR threshold required throughout the year, ensuring that AICL is well capitalised.</p>
<p>Net debt leverage multiple</p> <p>Net debt leverage multiple measures the Group's net debt relative to its profit generation and therefore reflects the Group's cash generation, level of debt and growth in profitability.</p> <p>It is calculated as the Group's net debt divided by adjusted operating profit. Net debt is calculated as gross debt less Retail free cash and corporate free cash, as at the end of the year.</p> <p>See page 158 for reconciliation to cash and cash equivalents.</p>		<p>With strong operational cash inflows and growth in adjusted operating profit, the Group is on track to deliver a net debt leverage multiple of 1.0x during 2019, with a reduction to 1.4x as at 31 December 2017, from 1.9x in the prior year.</p>

A successful performance continued

Non-financial KPIs

Measure	Data	Performance
Share of total stock (private car) Share of total stock (private car) measures the Group's share of the total UK private car population as at the end of each year.		The Group's private car market share has continued to increase alongside the growth in its LCP, reaching 7.3% as at 31 December 2017.
Live customer policies Live customer policies is a principal measure of the Group's position within the UK car and home insurance markets. It represents total live policies sold by Retail for which the customer remains on cover.		The Group is on track to meet its target of 3.0 million live customer policies during 2019, having maintained strong growth of 13%, to reach 2.64 million at 31 December 2017.
Live customer policies per full time equivalent employee (FTE) Live customer policies per FTE measures the Group's operational efficiency. It is calculated as average live customer policies per average FTE.		Live customer policies per FTE increased in 2017, as the Group realised efficiencies from continued investment in the business.

Delivering continued profitable growth

I am pleased to present another strong set of results as the Group maintains its momentum.

Financial highlights

- **Sustained growth of live customer policies** to 2.64 million as at 31 December 2017, a 13% year on year increase (2.35 million as at 31 December 2016).
- **Growing share** of the UK private car insurance market to 7.3% as at 31 December 2017 (6.5% as at 31 December 2016).
- **Strong increase in gross written premiums** up 21% to £930.8m for the year ended 31 December 2017 (2016: £769.0m).
- **Growth in net revenue** of 21% to £715.6m for the year ended 31 December 2017 (2016: £590.3m).
- **Continued increase in adjusted operating profit¹** up 39% to £184.1m (2016: £132.1m, or up 21% from £152.1m before the impact of the Ogden rate change).
- **Increase in profit after tax** of £48.3m to £126.7m (2016: £78.4m).
- **Calendar year loss ratio²** for the year ended 31 December 2017 of 73.0%, better than the target range of between 75% and 79% (2016: 77.7% or 73.7% before the impact of the Ogden rate change).
- **Continued reduction in net debt leverage multiple³** to 1.4x adjusted operating profit (1.9x as at 31 December 2016).
- **Final dividend proposed for 2017 of 8.5p per share (2016: 6.6p per share).** Together with the interim dividend, this totals 12.6p per share (2016: 9.9p per share) equating to 55.5% of adjusted profit after tax⁴ (2016: 65.6%, or 55.5% before the impact of the Ogden rate change).

Details of footnotes 1-4 are on page 28.

"I am pleased to present another strong set of results. We continue to grow customer numbers, profits and dividends whilst simultaneously investing in the future to achieve the ambitious targets set by the Board."

Richard Hoskins
Chief Financial Officer

Delivering continued profitable growth continued

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

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

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

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

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

Richard Hoskins
Chief Financial Officer
28 February 2018

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- 1 Adjusted operating profit is defined as profit before taxation expense, finance costs, amortisation and depreciation and non-trading costs.
2 Calendar year loss ratio is a measure of underwriting performance, representing net claims incurred divided by net earned premiums. Expense ratio is a measure of underwriting operational efficiency, representing incurred operational and acquisition expenses, net of certain reinsurance. Combined operating ratio is a measure of the Group's overall underwriting performance and is the sum of the calendar year loss ratio and the expense ratio. See page 157 for reconciliation of the calendar year loss ratio, expense ratio and combined operating ratio to profit before tax.
3 Net debt leverage multiple represents the Group's net debt expressed relative to 12 months trailing adjusted operating profit.
4 Adjusted profit after tax for the purposes of dividend payout ratio is net income adjusted to exclude the impact of share scheme costs.
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Summary consolidated statement of profit or loss

	Year ended					
	31 December 2017			31 December 2016		
	Underlying trading £m	Non-trading items ² £m	Total £m	Underlying trading £m	Non-trading items ² £m	Total £m
Gross written premiums	930.8	-	930.8	769.0	-	769.0
Net earned premiums	410.1	-	410.1	334.8	-	334.8
Other revenue	298.7	-	298.7	248.3	-	248.3
Investment and interest income	6.8	-	6.8	7.2	-	7.2
Net revenue	715.6	-	715.6	590.3	-	590.3
Net claims incurred	(299.5)	-	(299.5)	(260.1)	-	(260.1)
Acquisition costs	(64.9)	-	(64.9)	(51.9)	-	(51.9)
Other expenses	(167.1)	-	(167.1)	(146.2)	-	(146.2)
Adjusted operating profit¹	184.1			132.1		
Impact of Ogden rate change	-			20.0		
Adjusted operating profit before impact of Ogden rate change	184.1			152.1		
Amortisation and depreciation	(5.5)	(21.5)	(27.0)	(5.6)	(22.0)	(27.6)
Finance costs	(7.8)	(0.3)	(8.1)	(9.6)	(0.6)	(10.2)
Taxation	(26.2)	3.9	(22.3)	(20.0)	4.1	(15.9)
Profit after tax	144.6	(17.9)	126.7	96.9	(18.5)	78.4

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

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

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

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

² Non-trading items are defined as expenses or earnings that are not representative of the operating activities of the Group and include Group reorganisation, refinancing and transaction costs and the impact of accounting for business combinations.

Delivering continued profitable growth continued

Gross written premiums

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

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

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

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

Net revenue

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

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

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

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

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

Loss ratio, expense ratio and combined operating ratio

	Year ended	
	31 December 2017	31 December 2016
Combined operating ratio reconciliation		
Accident year loss ratio	73.8%	76.6%
Prior year development	(0.8%)	1.1%
Calendar year loss ratio ¹	73.0%	77.7%
Expense ratio ¹	14.0%	13.6%
Combined operating ratio ¹	87.0%	91.3%

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

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

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

Adjusted operating profit and profit after tax

	Year ended	
	31 December 2017 £m	31 December 2016 £m
Underwriting adjusted operating profit	71.4	30.3
Retail adjusted operating profit	115.0	101.2
Net impact of corporate and consolidation adjustments	(2.3)	0.6
Adjusted operating profit	184.1	132.1
Underlying amortisation and depreciation	(5.5)	(5.6)
Underlying finance costs	(7.8)	(9.6)
Tax on underlying trading	(26.2)	(20.0)
Net income ²	144.6	96.9
Non-trading expenses, net of tax	(17.9)	(18.5)
Profit after tax	126.7	78.4

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

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

Taxation

The tax charge for the year was £22.3m (2016: £15.9m), an effective tax rate (ETR) of 15.0% (2016: 16.9%). The tax charge has increased due to higher profits before tax; however the ETR has decreased due to a reduction in the UK corporation tax rate and changes to the mix of taxable profit earned by Underwriting, which is taxed in Gibraltar, and Retail, which is taxed in the UK. The Group's future ETR will depend upon the mix of profits taxable in the UK and Gibraltar.

- 1 Calendar year loss ratio is a measure of underwriting performance, representing net claims incurred divided by net earned premiums. Expense ratio is a measure of underwriting operational efficiency, representing incurred operational and acquisition expenses, net of certain reinsurance. Combined operating ratio is a measure of the Group's overall underwriting performance and is the sum of the calendar year loss ratio and the expense ratio. See page 157 for reconciliation of the calendar year loss ratio, expense ratio and combined operating ratio to profit before tax.
- 2 Net income is defined as profit after tax excluding the post tax impact of non-trading items.

Delivering continued profitable growth continued

Dividends

	Year ended	
	31 December 2017 £m	31 December 2016 £m
Dividend payout ratio		
Net income	144.6	96.9
Share based payment expense (including social security charges)	5.7	2.8
Tax on share based payment expense	(1.0)	(0.5)
Adjusted profit after tax ¹	149.3	99.2
Impact of the Ogden rate change	-	18.0
Adjusted profit after tax before the impact of the Ogden rate change	149.3	117.2
Interim dividend paid	26.9	21.7
Final dividend proposed	55.9	43.4
Total dividends in respect of financial year	82.8	65.1
Dividend payout ratio ¹	55.5%	65.6%
Impact of the Ogden rate change	-	(10.1%)
Dividend payout ratio before impact of Ogden rate change	55.5%	55.5%

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

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

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

Summary consolidated balance sheet

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

Net assets and working capital

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

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

¹ Adjusted profit after tax for the purposes of dividend payout ratio is net income adjusted to exclude the impact of share scheme costs.

Return on capital employed

	Year ended	
	31 December 2017 £m	31 December 2016 £m
Average AICL deployed capital ¹	255.0	208.5
Average HISL deployed capital ¹	34.2	31.5
Average corporate free cash ²	4.8	8.1
Average capital employed	294.0	248.1
Net income ³	144.6	96.9
Return on capital employed	49.2%	39.1%

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

Cash and net debt

	As at	
	31 December 2017 £m	31 December 2016 £m
Term Loan and Revolving Credit Facility	272.0	286.6
Add back transaction costs	3.0	3.4
Gross debt	275.0	290.0
Retail free cash ²	(16.1)	(29.3)
Corporate free cash ²	(4.6)	(5.0)
Free cash	(20.7)	(34.3)
Net debt	254.3	255.7
Adjusted operating profit	184.1	132.1
Net debt leverage multiple ⁴	1.4x	1.9x

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

- 1 Hastings Insurance Services Limited (HISL) and Advantage Insurance Company Limited (AICL) deployed capital represents respectively, the average of HISL's total capital resources as stipulated by FCA regulations and the average of AICL's net assets during each year.
- 2 Retail free cash comprises cash held by the Retail business in excess of the regulatory capital required, which is not held on behalf of insurers. Corporate free cash comprises cash held in entities which are not subject to FCA or Solvency regulations.
- 3 Net income is defined as profit after tax excluding the post tax impact of non-trading items.
- 4 Net debt leverage multiple represents the Group's net debt expressed relative to 12 months trailing adjusted operating profit.

Delivering continued profitable growth continued

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

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

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

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

Investments

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

The Group's conservative investment strategy primarily focuses on capital preservation and seeks to align the duration of the assets with the underlying insurance liabilities. As at 31 December 2017, the Group's percentage of the total portfolio of investments rated A or equivalent and above was 75% (31 December 2016: 77%). The weighted average credit rating of the investment portfolio continued to be A+ (31 December 2016: A+).

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

Insurance contract liabilities

Total insurance contract liabilities of £1,665.6m at 31 December 2017 (31 December 2016: £1,299.5m) comprise £472.3m (31 December 2016: £397.6m) of unearned premiums, which are deferred and recognised in the statement of profit or loss in subsequent periods, and outstanding claims liabilities of £1,193.3m (31 December 2016: £901.9m). Gross outstanding liabilities have increased due to the greater exposure from the increase in LCP and the impact of claims inflation.

The Group applies a consistent reserving methodology to calculate an internal actuarial best estimate and then reserves an additional risk margin. The margin has been maintained at a consistent level year on year.

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

Reinsurance contracts

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

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

The Group uses excess of loss and quota share reinsurance arrangements to limit its exposure to claims. The excess of loss programme limits the Group's exposure on any individual event to £1.0m and the quota share arrangement provides 50% cover on motor claims incurred, after the excess of loss recoveries. The combination of these arrangements reduces volatility that could otherwise be caused by the accumulation of losses and individual large claims.

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

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

Solvency

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

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

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

Playing an active role in our communities

Our approach to corporate responsibility is based on our 4Cs ways of working: serve and invest in our colleagues, customers, company and communities and be a good neighbour. We focus our efforts locally so that we play an active role in the communities where we work and live.

Our 4Cs

Doing the right thing for our 4Cs drives our decision making at Hastings, guiding us as we continue to grow a sustainable and financially stable Group in a responsible manner.

Our 4Cs ways of working

Our belief is that if we provide our colleagues with the right tools, leadership, training, systems, premises and information they will be able to do more for our customers who will, in turn, buy more from us, enabling us to grow the business profitably and in a sustained way. This allows us to invest in the communities we serve and be a responsible member of the financial services community. We use the 4Cs to measure performance and success as individuals and as a Group, so we have a clear, consistent and balanced approach to delivering our objectives.

Colleagues

Our 4Cs ways of working always start with colleagues. We believe that engaged colleagues lead to happy customers so we are committed to listening to, developing and investing in our colleagues so they continue to contribute, thrive and be who they are.

Contribute

As we grow, it's important that colleagues share how they feel about life at Hastings. Regular conversations allow us to listen and respond in the best possible way.

We encourage two-way feedback through a number of channels, including:

Your Voice

Our annual engagement survey is designed to understand how colleagues feel about life at Hastings and what we do for our 4Cs. We then capture key themes raised by colleagues through companywide and local action plans that feed through to 4Cs objectives so we can make improvements where necessary and importantly, we can measure progress through the year.

This gives us one view so we regularly ask for colleagues to share their thoughts, ideas and frustrations through all of our communication channels to make sure we that we focus on things that are front of mind.

Some of the key changes we have made as a result of colleague feedback include wider and more frequent recognition through our 4Cs Awards process; more training opportunities, changes to shift patterns and back to the floor days for leaders to stay in touch with colleagues and what they do for our customers every day.

Hastings Colleague Forum

Our colleague elected representatives from across the business meet monthly to consult with the company on any key changes and provide invaluable feedback and insight from their teams. As a result of their input we have made some significant changes ranging from improved benefits to simplified HR policies and processes.

Small change

Agility is key to our success and we apply focus on the big changes and small fixes in equal measure. To support this thinking, we created a 'small change' team in January 2017 who worked with our Hastings Colleague Forum to get colleague feedback and prioritise the small operational things that they would like us to fix or change such as changes to internal processes that help provide our customers with first call resolution. We share all updates through our Chief Executive Officer's monthly update, which focuses on all things 4Cs.

Rewarding hard work and dedication

Colleagues

Thrive

Through ongoing development...

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

- Classroom and live academy training for customer serving colleagues, who are regularly upskilled;
- Yourcareer portal providing information about internal career frameworks and the training and development colleagues need to help them develop their careers within the company;
- Apprenticeships – In 2018 we'll be expanding our approach and will invest in apprenticeships aligned to our critical skills so we retain and attract the skills needed to grow our business; and
- Leadership programmes and development activities – designed to develop, engage and retain key leadership talent.

...and reward and recognition for a job well done

We regularly recognise and reward the hard work and dedication our colleagues deliver providing a high quality service experience for customers – whether it's just by saying thank you, awarding a voucher or by celebrating with them at our 4Cs Awards event in the summer or Christmas parties. We also use the 4Cs to recognise and thank colleagues for going the extra mile on a monthly and annual basis. Our 4Cs Awards programme offers colleagues the chance to nominate their team members for their achievements and the positive impressions they make on

all our colleagues, company, customers and local communities. In 2017 we had over 2,000 nominations and the winners of seven categories received their coveted awards at the annual 4Cs Awards final event.

Be who you are...

Attracting, recruiting and retaining talent is vitally important for us as we grow.

Our agility, clear identity and 4Cs way of working is why we stand out and what makes us who we are. Feedback from colleague surveys and focus groups tells us that although we do need to do some things better, colleagues really like working at Hastings and feel they can truly be themselves and bring their personality to work. They feel supported by their colleagues, that there is a strong sense of team and a focus on getting it right for customers.

“Working for Hastings is a blessing and I love working for a company that encourages me to be myself.”

Neha Kadiwar
Team Leader

Equal opportunities and human rights

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

Diversity

We regularly monitor all aspects of colleague diversity across the business. We consider candidates from all backgrounds as part of any recruitment process and we are committed to attracting and retaining the best talent in the industry.

Gender diversity across the Group as at 31 December 2017

All colleagues

1,586	1,602
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Total: 3,188

Senior Leaders

76	23
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Total: 99

Group Board

9	3
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Total: 12

Retail Board (HISL)

4	3
---	---

Total: 7

Underwriting Board (AICL)

5	0
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Total: 5

Over the last 12 months we have been successful in recruiting a number of females to senior roles. We acknowledge there is an imbalance in the number of senior females in the organisation and we are taking steps to address this, whilst ensuring shareholders' interests are protected by appointing the best candidates into demanding senior leadership positions. We are realistic that this will take time to achieve, but are putting in place a number of internal initiatives aimed at increasing female representation. These are likely to encompass colleague lifecycle activities such as recruitment, induction, maternity, talent and succession planning.

We have also signed up to the 30% Club (www.30percentclub.org) to demonstrate our commitment to having more women in senior leadership roles. Our aim is for women to represent 30% of senior leaders in the Group by 2020.

Standing out from our competitors

Customers

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

We do this by:

- listening and responding to customer feedback
- monitoring and predicting customer behaviour and market trends, adapting our pricing and product strategy accordingly; and
- providing a quality service to all our customers by working in an open and accountable way.

“The customer service representative made everything so easy to sort out. It was effortless on my part due to the excellent customer service I received. Straight forward and stress free.”

F Trewick

“The representative from Hastings was very helpful and couldn’t do enough for me while renewing my car insurance. Very good customer service.”

V Anderson

Company

Hastings stands out because we focus on getting it right for our 4Cs. We work with our suppliers to make sure that we adopt an aligned approach to caring for our environment where possible. It is our belief that ethical conduct is an integral component of running a business successfully and it is an expectation we have of both our colleagues and our suppliers. We continually look at ways to make improvements so we can continue to serve our communities and be a good neighbour.

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

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

- inviting our customers to receive all their documentation electronically;
- supporting local businesses with a range of unique offers that encourage and incentivise our colleagues to buy from local retailers, suppliers and services;

- promoting a Travel Green initiative that supports our colleagues in making greener journeys to work through car sharing, increased cycle use and discounted rail travel;
- dedicated recycle and confidential waste stations and at our head office site in Bexhill we send zero waste to landfill;
- encouraging the use of travel mugs and water bottles to cut the use of disposable cups;
- using reduced energy electric light bulbs and motion sensitive lighting where possible and practical; and
- recycling unwanted furniture by donating it to local charities and organisations.

Community

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

A good neighbour

Our Charity Events Committee is made up entirely of colleagues who volunteer to organise fundraising events throughout the year for local charities nominated by colleagues. The Hastings Community Fund provides a helping hand to local individuals or groups by providing advice, physical support or small grants to help with fundraising. In 2017 we raised over £65,000 for local charities and organisations and spent over 1,000 days in our communities. As part of our InsurePink product offering, where £10 for every insurance policy purchased via the brand is donated to a breast cancer charity (Pink Ribbon Foundation), we are pleased that our customers helped us raise over £20,000 for this worthy charity in 2017.

“To have Hastings support our charity this year has been an amazing experience of passion, drive and teamwork at its highest level in the support shown through donations to having colleagues come out and help feed the less fortunate.”

Dom Warren
Founder, Dom's Food Mission

Helping to shape the future

Community

Investing in local education initiatives

We have significant interaction with schools, colleges and universities in and around our communities to help develop, attract and nurture home grown talent. In 2017 we completed the second year of a three year education programme called Be the Change in Bexhill and Leicester which aims to raise the aspirations of local 13-14 year olds. The course is designed to help remove barriers that may make students disengage from school and in life and provide them with life skills to help shape their future. Our colleagues volunteer as business mentors to help support the students with anecdotal and professional advice and guidance. Hastings continues to be the only corporate organisation to sponsor a full bespoke Be the Change programme in the UK.

"Be the Change is one of the most rewarding things I've ever been a part of, and seeing children grow confidence within the first five hour session was amazing! I am excited to see my group of students again and I hope they've implemented the change they want in life."

Lauren O'Keefe
Claims Advisor

"The money we have received has been used towards granting the wishes of eight very poorly children creating memories that the children and their families will never forget. We have met the team on several occasions and have built up a very special relationship with them."

Janine Bates
Trustee, Wishes4Kids

How we protect our business

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

Viability statement

The Directors have assessed the prospects and viability of the Group over a period longer than 12 months, in accordance with provision C2.2 of the 2016 UK Corporate Governance Code. The Directors' assessment has been made with reference to the Group's current financial position and prospects. The period assessed of three years aligns with the Group's medium term strategic planning process (the Three Year Plan) which the Directors review on an annual basis. The Three Year Plan is based on the Board's strategy, risk appetite and assessment of the principal risks as detailed on page 48, as well as how these are managed. Three years is considered appropriate for assessing the viability of the Group as it strikes a good balance between the need to forecast over a longer period, whilst recognising the pace of change within the industry, uncertainty surrounding insurance market pricing cycles and the risks and opportunities that may emerge.

The Three Year Plan is constructed based on the commercial activities of the Group's Retail and Underwriting businesses. This includes a detailed analysis of income and expenditure and the resulting cash generated, supported by explanations of material year on year movements, over the term of the Three Year Plan. There are regular briefings to the Board and senior management, which include the progress of new strategies being implemented and how these are incorporated into the plan.

The Three Year Plan assumes there will be no change to the continued availability of the Group's borrowing facilities, which run to April 2021, that dividends continue to be paid in accordance with the target pay-out ratio, that a consistent reserving policy is applied, and that

Advantage Insurance Company Limited (AICL) remains well capitalised by maintaining a margin above its Solvency Capital Requirement.

The Three Year Plan was then robustly tested by applying nine challenging scenarios designed to threaten the viability of the Group. The stresses applied reflect the crystallisation of the principal risks identified, including:

- pricing and reserve risks that arise from insurance activities;
- operational risk, including risk of cyber attack;
- commercial performance risk;
- liquidity, solvency and capital risk; and
- a combination of these risks crystallising concurrently.

These were assessed independently at the Retail and Underwriting businesses before determining the impact at the consolidated Group level. The minimum requirements for the Group to be considered viable were to maintain throughout each modelled period, positive free cash, continued compliance with the Facility Agreement's two financial covenants and a surplus over the Solvency II minimum capital requirements in AICL.

In certain of the most severe scenarios, achievable, short term mitigating actions within the control of the Company and its subsidiaries were required. After the application of these, the Group maintained positive free cash as well as headroom over the financial covenants and Solvency II capital requirements throughout each of the modelled scenarios. On this basis, the Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, for the next three years.

Our approach

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

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

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

Each regulated subsidiary has its own risk management committee structure that ensure all risks, however they are categorised, are reported to and reviewed by the appropriate committee. Business operational areas maintain risk registers and through the oversight functions report risk details and mitigation measures together with other relevant management information for the committees and ultimately Board consideration. Risk management data from the subsidiaries is consolidated for the Group Committees and Board for review.

How we protect our business

continued

Governance strategy and control

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

Strategy is implemented by suitably experienced and competent people in the regulated subsidiaries, incentivised appropriately and guided by strong corporate culture and values across the Group. The ability to identify and respond quickly to evolving or emerging risks and issues is supported by a dynamic environment that encourages independent and objective challenge, focused on escalation and resolution. Timely management information is generated to enable appropriate monitoring, reporting, oversight and decision making based on sound proposals and judgement.

The controls in place need to support the operations of the Company in the management and mitigation of risk and are suitable and effective. These must remain appropriate and proportionate to the size, nature and complexity of the Company and are therefore regularly reviewed by the executive management, the Group Board and its trading entities.

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

Risk management framework

A risk management framework is used at Group level and within the regulated subsidiaries to ensure there is a consistent approach to risk management across the Group. Risk can be categorised in different ways, for example, Strategic, Business and Emerging, but however categorised all functions within the company have their responsibilities in managing risks.

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

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

Emerging Risks, by their very nature could be Strategic or at a Business level, and when identified are recorded, assessed and mitigated within the requirements of the Risk Management Framework.

A uniform approach of the Risk Management Framework assists in the direct link between risks in the trading entities and the Group. The standardised risk management methodology used is Identification, Measurement Management, Monitoring and reporting. This process results in a cohesive and integrated approach, leverages the Risk Committees at subsidiary level and provides effective and consistent assessment of the Group's risks.

Internal control framework

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

First Line: Business Operations:

- has ownership, responsibility and accountability for day to day risk identification, assessment and management activity;
- directly owns and operates risk mitigating policies and controls and remedial actions;
- ensures compliance with all regulatory obligations and internal policies; and
- provides management assurance by monitoring and reporting risk, control and compliance matters for governance oversight.

Second Line: Oversight Functions:

- establishes boundaries by proposing Group policies and frameworks for Board approval, and standards to align Group wide practices to defined strategy;
- facilitates guidance and direction on effective risk, control and compliance management practices to satisfy Group policies and standards as well as regulatory requirements; and
- applies Group wide best practice providing oversight, challenge, monitoring and assurance reporting directly to Board Committees.

Third Line: Independent Assurance:

- offers independent challenge and assurance by auditors, both internal and external, and external actuaries;
- provides independent challenge, objective assurance and consulting activities designed to add value and improve the Group's operations; and
- bring a systematic, disciplined approach to evaluate and improve the effectiveness of risk management control and governance processes.

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

During the year there have been a number of enhancements to the way the Group manages its risks. The most material has been in the strengthening and reorganisation of the Second Line function. The recruitment of additional technical expertise, is positioning the function to be able to provide the necessary oversight and challenge across the entire planning cycle.

Risk identification & assessment**Risk identification & assessment**

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

The risk management process can be illustrated as follows:

How we protect our business

continued

Risk management framework

There is a documented Risk Management Framework in use throughout the Group and its trading entities, detailing the approach to risk management, providing support, advice and communicating the risk management strategy. This framework is approved by the Board upon recommendation of the respective Risk Committees. It provides a disciplined and structured process to reduce the potential for internal or external events that may detrimentally affect the Group through proactive risk identification, measurement, management, monitoring and reporting. Through a set of continuous and developing processes applied throughout the Group, the functions making up the three lines of defence ensure all known and emerging risks are managed and mitigated in line with the appropriate risk appetites.

The Risk Management Framework includes documented risk and control frameworks for the regulated entities, as well as risk registers that contain details of risks, controls, key risk indicators, actions related to risk mitigation and ownership of each risk. The frameworks are continuously developed to include Strategic, Business and Emerging risks.

Stress and reverse stress testing and scenario analysis are regularly undertaken and reviewed by the respective Committees, including the testing that has been carried out to support the Viability Statement on page 43. Financial performance, financial position and cash flows have been stress tested using the principal financial and operational risks listed on page 48, including reductions in premium and other income, retention rates and new business volumes, deterioration in loss ratio and possible failure of a reinsurer. Focus has been applied to ensure compliance with Solvency II and other external requirements.

Internal audit

The remit of the internal audit function is covered in the Audit Committee report on page 71.

Compliance

The Compliance functions within the trading entities provide regulatory risk oversight, and monitor compliance with the various regulatory and legal obligations of the Group, specifically those of the FCA in the UK and the GFSC in Gibraltar. This monitoring together with regular interaction with the business functions, helps to provide input into such areas as training, marketing and the way the regulated firms deal with customers, as part of the continuous improvement approach to regulatory obligations.

The Group continues to ensure its Compliance oversight function remains effective in monitoring and reporting as to whether regulatory adherence and customer conduct obligations are being met, by reviewing appropriate management information such as breach and complaint statistics. The Compliance function provides advisory guidance to the business including training and updates on regulatory developments, as well as providing second line monitoring of operations.

Fraud

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

A number of sophisticated identification and validation methodologies and databases are employed to help prevent potentially fraudulent activity at various points in the application, sale and claims process:

- at the point of quotation, risk scoring and referencing tools including data enrichment are used to identify and reduce exposure to potentially fraudulent applications;
- at the point of sale, risk scoring is again undertaken to identify any quotation irregularities which are potentially 'quote manipulation' frauds;
- during the claims process, relational databases, external referencing and investigations are used to identify potentially fraudulent claims;
- the strength of the Insight team has been recognised in the industry and it has been the recipient of a number of industry awards.

Policies and procedures

To ensure stakeholders are treated fairly and compliance with legislation, regulation and best practice is maintained, guidance and direction is provided to all colleagues through policies and procedures, supported by the Risk and Control Frameworks and supporting processes.

Policies that are critical to the Group's overall control and governance structures are reserved for formal Board review and approval. These policies typically cover legal and regulatory requirements or culture and values. They also help to communicate and embed Board approved risk appetite. To ensure that a consistent approach to governance is maintained throughout the Group, a number of policies are approved by the Group's Board and are adopted in full by the trading subsidiaries. Board approved policies are reviewed and approved at least once a year.

The three lines of defence model ensures that the standards and appetites, as defined by these policies, function as intended and provide expected outcomes. Under the three lines of defence model, independent assurance testing and evidence gathering on aspects of how the business is managed is undertaken by the Group internal auditor who reports to the Board via the Audit Committee.

Day to day responsibility for implementing policies and procedures is the remit of senior management, with the support of the oversight functions, who ensure operational decisions take into account risk, against risk appetite, and how this can be controlled effectively.

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

Risk assessment

The Board undertakes a regular assessment of the principal risks facing the Group, following reports from the oversight functions, including those that would threaten its business model, future performance, solvency or liquidity.

The Group considers its current key risk categories, any of which could potentially give rise to significant reputational risk, to be as follows:

1. commercial performance risk: (includes reinsurance risk, market risk, pricing risk and reserving risk): The risk of loss resulting from failure to meet the Group's strategic objectives and deliver the Three Year Plan.
2. financial risk: The risk of loss resulting from an inability to meet financial commitments as they fall due or from an immediate need to strengthen the capital position.
3. operational risk: The risk of loss resulting from inadequate or failed policies or controls, people, systems and external events.

Brexit risk

The view of the implications of Brexit remains unchanged since the last annual report having been assessed as having a low impact on the Group. The UK leaving the EU is not likely to impact the need for UK motorists and households to obtain insurance and is therefore unlikely to significantly affect demand for the Group's products. Volatility in the financial markets, which may be more likely considering the progress made to date in negotiating the Brexit terms, could impact on the fair value of the Group's investments, but is mitigated by the conservative investment portfolios demonstrated by the portfolio's resilience post referendum and through this first year of negotiations.

No immediate or short term regulatory change is anticipated in Gibraltar or the UK as a result of the UK leaving the EU and the Board therefore believes that the UK leaving the EU is not expected to significantly impact on the Group's operations or results.

How we protect our business

continued

Current key risk categories

Risks	Key monitors
Commercial performance risk <ul style="list-style-type: none"> • Inability to manage reserving and pricing risk (Underwriting) • Market risk • Reinsurance risks (Underwriting) • Changes to the way that consumers purchase general insurance products – less use of PCW (Retail) • Adverse impact of legal, tax or regulatory change 	<p>Regular internal and external reserve reviews reported to the Board of Underwriting and external actuaries who reports to Underwriting's Reserving Committee, combined with monthly results reports submitted to the Board of Underwriting.</p> <p>Constant assessment of market conditions and the implications for assets under management.</p> <p>Regular reviews of reinsurance arrangements and the stability of external partners who provide reinsurance programmes.</p> <p>Assessing consumer preferences, and in particular the use of PCW for the purchase of general insurance products against our planning assumptions.</p> <p>Ongoing monitoring of changes within the legal and regulatory landscapes together with the maintenance of open and transparent communication with the relevant authorities.</p>
Financial risk <ul style="list-style-type: none"> • Insufficient capital to service debt arrangements (Group) • Insufficient capital to meet Solvency II requirements (Underwriting) • Insufficient capital to meet regulatory requirements (Retail) 	<p>Monitoring of cash flow from trading entities and the free cash position of the Group.</p> <p>Management of own funds in accordance with Solvency II and Board reviews in Underwriting.</p> <p>Monitoring and measurement of risk and capital implications through stress, reverse stress and scenario testing, as captured in Underwriting's Own Risk and Solvency Assessment.</p> <p>Annual stress testing and management of finances against the Group's Three Year Plan.</p>
Operational risk <ul style="list-style-type: none"> • Business interruption events as a result of systems, property or supplier failure (Underwriting and Retail) • Insufficient resources to meet the volume demand and deliver required technical and professional services • Reliance on third party suppliers to provide customer facing services, and technology capability • Information security breaches or cyber crime • Increased exposure to claims fraud leading to increase claims related expenditure 	<p>Regular reviews of resilience risks, contingent back up capability, system stability and supplier continuity plans.</p> <p>Real time resource monitoring and long term planning to achieve growth objectives and ability to continue to deliver a straightforward claims and service experience.</p> <p>Ongoing supplier relationship and performance management, with regular due diligence reviews.</p> <p>Constant IT infrastructure monitoring, data assessment and perimeter testing.</p> <p>Increased investment in information security/cyber crime defences and controls. Dedicated team which deploys effective and anti-fraud techniques.</p>

External factors affecting the Group's risk profile

Factor	Impact	Mitigation and movement in the year
Economic stress Failure to deliver the Group's strategy due to unforeseen economic changes.	<p>Adverse economic conditions could increase the risk to the strategic plans and/or reduce the Group's income from investments.</p> <p>Whilst the car insurance industry has been relatively unaffected by economic downturns, as the Group diversifies into home products, more of its product could be subject to the negative effects of a sustained economic downturn.</p>	<p>The Group and trading entity Boards regularly review the investment portfolios managed in the respective trading entities against the economic outlook and the Group's risk appetite.</p> <p>The strategy is to continue to grow the home product whilst keeping a watchful eye on the economy and the longer term impacts for the Group's product strategy.</p> <p>The economic horizon has been monitored and assessed against the strategic plan.</p>
Regulatory changes Changes to the regulatory environment which inhibit income generation in the general insurance industry or capital requirements.	<p>A shift in the regulatory landscape could introduce constraints therefore increasing the risk to income from general insurance and/or an increase in capital requirements. Equally, however, changes to the regulatory landscape could present opportunities for increased income and reduced capital.</p> <p>The Group strategy is based on the current regulatory horizon. Any negative shift in the rules and regulations that apply to general insurance could increase the risk to commercial plans of the Group.</p>	<p>The Group has an effective regulatory horizon scanning capability to review the potential implications for the Group and more importantly its regulated subsidiaries. In addition the trading entities continue to foster good working relationships with their respective regulators, and other local authorities, and take the opportunity to embrace change early and, where appropriate, adjust the strategic plans to accommodate that change. Retail is often engaged in consultations with the FCA, providing its views on regulatory reform which gives the Group early insight and opportunity to contribute towards the shape of future regulation. Underwriting has worked closely with the Gibraltar FSC since the implementation of Solvency II.</p> <p>The Group continues to develop its governance, risk and control in Underwriting as it further embeds Solvency II. Within Retail and Underwriting, Risk and Compliance teams have been further enhanced with additional resource and capability to strengthen the second line of defence.</p>
Climate change Potential for increased frequency and severity of claims due to climate change that reduces the commercial performance of the Group.	<p>The Group's ability to meet its strategic plan, a key risk, could be damaged in the event of increased claims frequency and or severity.</p>	<p>Underwriting adopts a prudent approach to the risk accepted and the pricing strategies used continue to reduce this risk. In addition the industry wide implications of increased claims as a result of climate change would probably result in premium inflation across the market.</p> <p>The exposure to this risk has increased over the year as the Group's Home portfolio continues to grow however, maintaining the conservative underwriting approach continues to ensure that the Group protects its revenue generation whilst minimising the cost implications for claims.</p>
Vehicle Technology and Innovation Advances in vehicle technology, such as electric and autonomous vehicles, which may fundamentally change the nature of motor insurance.	<p>Accelerated advances or developments for which the Group is not prepared could place the Group at a competitive disadvantage.</p>	<p>The Group constantly monitors developments to ensure that it remains informed, embraces innovation and change, and is well positioned to adapt its business model as appropriate.</p>
Adverse market conditions Increased competition in the insurance market and changes in consumer behaviour impact profitability.	<p>Increased risk that the Group's market share is impaired resulting in commercial underperformance.</p>	<p>The Group constantly monitors the markets in which it competes for pricing and other changes that could impact its commercial objectives. This monitoring and the ability to rapidly adjust pricing strategies ensure the Group remains competitive by managing both income generation and policy volumes with agility.</p>

How we protect our business

continued

Internal risks

Factor	Impact	Mitigation and movement in the year
Commercial failure Commercial performance does not meet Group expectations or the Three Year Plan.	The Group either incurs additional expenses or is unable to generate sufficient income.	<p>The Group, through its governance, Risk and Compliance functions, coupled with targeted Internal Audit in the respective trading entities, assesses the effectiveness of critical processes and procedures on a regular basis. These are assessed alongside the risk appetite at both Group and trading entity level through the management reporting that is provided at Risk Committees and Boards. This provides assurance to the Board that risks to commercial performance and the successful delivery of the Three Year Plan are adequately and effectively mitigated.</p> <p>Underwriting and pricing agility enables the Group to react to external influences, ensuring that it is able to optimise commercial performance.</p> <p>Embedding and realising efficiencies and benefits from new technology introduced processes for claims handling and policy administration. This will also continue to enhance and simplify the customer experience and drive more positive outcomes.</p>
Cyber exposure The Group maintains a digital centric business model that is increasingly exposed to business disruption and data loss.	A major cyber event could lead to the Group not being able to access external data critical to the operation of a modern insurance company and/or sales due to a lack of trust in the Group's ability to protect customer data.	The Group continues to invest in resources and technology, in both the first and second lines, to ensure that it continues to protect itself from the various and changing cyber threats. The residual risk is within the Group's appetite and is to the level expected of a Group such as Hastings.
Third party failure The Group relies on a large number of external suppliers.	A supplier, delivering a key service, fails leading to the Group not being able to continue to operate and deliver its strategic objectives.	<p>The Group has policies and procedures in place to manage and monitor the procurement process and contract management in the trading entities which are categorised according to their risk profile. The Group monitors the key risks in each trading entity and the processes in place to ensure that the risk is within appetite.</p> <p>The Group has a clear view of the risks associated with suppliers, through the interaction that the respective trading entity Boards have with executive and senior leaders. Efforts continue to introduce additional controls and monitoring as well as develop the internal capabilities to drive good commercial value from supplier arrangements and minimise risk.</p>

Directors' report

The Directors present their Annual Report and the audited Financial Statements for the year ended 31 December 2017.

Statutory information contained elsewhere in this Annual Report

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

- results and dividend in the Chairman's Statement, page 12 and the Chief Financial Officer's Statement, page 27;
- corporate governance, the Group's financial risk management, internal control objectives and policies in the Corporate Governance Statement on page 64 and Managing Our Risks on page 43;
- details of the salaries, bonuses, benefits and share interests of Directors in the Directors' Remuneration Report on page 87;
- Directors' Responsibility Statements on page 56;
- how the Board takes into account the views of all stakeholders and promotes the long term success of the Company on pages 69 and 70.

Management Report

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

Directors and Directors' interests

The names of the Directors of the Company and changes to directorships during the reporting period are shown on page 60. Biographical details of the current Directors of the Company are shown on page 77. Directors' interests in the share capital of the Company are set out in the Directors' Remuneration Report on page 87.

Directors' indemnities and insurance

The Company has made qualifying third party indemnity provisions for the benefit of its Directors which remain in force at the date of this report. In certain circumstances, the Company can indemnify Directors, in accordance with its Articles of Association, against costs incurred in the defence of legal proceedings brought against them by virtue of their office. Directors' and Officers' Liability insurance cover remains in place to protect all Directors and senior managers.

Articles of Association

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

Substantial shareholdings

As at 1 March 2018 the Company was aware of substantial interests in the Company's shares or had been notified of interests in voting rights under Chapter 5 of the DTR, as follows:

Shareholder	Shareholding	% of issued share capital	Holding
Main Street 1353 Proprietary Limited	196,508,074	29.9	Direct
Goldman Sachs Interests	76,372,246	11.6	Direct
Fidelity Management Research	37,719,098	5.7	Direct
Neil Utley	30,000,000	4.6	Direct

Share capital structure, issue and buying back and shareholder rights

The number of Ordinary Shares of 2 pence each issued and fully paid at 31 December 2017 was 657,217,641. All Ordinary Shares have equal rights to dividends and capital and to vote at general meetings of the Company, as set out in the Company's Articles of Association.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

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

Directors' report

continued

During the year, shareholders Hastings A, L.P., Hastings B, L.P., Goldman Sachs & Co. and the Founder Shareholders (collectively Significant Shareholders) had significant direct and indirect investment in the Company via Hastings Investco Limited. Pursuant to a Relationship Agreement (RA1) entered into by the Company, Hastings A, L.P., Hastings B, L.P. and Goldman Sachs & Co. (GS Shareholders) and the Founder Shareholders (collectively) are each able to appoint two of the Directors to the Board while they (or persons connected to them) continue to hold a direct or indirect interest in 20% or more of the Company's shares and one Director while they (or persons connected to them) continue to hold a direct or indirect interest in at least 5% but less than 20% of the Company's shares.

On 1 March 2017 Hastings Investco Limited, along with certain individual shareholders, reached an agreement to sell a proportion of its shareholding in the Company to Rand Merchant Investment Holdings Limited and its wholly owned subsidiary Main Street 1353 Proprietary Limited (RMI), whereby RMI acquired a holding of 29.9% in the Company. As a consequence of that transaction, and under the terms of RA1 with the Company, the GS Shareholders' and Founder Shareholders' respective entitlement to nominate directors for appointment to the Board reduced from two Directors each to one Director each. On 14 March 2017, Michele Titi-Cappelli resigned as a Director representing the GS Shareholders and Edward Fitzmaurice resigned as a Director representing the Founder Shareholders. As at the end of the year, the appointees are Sumit Rajpal for the GS Shareholders and Selina Sagayam for the Founder Shareholders.

The Company confirms that Hastings Investco Limited was a controlling shareholder as defined by Listing Rule 6.1.2AR during the year being a shareholder who exercised or controlled at least 30% of the voting rights in the Company. On 1 March 2017, Hastings Investco Limited ceased to be a controlling shareholder of the Company. The Company was notified in June 2017 that Hastings Investco Limited was to be dissolved and that the indirect interest in the Company's shares held by GS Shareholders and certain Founder Shareholders were converted into direct holdings in the Company.

In accordance with Listing Rule 9.8.4(14)(c) the Company confirms that it complied with the independence provisions included in RA1; that as far as the Company is aware independence provisions included in RA1 were complied with during the period under review by Hastings Investco Limited and the Significant Shareholders; and that the procurement obligations included in RA1 were complied with during the period under review by Hastings Investco Limited and the Significant Shareholders. Although Hastings Investco Limited ceased to be a controlling shareholder of the Company during the year, RA1 remains in force and all relevant provisions continue.

A relationship agreement (RA2) was entered into between the Company and RMI so that, for so long as RMI holds a direct or indirect interest of between 15% and 29.9% in the issued Ordinary Share capital of the Company, RMI is able to nominate a Director for appointment to the Board of the Company. Herman Bosman, Chief Executive Officer of RMI was appointed as a Director of the Company on 14 March 2017. RA2 contains the same independence provisions as RA1, however the Company confirms that, as at 31 December 2017, RMI was not a controlling shareholder as defined by Listing Rule 9.2.2A.

The appointment and replacement of Directors is governed by the Articles of Association, the UK Corporate Governance Code (the Code), the Companies Act 2006 and related legislation. In accordance with principle B.7.1 of the Code, all Directors will be subject to annual election by shareholders.

Resolutions to provide authorities to Directors to allot shares, to disapply certain pre-emption rights and to make market purchases of the Company's own shares, all subject to appropriate limits, will be put to the Annual General Meeting (AGM). Shareholder resolutions put to the AGM held in May 2017 providing authority for the purchase by the Company of its own shares remained valid as at 31 December 2017.

The Company confirms that during the financial year ended 31 December 2017, no shares in the Company were purchased by the Company or acquired by it by forfeiture or surrender in lieu of forfeiture; or were acquired by a Company nominee, or by another with the Company's financial assistance, the Company having a beneficial interest in accordance with section 671 of part 18 of the Companies Act 2006; or were made subject to a lien or other charge taken by the Company. The Company has not held any Ordinary Shares in treasury in the period under review.

Under the Company's Share Incentive Plan (SIP) Trustees of an employee benefit trust (EBT) hold shares on behalf of SIP participants for a three year service period. The Trustees will vote on, and receive dividends, in accordance with a participants wishes. The Group satisfies matching share awards in the SIP as described in Note 29 to the Financial Statements through the acquisition by the EBT of the Company's Ordinary shares in the market. During the three year service period these matching shares are held by the EBT. The EBT is consolidated within the Company's Consolidated Financial Statements.

Change of control – significant contracts

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

Branches

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

Greenhouse gas emissions

Tonnes CO ₂ e	2017	2016	2015
Scope 1	235	277	369
Scope 2	906	1,064	1,201
Total Footprint	1,141	1,341	1,570
Full time colleagues	1,798	2,001	1,994
CO ₂ e per FTE	0.63	0.67	0.78

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

Scope 2 – Energy indirect emissions from purchased grid electricity.

All emission sources have reported on as required under the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended. The reporting boundary used for collation of the above data is consistent with that used for consolidation purposes in the Financial Statements. The Group has followed the methodology laid out in DEFRA's Environmental Reporting Guidelines and calculated the carbon emissions using the relevant carbon conversion factors as issued by DEFRA: www.ukconversionfactorscarbonsmart.co.uk/. Emissions have been reported in tonnes of CO₂e (carbon dioxide equivalent) which include CO₂, CH₄ and N₂O.

Emissions for 2017 were 15% below the tonnage seen in 2016 and are 23% below the emissions from the base year (2013) total of 1,479 tonnes. Over 79% of Group emissions were produced from grid electricity consumption. Greenhouse gas emissions primarily arise from the Group's electricity, gas, gasoil and refrigerant gas consumption through the operation of its offices. Only offices which are solely occupied by the Group have been included in the reporting scope and therefore exclude the leased offices in London, Leicester and Newmarket (Hyperion House), for which energy data is not available or accurate. Full-time colleagues based in the excluded offices are not counted towards the CO₂e per full time colleague (FTE) figure quoted above.

The reduction in reported carbon emissions was primarily a result of less grid electricity consumption, owing to the closure of Franklin House, Newmarket, coupled with the discontinued use of a generator in Bexhill and that carbon emissions resulting from grid electricity consumption in the UK were lower than in 2017 due to de-carbonisation, reflected in the emissions factors published annually by DEFRA: (0.35156 kg CO₂e/kWh in 2017 compared to 0.41205 kg CO₂e/kWh in 2016). As part of the refurbishment of the Group's office in Bexhill, the generator was replaced and is now only used for standby generation in the event of power loss from the national grid. Despite the total number of colleagues working for the Group having now exceeded 3,100, the number of FTE noted above has reduced compared to the prior year primarily due to the growth of the leased office in Leicester where accurate data is not available and the increase in the number of colleagues who now work from home.

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

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

Political contributions

There were no political contributions during the year (2016: £nil).

Directors' report

continued

Directors' statements

As required under the Companies Act 2006, the Code and the DTRs, various statements have been made by the Board as set out on page 56 and are incorporated into this Report by reference.

Auditor

KPMG LLP were initially appointed as the Company's Auditor in December 2015 for the financial year ended 31 December 2015 and their re-appointment was approved by shareholders at the AGM in 2017 for the current financial year. KPMG have confirmed that they are willing to be reappointed as auditor for the financial year ending 31 December 2018. In accordance with section 489 of the Companies Act 2006, a resolution proposing the appointment of a statutory Auditor will be proposed at the AGM.

The Audit Committee report on page 71 provides details on the length of tenure and re-appointment of the Auditor and when the tender was last conducted.

Directors' statement of responsibility for disclosure of information to auditor

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

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

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

Our colleagues

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

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

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

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

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

As at 31 December 2017, the Company's Board had 12 Directors of whom nine were male and three female. Of the Group's 3,188 colleagues, 1,586 were male and 1,602 were female.

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

	Male	Female
Hastings Insurance Services Limited	4	3
Advantage Insurance Company Limited	5	0

The Group has a responsibility to conduct its business in an ethical and transparent way. Accordingly, we adhere to a set of business principles which include a commitment to human rights principles. The Group has policies in place to support these principles which include non-discrimination, health and safety, anti-bribery, human slavery and trafficking and environmental issues. We maintain a zero tolerance approach to bribery, corruption and slavery.

Mandatory training is required for all colleagues to ensure that all of our colleagues are aware of Company policies, the Company's values and legislative requirements and cover subjects ranging from data protection to whistleblowing to diversity and inclusion in the workplace. Training outcomes are monitored and remedial training is provided as appropriate.

Suppliers of key services to the Group are subject to a robust due diligence process under a Supplier Relationship Management Framework in order to enhance relationship and risk management. Critical suppliers are subject to ongoing reviews throughout the year at which service levels and adherence to processes and procedures are discussed and improvements made as appropriate.

Further information on colleague engagement can be found in the Corporate Responsibility Statement on pages 36-42.

Contractual arrangements

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

Financial instruments

The objectives and policies for managing risks in relation to financial instruments held by the Group are set out in note 25 to the Financial Statements.

Going concern

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

The Strategic Report and the Directors' Report were approved by the Board on 28 February 2018 and are signed on its behalf by:

Anthony S Leppard
Company Secretary
 28 February 2018

Statement of Directors' responsibilities

Statement of Directors' responsibilities in respect of the Annual Report and the Financial Statements

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRS;
- assess the Group and Parent 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 Group or the Parent 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 Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They 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 Group and to prevent and detect fraud and other irregularities.

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

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

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

We confirm that to the best of our knowledge:

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

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

Anthony S Leppard
Company Secretary
28 February 2018

Corporate governance

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Chairman's Q&A

“Following on from a strong and successful first full year as a listed entity, the Board focused on continuing that momentum in 2017.”

Mike Fairey
Chairman

What were the key areas of focus for the Board in 2017?

Following on from a strong and successful first full year as a listed entity, the Board focused on continuing that momentum in 2017. It reviewed the Group's strategy and approved a Three Year Plan to ensure that growth is sustainable; risks are considered and mitigated as much as possible and key strategic priorities are communicated. The Group's vision continues to be to offer straightforward insurance products at competitive prices. By maintaining an agile, disciplined, focused, data driven and cost effective business model the Board is confident that the Group will continue to grow profitably and for the benefit of all stakeholders. As discussed in my opening statement to this Annual Report, Board succession planning was also of key importance with the appointment of Gary Hoffman as my successor as Board Chairman and Toby van der Meer as Chief Executive Officer.

How does the Board take into account the views and interests of all stakeholders as well as fulfilling its duties when taking decisions to promote the long term success of the Company?

All of the Group's actions are based on our 4Cs approach. We focus on getting things right for our colleagues, customers, company and community. This way of working enables everyone, from the colleagues in the call centres right up to the Board, to ensure that the interests and views of each of these stakeholders are at the heart of what we do and how we do it. The long term interests of the Company are underpinned by how we as a Board get it right for our colleagues by creating the right environment and giving them the right tools to do their job. Therefore they will do more for our customers, and the Company, enabling us to grow profitably and sustainably, and allowing us to invest in the communities we serve.

What were the main outcomes from the Board evaluation undertaken in 2017?

This year, like the last, an evaluation of the Board and its Committees was undertaken using an externally facilitated platform that was overseen by the Company Secretary who assessed and reported the results to the Board in November this year. The main areas requiring further enhancements related to more formality around training and development of Directors, the composition of the Board, compliance with the UK Corporate Governance Code and shareholder engagement by Non-Executive Directors. Action plans for various improvements have been agreed by the Board and each of its Committees. As Chairman of the Board, Gary and I will oversee the progress on those plans for the Board and the chairs of the other committees will do likewise.

How has the Board considered its composition and that of the Committees as well as addressing issues of diversity?

The Company's policy is that candidates will be considered based on the independence, skills, knowledge and experience that they possess as well as the skill sets and experience of the whole Board. The Board is committed to ensuring that it represents the diversity of its workforce and candidates from a wide range of disciplines and experience are considered. As part of succession planning for the role of Chief Executive Officer, candidates from a wide range of backgrounds were considered. The Board composition currently includes 25% female and 17% from non-white backgrounds; the diversity of the Board as a whole will continue to be reviewed.

Last year the Company was not fully compliant with the UK Corporate Governance Code in terms of the composition of the Remuneration Committee. How has this been addressed over the year?

The Company stated its intention to be compliant in terms of the composition of the Remuneration Committee last year as its membership included two Non-Independent Directors representing Founder and Goldman Sachs shareholders. During this year the Nomination Committee and the Board discussed the Committee's composition on a number of occasions and I am pleased to say that the Founder Shareholders and Goldman Sachs Shareholders have agreed that their nominated representative would step down from this Committee. As a consequence the Company now complies with the Code in relation to the composition of this Committee.

Although the Company was fully compliant with the UK Corporate Governance Code at the end of the financial year, the appointment of the Chief Executive Officer as your successor is not in line with the principles of the Code. Why has the Board chosen to appoint Gary as Board Chairman?

The Board takes Code compliance very seriously and the decision was not made lightly without consideration and debate. Hastings has grown very successfully under Gary, both before and after the IPO, and he has been instrumental in establishing the Group's strong stakeholder engagement culture. His promotion and leadership of that culture is considered to be of great value. Gary also has previous and current experience of Board chairmanship and as a Non-Executive Director, making him the prime candidate as my successor. The Board strongly believes that continuity and stability is in the best interests for the Company and its stakeholders. Toby van der Meer, currently Managing Director of Hastings Direct, has also played a pivotal role in the growth and development of the Group's Retail business. His appointment as the Group's Chief Executive Officer, together with Gary's as Chairman, means that there will be minimal disruption providing an orderly succession and transition period with Gary as Chairman.

Mike Fairey
Chairman
28 February 2018

Maintaining effective governance

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

01
Mike Fairey
Chairman

Board structure

Gender

Male

Female

Board composition

Chairman
Exec
INED
NED

Experience

Finance/Banking
Insurance
Technology/Telecoms
Legal
Consultancy

02
Gary Hoffman
Chief Executive Officer

03
Richard Hoskins
Chief Financial Officer

04
Herman Bosman
Non-Executive Director

07
Ian Cormack
Independent Non-Executive
Director

10
Sumit Rajpal
Non-Executive Director

05
Alison Burns
Independent Non-Executive
Director

08
Pierre Lefèvre
Independent Non-Executive
Director

11
Teresa Robson-Capps
Independent Non-Executive
Director

06
Thomas Colraine
Senior Independent Director

09
Malcolm Le May
Independent Non-Executive
Director

12
Selina Sagayam
Non-Executive Director

Maintaining effective governance

The Directors who were in office and their Committee memberships as at 31 December 2017 were as follows.

01**Mike Fairey**
Chairman

Appointed3 September 2015

Experience

Mike has been the Chairman of the Group since June 2015. Mike was Deputy Chief Executive of Lloyds Banking Group for 10 years until 2008 and currently holds a number of non-executive positions.

04**Herman Bosman**
Non-Executive Director

Appointed14 March 2017

Experience

Herman is the CEO of RMI and its sister company RMB Holdings, having joined the companies in April 2014. Prior to his current role he was Head of Corporate Finance at Rand Merchant Bank from 2000 until 2006 and CEO of Deutsche Bank South Africa from 2006 to 2013. Herman is a Non-Executive Director of Discovery Limited, First Rand Limited, OUTsurance Limited and Merchant Capital Limited. He also serves on the Board of Governors of the University of Johannesburg, is Chairman of Endeavor South Africa and Business and Arts South Africa and served eight years as a trustee of the Deutsche Bank South Africa Foundation. He holds a BCom (LLM) and is a Chartered Financial Analyst.

02**Gary Hoffman**
Chief Executive Officer

Appointed15 June 2015

Experience

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

05**Alison Burns**
Independent Non-Executive Director

Appointed12 July 2016

Experience

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

03**Richard Hoskins**
Chief Financial Officer

Appointed3 September 2015

Experience

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

06**Thomas Colrairie**
Senior Independent Director

Appointed3 September 2015

Experience

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

Key:	Chair	Remuneration Committee
	Audit Committee	Risk Committee
	Nomination Committee	

07**Ian Cormack**
Independent Non-Executive Director**Appointed**
3 September 2015**Experience**

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

10**Sumit Rajpal**
Non-Executive Director**Appointed**
3 September 2015**Experience**

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

08**Pierre Lefèvre**
Independent Non-Executive Director**Appointed**
3 September 2015**Experience**

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

11**Teresa Robson-Capps**
Independent Non-Executive Director**Appointed**
12 July 2016**Experience**

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

09**Malcolm Le May**
Independent Non-Executive Director**Appointed**
3 September 2015**Experience**

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

12**Selina Sagayam**
Non-Executive Director**Appointed**
14 August 2017**Experience**

Selina is the Head of UK Transactional Practice Development of international law firm Gibson, Dunn & Crutcher. She is an English qualified corporate finance lawyer who joined the firm's London office as a partner in 2007 and chairs its Talent and Community Affairs Committees. Her appointment to the Company's Board is in a personal capacity and unconnected to her position with Gibson Dunn. Selina serves as a Non-Executive Director on the Board of the Company's FCA regulated subsidiary entity, Hastings Insurance Services Limited and also chairs its Risk Committee. Selina also sits on the Advisory Board of Diversity UK, chairs the cross-industry group NetworkForKnowledge and serves as a board member of the Corporate Finance Faculty of the ICAEW and the Development Board of In Their Lifetime (Christian Aid).

Corporate governance statement

The role of the Board

The Board is the main decision making body of the Company. It provides leadership within a framework of prudent and effective controls enabling risk to be assessed and managed. It also carries ultimate responsibility for the effective direction and control of the Group and is accountable to shareholders for financial and operational performance. There is a clear Schedule of Matters Reserved for the Board, together with delegated authorities to Board Committees and management.

Executive and Non-Executive Directors have the same statutory duties but are subject to a clear division of responsibilities. It is the responsibility of the Chairman to lead and manage the Board and for Non-Executive Directors to monitor, review and challenge Executive Directors and senior management by acting in the interest of the Company's stakeholders. The overall responsibility for the day to day management of the Group is delegated to the Chief Executive Officer. The Chief Executive Officer is supported in this role by senior executive management responsible for management oversight of the Group and its subsidiaries. The roles and responsibilities of the Chairman, Chief Executive Officer and Senior Independent Director are clearly defined and allocated. These responsibilities are set out in writing and are available at www.hastingsplc.com/about-us/corporate-governance.

All Directors receive an induction on joining the Board which is tailored to the individual needs of each Director; where a Director is joining a Board Committee the induction includes an overview of the operation of that committee. On completion of the induction programme the Director should have sufficient knowledge and understanding of the nature of the business, and the opportunities and challenges for the Hastings Group, to enable them to effectively contribute to strategic discussions and oversight of the Group. Directors regularly update and refresh their skills and knowledge.

The Company Secretary acts as Secretary to the Board and takes the minutes of all meetings. Working in collaboration with the Chairman, the Company Secretary is responsible for ensuring good governance and consults Directors to ensure that good information flows exist and that the Board receives the information it requires in order to be effective. Throughout the year the Board and Committees receive regular updates from the Executive Directors and senior executives of key developments in the business as part of their formal meetings. Directors are able to seek independent and professional advice at Company expense to enable Directors to fulfil their obligations as a member of the Board.

As part of the Board effectiveness evaluation conducted in October 2017, the Board as a whole was subject to an appraisal by all Directors. The evaluation considered the effectiveness of processes and procedures established by the Board to fulfil its duties, the Board's composition, skills and experience and the performance of the Board Chairman. A number of actions for the coming year in relation to the aforementioned areas have been agreed.

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

Board and Committee structure

The Board delegates certain matters to various Committees, each with their own Board approved Terms of Reference which are reviewed annually. The Board has four Committees, Audit, Nomination, Remuneration and Risk; all of their Terms of Reference were reviewed by the relevant Committee and approved by the Board. Reports from these Committees describing their principal activities during the year are set out in their respective reports on pages 71 to 84. Board and Committee meetings are structured to allow sufficient time for consideration of all items and each Chairman encourages constructive debate and challenge. Committees are authorised to obtain outside legal or other independent professional advice if required. The Chairman of each Committee reports to the Board on matters considered by each Committee at the subsequent Board meeting as appropriate. All Directors have access to the minutes of each Committee.

The membership of Committees is a matter for the full Board upon recommendation of the Nomination Committee. Each of the Board Committees comprises solely Non-Executive Directors. Each Committee is chaired by an Independent Non-Executive Director; the Nomination Committee is currently chaired by the Chairman of the Board. The current membership of each Board Committee can be found on pages 62 and 63. Executive Directors, members of management and professional advisers also attend meetings of the Committees when required to do so by the chair of the relevant Committee.

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

The Board has overall responsibility for the management of the business and affairs of the Group and the Company, establishes Group strategy and is ultimately accountable for financial and operational performance.

The Risk Committee provides oversight and advice to the Board on current and potential future risk exposures and risk strategy of the Group. It reviews the Group's performance on risk appetite and oversees the effectiveness of the Group Risk Management Framework. It also ensures that responsibility for managing and monitoring risk in each of the regulated subsidiaries has been effectively delegated to the respective boards of directors.

The Audit Committee assists the Board in discharging its responsibilities for the integrity and disclosure of the financial affairs of the Group. It ensures that the Company complies with accounting policies and financial reporting obligations as well as monitoring the system of internal controls and the Group's processes for internal and external audit.

The Nomination Committee assists the Board in the selection and appointment of Directors in line with Group requirements. It reviews the structure, size and composition of Group Boards and membership and Chairmanship of Committees. It also reviews succession planning at Board and Senior Executive management levels.

The Remuneration Committee assists the Board in, and has oversight of, the Group's policy on remuneration and makes recommendations to the Board on the remuneration of Executive Directors and Senior Executive management in the Company, HISL and AICL.

Board and Committee attendance

Details of the number of meetings of the Company's Board and Committees held during the year and the attendance of each Director (in office between 1 January 2017 and 31 December 2017) at those meetings are set out below. Information on the role, responsibility and activity of each Committee are provided in their respective reports on pages 71 to 99.

Cross Committee memberships as at 31 December 2017

	Audit	Nomination	Remuneration
Risk	2	0	2
Remuneration	1	1	
Nomination	2		

Board and Committee attendance

	Board	Audit	Nom	Rem	Risk
Total meetings held	14	7	3	6	4
Mike Fairey	10	–	2	4	–
Gary Hoffman	14	–	1	–	–
Richard Hoskins	14	–	–	–	–
Herman Bosman¹	8	–	–	–	–
Alison Burns	14	–	–	6	4
Thomas Colrairie	14	7	3	6	–
Ian Cormack	12	6	2	–	–
Malcolm Le May	11	–	–	5	2
Pierre Lefèvre	14	7	–	–	4
Sumit Rajpal	8	–	2	5	–
Teresa Robson-Capps	14	5	–	–	4
Selina Sagayam²	4	–	–	–	–
Richard Brewster³	9	–	1	1	–
Edward Fitzmaurice⁴	4	–	–	2	–
Michele Titi-Cappelli⁴	3	–	–	–	–

1 Herman Bosman was appointed as a Director on 14 March 2017.

2 Selina Sagayam was appointed as a Director on 14 August 2017.

3 Richard Brewster was appointed to the Remuneration Committee upon the resignation of Edward Fitzmaurice. Richard Brewster resigned as a Director and member of the Remuneration Committee on 14 August 2017.

4 Edward Fitzmaurice and Michele Titi-Cappelli resigned as Directors and their Committee memberships on 14 March 2017.

Board activity in 2017

At each meeting the Board received updates from the Chief Executive Officer, the Chief Financial Officer and from the respective Chairmen following meetings of Board Committees. A schedule of Board activity for the year is provided below.

Board activity in 2017

Matter reserved	Responsibility
Strategy	<ul style="list-style-type: none"> • Approved the Three Year Plan for 2018 – 2020 • Received updates on performance and operational matters from subsidiary Boards • Reviewed monthly operational performance of the Group • Received briefings from external advisers on potential M&A and other market opportunities • Held a Strategy Day to review the Group's operations and strategy • Approved revised strategy performance targets • Reviewed the Group's operational and financial performance for the financial year ended 2016 • Approved objectives for the Company and Chief Executive Officer for 2017 • Received regular updates on the performance and implementation of the Guidewire system • Reviewed the Group's digital strategy
Structure and Capital	<ul style="list-style-type: none"> • Reviewed and approved recommendations from the Remuneration Committee in relation to appointments of, and changes to, subsidiary Senior Executive management • Approved the amendment and extension of the Group's financing facility
Financial Reporting and Controls	<ul style="list-style-type: none"> • Approved the Annual Report, Preliminary Statement and Analysts Presentation for the financial year ended 31 December 2016 upon the recommendation of the Audit Committee • Approved the Financial Statements, Preliminary Statement and Analysts Presentation for the financial half year ended 30 June 2017 upon the recommendation of the Audit Committee • Reviewed and approved Trading Statements for Q1 and Q3 2017 • Received quarterly reports on claims reserving outcomes within the Group's insurance company and an update on the impact of the change to the Ogden Rate • Approved the Group's forecasting and budgeting approach • Reviewed and approved final and interim dividends • Approved material unbudgeted or operating capital expenditures • Approved the Group's Tax Strategy
Internal Control and Risk Management	<ul style="list-style-type: none"> • Approved the Group's Statement of Risk Appetite upon recommendation of the Risk Committee • Received updates from the Audit and Risk Committees in relation to the effectiveness and robustness of the Group's internal controls and risk management framework • Received updates from the Audit Committees in relation to reviews undertaken by the internal Auditor • Reviewed the Group's Assurance, Risk and Compliance framework
Contracts	<ul style="list-style-type: none"> • Approved capital expenditures in excess of £1m
Communication	<ul style="list-style-type: none"> • Approved resolutions and documentation for, and met with shareholders at, the AGM • Approved press and non-routine market announcements • Received updates on meetings with investors by the Chairman and Senior Independent Director • Received an update on Investor Relations

Board activity in 2017

Matter reserved	Responsibility
Board membership and other appointments	<ul style="list-style-type: none"> • Approved the nomination of Selina Sagayam as a Director of the Company upon the recommendation of the Nomination Committee • Approved the appointment of Herman Bosman as a Director of the Company upon the recommendation of the Nomination Committee • Approved the appointment of Richard Brewster as a member of the Remuneration Committee upon the recommendation of the Nomination Committee • Received updates from the Nomination Committee on Executive Director and senior executive management succession and talent development plans • Considered recommendations from the Remuneration Committee and approved the Company's policy on Board and colleague diversity • Approved the appointment of the Chief Financial Officer as a Non-Executive Director to an external company's Board upon the recommendation of the Nomination Committee • Considered recommendations from, and provided guidance to, the Nomination Committee in relation to the appointments for Board Chairman and Chief Executive Officer
Remuneration	<ul style="list-style-type: none"> • Reviewed and approved the Directors Remuneration Report contained in the 2016 Annual Report upon the recommendation of the Remuneration Committee • Approved grants under the Long-Term Incentive Plan for 2017 upon the recommendation of the Remuneration Committee • Approved a new Long-Term Incentive Plan, the Capital Appreciation Plan (CAP), and approved the establishment of a new Employee Benefit Trust to administer and satisfy awards under the CAP
Delegation of Authority	<ul style="list-style-type: none"> • Received updates on Board Committee activities
Governance	<ul style="list-style-type: none"> • Reviewed and approved the Board Schedule of Matters Reserved and confirmed the Schedule had been adhered to during 2017 • Reviewed and approved the Terms of Reference of the Board Committees • Undertook a formal evaluation of the Board and its Committees and agreed improvement plans • Determined the independence of the Non-Executive Directors upon the recommendation of the Nomination Committee • Reviewed the Company's arrangements for, and received updates on, current corporate governance developments • Approved the Board and Committee meeting calendar for 2018 and 2019
Policies	<ul style="list-style-type: none"> • Approved the Group's Statement on Modern Slavery • Approved the Group's Tax Strategy and Policy
Other	<ul style="list-style-type: none"> • Approval of the overall level of Directors' and Officers' Liability insurance and indemnification of Directors • Ensured the Company and the Group complied with the terms of any relationship agreements with shareholders • Received a report on corporate responsibility activities within the Group • Reviewed the outcome of the Group colleague engagement survey for 2017

Compliance with the UK Corporate Governance Code

The Company is subject to the UK Corporate Governance Code 2016.

The Company is subject to the UK Corporate Governance Code 2016 (the Code) and the assessment of its compliance with the Code is set out below. The Board confirms that it fully complied with the Code as at 31 December 2017.

Code Principles

Reference

A. Leadership

- Every company should be headed by an effective board which is collectively responsible for the long-term success of the company
- There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision
- The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role
- As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy

Discover more
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B. Effectiveness

- The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively
- There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board
- All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively
- All directors should receive an induction on joining the board and should regularly update and refresh their skills and knowledge
- The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties
- The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors
- All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance

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C. Accountability

- The board should present a fair, balanced and understandable assessment of the company's position and prospects
- The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems
- The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting, risk management and internal control principles, and for maintaining an appropriate relationship with the company's auditors

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D. Remuneration

- Executive directors' remuneration should be designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching and rigorously applied
- There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration

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83–99

E. Relations with shareholders

- There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place
- The board should use general meetings to communicate with investors and to encourage their participation

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Directors' conflicts of interest

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

Whistle blowing

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

Annual General Meeting (AGM)

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

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

The AGM for 2018 will be held at 11am on 24 May 2018 at Merchant Taylors' Hall, 30 Threadneedle Street, London EC2R 8JB. The Company confirms that it will send the Notice of AGM and related documentation to shareholders at least 20 working days before the meeting, either by post, to those shareholders who prefer a paper copy, or by email to those shareholders who have agreed that the Company can communicate with them electronically. The Notice of AGM and the Proxy form are available from the Investors section on the Company's website www.hastingsplc.com/investor-information/aggm-shareholder-meetings.

Company website

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

Relations with shareholders

Stakeholder engagement

Investor engagement

The Board is committed to promoting effective channels of communication with our shareholders and upholding good corporate governance as a means of building stronger and more engaged relationships with them. Our comprehensive Investor Relations engagement with the market helps us to understand investor views about Hastings, which are communicated regularly to the Board.

Institutional engagement

In 2017, our Investor Relations engagement with institutional investors took place throughout the year, both following our half yearly results as well as outside of the reporting cycle. This allowed the opportunity for existing and potentially new investors to engage with Hastings regularly, promoting dialogue on longer-term strategic developments as well as on the recent financial performance of the Group.

The Directors, in conjunction with the senior executive team and Investor Relations, participated in various forms of engagement, including investor meetings and conferences across many geographic locations, reflecting the increasingly diverse nature of our institutional ownership.

The Senior Executive team also presented to investors, primarily through hosting site visits at our head office in Bexhill, which promotes greater awareness and understanding of our business and gives institutional investors an invaluable insight into what makes Hastings different.

During 2017, discussions with investors were focused on the continued execution of our strategy and growth trajectory, and updated market guidance on performance through to 2019, which was provided with our 2016 full year results.

Investor meetings with the Chairman and Senior Independent Director which focused on corporate governance also took place during the year, and we held an in-person presentation of our 2016 full year results in March 2017, and our 2017 half year results in August 2017. A webcast of each was made available to replay on our website shortly thereafter.

The Investor Relations section of our website is an important communication channel that enables the effective distribution of information to the market in a clear and consistent manner.

Our AGM

The Board and the senior executive team continue to consider our AGM as a key date in the diary. The AGM provides us with our main opportunity to engage with shareholders, particularly our private shareholders, on the key issues facing the Group and any questions they may have. The Directors, including the Board Chairman, were available for informal discussion either before or after the meeting.

Audit Committee

Dear Shareholders

The report on the work of the Audit Committee for the year ended 31 December 2017 is detailed in this report confirming how the Committee has discharged its responsibilities under its Terms of Reference and the requirements of best practice corporate governance. In consultation with the Company Secretary and Chief Financial Officer I ensure that all matters delegated to the Committee are considered and are reported to the Board as appropriate.

Role

The Audit Committee supports the Board by reviewing the integrity of the financial information, robustness of internal controls, the consistency of, and any changes to, accounting policies and standards, the effectiveness of external and internal audit and ensuring it provides clear, complete, fair, balanced and understandable financial reports to shareholders. The Committee is required to report its findings to the Board, making any necessary recommendations for action or improvements.

Membership

The Audit Committee during the year comprised the following Independent Non-Executive Directors and met the requirements of the UK Corporate Governance Code 2016 (the Code) in that all Committee members are Independent Non-Executive Directors with relevant sector and financial experience and the Committee as a whole has competence relevant to the sector in which the Company operates. The Committee meets at least four times a year as a minimum and at other times as required.

Member	Member since
Thomas Colrairie (Chairman)	September 2015
Ian Cormack	September 2015
Pierre Lefèvre	September 2015
Teresa Robson-Capps	July 2016

Each member of the Committee has significant experience working with listed entities on matters relating to financial probity and internal control. In accordance with the FRC's Code, the Board has determined that Thomas Colrairie has recent and relevant financial experience. Biographies of the Committee members are set out on pages 62 and 63. The Company Secretary acts as Secretary to the Committee and takes the minutes of all meetings. Although not Committee members, the External Auditor, KPMG LLP (KPMG), the internal Auditor, Grant Thornton UK LLP (Grant Thornton), the Chief Executive Officer and the Chief Financial Officer are notified of all meetings and may attend by invitation. At each meeting, the Committee has the opportunity to talk to the External and internal Auditors without management present. The Terms of Reference for the Committee have been agreed by the Board and are available online at www.hastingsplc.com/company-information/corporate-governance.

Audit Committee

continued

At the beginning of the year and during the reporting preparations for the year ended 31 December 2016, the Group was impacted by the UK Government's decision to amend the Ogden rate which determines the lump sum awards for personal injury claimants. Management monitored the situation and was well prepared for the eventual change that occurred on 27 February 2017 just prior to the Company's results announcement on 2 March 2017. The Committee convened soon after the announcement and following a substantive review noted the impact to the Group was a pre-tax charge of £20m. This charge did not impact on the Committee's or the Board's deliberations regarding the final dividend for 2016. It is noted that whilst the UK Government has more recently published draft legislation that will create a statutory mechanism to adjust the Ogden rate, there is no set date as to when this may become law.

The Committee welcomed the letter dated 10 October 2017 from the FRC addressed to all Audit Committee Chairmen and Finance Directors. This letter provided guidance on the FRC's perspective on aspects of annual reports and how companies should aim to improve them and to highlight changes to UK reporting requirements. In light of this guidance the Committee reviewed the requirements and agreed with management proposals on how to adopt these additional best practice requirements for both financial and non-financial reporting contained in this year's Annual Report.

As required by its Terms of Reference, the Committee has primary responsibility for overseeing the relationship with, and performance of, the External Auditor as well as ensuring that the audit services contract is put out to tender at least every ten years. The Committee noted that the incumbent External Auditor, KPMG, has been the Auditor of the Company since its formation in 2015 and the lead audit partner, Salim Tharani, was appointed for the year ended 31 December 2016. Following a review during the year, it was agreed that the reappointment of KPMG be proposed at the forthcoming AGM in May 2018. The Committee will continue to monitor the appointment of KPMG as External Auditor and will review KPMG's performance and external audit requirements annually.

The internal audit function is managed and resourced via a third-party relationship with Grant Thornton and brings a systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management control and governance processes. The independence of the internal audit function helps to ensure that accurate reports are provided to the Board, Audit and Risk Committees without undue management influence on the audit and its processes. The Committee reviewed and approved the Internal Audit Charter during the year which defines and explains the purpose, objectives and responsibility of the internal audit function for the Group. The internal audit function service provider was chosen through a tender process undertaken in 2014 that involved reputable audit firms. The independence of Grant Thornton is regularly reviewed and there are no current proposals to tender these services for the coming year.

As part of the Board effectiveness evaluation conducted in October 2017, the Audit Committee was itself subject to an appraisal by its members. The evaluation considered the effectiveness of processes and procedures established by the Committee to fulfil its duties, and the effectiveness of the systems of internal control, financial and regulatory risk management systems and those for monitoring the effectiveness and objectivity of the internal and External Auditors. The performance of Committee members and the Committee Chairman were also reviewed. The Committee has agreed a number of actions for the coming year in relation to the aforementioned areas.

As part of ongoing awareness, competency and training, the Committee received updates from management as well as the External Auditor during the year in relation to amendments and updates to International Financial Reporting Standards (IFRS). The key area of focus of this has been IFRS 17: Insurance Contracts, which was issued by the International Accounting Standards Board in May 2017. Management are reviewing the requirements of IFRS 17 and have agreed a plan to implement in time for the anticipated effective date of 1 January 2021. The Chairman of the Board and I met with various investors during 2017 as well as attending the AGM in May 2017 with the rest of the Board. As Chairman of the Audit Committee and Senior Independent Director it is important that I interact with stakeholders to gain a balanced and fair understanding of their views and concerns. I will continue to be available to meet with these interested parties on a regular basis during the coming year.

“During a year of change the Committee has focused on ensuring that the internal control framework remains robust.”

Meetings

The Committee met seven times during the year. The following matters were considered and challenged as appropriate by Committee members at these meetings:

Meetings

Area of focus	Matter considered
Financial and narrative reporting	<ul style="list-style-type: none"> Reviewed the integrity of Financial Statements for the financial year ended 31 December 2016 and the appropriateness of accounting policies and going concern assumptions Reviewed material matters in relation to the 2016 Annual Report and preliminary announcement, including the impact of the Ogden rate change announced on 27 February 2017 Reviewed and recommended for Board approval the 2016 Annual Report, Preliminary Statement and Annual Results Presentation Reviewed and approved the Viability Statement for the 2016 Annual Report in conjunction with the Risk Committee Confirmed and recommended to the Board that the 2016 Annual Report was fair, balanced and understandable Reviewed the approach to claims reserving and reinsurance assets for the Group's Underwriting business Reviewed the integrity of Condensed Consolidated Financial Statements for the half year ended 30 June 2017 and the appropriateness of accounting policies and going concern assumptions Reviewed and recommended for Board approval of the Condensed Consolidated Financial Statements, Interim Results Announcement and Analyst Presentation in relation to the half year ended 30 June 2017 Considered evolving market practice and the FRC's letter dated 10 October 2017 to Audit Committee Chairmen relating to its Guidance on the Strategic Report and financial and non-financial reporting Reviewed developments in IFRS and their impacts and key accounting issues particularly in relation to IFRS 9, IFRS 15, IFRS 16 and IFRS 17 Reviewed plans for the production of the Annual Report and Accounts, and Results Presentation for the year ended 31 December 2017
Internal control and compliance	<ul style="list-style-type: none"> Received and reviewed reports from the internal Auditor in relation to the Company's internal audit plan and those of its subsidiaries Reviewed the internal control framework Reviewed the processes and procedures for claims reserving by the Group's Underwriting business Approved the Internal Audit Charter Reviewed the internal Auditor's performance during 2017 and approved the Internal Audit Plan for 2018 Met with the internal Auditor without management present
External audit	<ul style="list-style-type: none"> Reviewed and considered the Audit Highlights Memorandum and Auditor's report for the 2016 Annual Report Reviewed the performance of the External Auditor for the financial year ended 2016 Reviewed and approved audit/non-audit expenditure incurred by the Company during 2016 Considered qualifications, expertise and independence of the External Auditor and recommended their re-appointment to shareholders and for the Committee to agree auditors' remuneration Reviewed and agreed the Company's policy for the tendering of external audit services Reviewed and approved the audit fee, plan and approach for the financial year ended 2017 Reviewed and agreed the budget for External Auditors to provide non-audit services for 2017 Received a briefing from the External Auditor on IFRS 17 Insurance Contracts and application issues for general insurers Met with the External Auditor without management present
Governance/ other matters	<ul style="list-style-type: none"> Reviewed the Committee's Terms of Reference and confirmed the Committee's Terms of Reference had been adhered to during 2017 Conducted an annual review of Committee effectiveness and agreed an action plan to further improve Committee operations Confirmed compliance with UK Corporate Governance Code 2016 and explanations for any non-compliance in relation to the financial year ended 2016 Reviewed the Group's Tax Strategy and Policy and recommended for Board approval Received updates on financial reporting governance developments and best practice

Audit Committee

continued

Priorities for 2018

In the coming year the Committee will focus on:

- continued review of the Group's reserving process;
- oversight of the implementation by the Group of IFRS 15 Revenue from Contracts with Customers;
- assessment of the impact on the Group of IFRS 9 Financial Instruments, IFRS 16 Leases and IFRS 17 Insurance Contracts and review of management's implementation plans to ensure the Group is ready to comply with the standards as they become effective; and
- work to ensure the Group's internal audit function continues its systematic and disciplined approach.

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

Financial reporting and significant financial judgements

Provision for outstanding claims

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

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

Having been recommended by the Underwriting Reserving Committee and approved by the Underwriting Board, detailed papers were provided to the Audit Committee explaining the methodology used, how the Reserving Policy has been applied and the judgements applied in the actuarial calculations that support the provisions made. These papers included reports and calculations provided by the external actuary. The Committee met with management and considered explanations from both the internal and the external actuaries to deliberate over the methodology applied, the best estimate calculations and the external actuary's independent report.

Extensive information on reserving levels was provided to support these discussions and to enable the Committee to assess the adequacy of the reserves and level of prudence, and any variances between the internal and external best estimates were debated and understood.

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

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

Reinsurance assets

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

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

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

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

Significant issues related to the Financial Statements

Other than the areas of significant judgement described above, there were no other significant issues related to the Financial Statements considered by the Committee and discussed with the External Auditor during the year and in relation to the 31 December 2017 year end.

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

Under the provisions of the UK Corporate Governance Code, the Committee, as representative of the shareholders, is required to oversee the relationship with the External Auditor and keep the nature and extent of non-audit services under review. The Committee must satisfy itself that the independence and objectivity of the External Auditor are not compromised.

The Committee reviewed and recommended to the Board a fully Code compliant Group Policy on the Provision of Audit and Non-Audit Services, which was approved in 2015. The Committee does not propose any changes to this policy at this time. The policy requires the Committee's approval for certain services such as where the service is not directly related to the annual audit or involves a closer working arrangement between a Group company and the External Auditor that may significantly reduce the Auditor's independence. The policy also prohibits the External Auditor from performing certain services to the Company regardless of Committee approval. A non-exhaustive list of such services includes the design and implementation of internal control, financial, accounting and risk management systems, actuarial or legal services, secondments to management positions, talent searches for executives, directors and/or senior financial managers, tax or payroll services and due diligence for acquisitions or joint ventures.

Fees payable to the External Auditor for non-audit services in a calendar year should not exceed 70% of the average of the audit fees paid by the Group in the previous three consecutive years. Services required by law or regulation (for example review or audit of regulatory returns) are excluded from the definition of non-audit services to be included in the calculation of the 70% cap. Once the amount of fees payable for non-audit services in any calendar year exceeds 50% of the average of the audit fees paid by the Group in the previous three consecutive years, this shall be reported to the Committee as soon as practicable and regular updates provided thereafter to ensure any potential breach of the 70% cap can be effectively monitored.

In the Committee's assessment of the effectiveness of the external audit process KPMG was asked to articulate the steps that it has taken to ensure objectivity and independence. The Committee monitors the Auditor's performance, behaviour and effectiveness during the exercise of their duties, which informs the Audit Committee's decision whether to recommend reappointment on an annual basis. The total amount paid for non-audit work during the year was £0.2m and was for assurance services connected to KPMG's role as statutory Auditor including the review of the Interim Results and the audit of Advantage Insurance Company Limited's Solvency and Financial Condition Report.

Fair, balanced and understandable

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

Discharge of responsibilities

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

On behalf of the Audit Committee

Thomas Colraine
Chairman of the Audit Committee

28 February 2018

Nomination Committee

Dear Shareholders

I am pleased to present the report of the Nomination Committee for the financial year ended 31 December 2017.

Role

The Committee is a formal sub-committee of the Board with its own Terms of Reference. The principal purpose of the Nomination Committee is to review the composition and evaluate the balance of skills, knowledge and experience of the Board. It also leads the process for the appointment of new Executive and Independent Non-Executive Directors to the Board and makes appropriate recommendations to the Board on such matters as skill mix and diversity. It oversees the succession planning process for Executive Directors and senior executives. The Committee meets at least three times a year as a minimum and at other times as required.

Membership

Biographies of the Committee members are set out on page 76. Richard Brewster resigned as a Committee member upon his resignation as a Director and Gary Hoffman resigned as a member of the Committee only. The Terms of Reference for the Committee have been agreed by the Board and are available online at www.hastingsplc.com/company-information/corporate-governance.

Member	Member since
Mike Fairey (Chairman)	September 2015
Thomas Colraine	September 2015
Ian Cormack	September 2015
Richard Brewster	September 2015 until August 2017
Gary Hoffman	September 2015 until October 2017
Sumit Rajpal	September 2015 until November 2017

Having ceased to be a member of the Committee from October 2017, the Chief Executive Officer may nevertheless be invited, from time to time, to attend meetings of the Committee. The Committee obtained information and advice during the period under review from the Group HR Director, the Company Secretary and, where appropriate, the Executive Directors. It also sought advice from any other employees as required. As permitted by its Terms of Reference, the Committee engaged the advice and support of Russell Reynolds and Sainty Hird as independent executive search consultants at the expense of the Company to consider executive succession options.

Board changes

Towards the end of 2017, I notified the Board that I was contemplating retiring as Board Chairman at the AGM in 2018. Gary Hoffman had also indicated to the Board that there would come a time in the not too distant future when he would look to step down from his role as Chief Executive Officer. Succession planning carried out by the Committee throughout 2017 ensured that plans were in place for orderly succession for all appointments to the Board and to senior management so as to maintain an appropriate balance of skills and experience within the Company and on the Board.

At the start of the search process, the Committee considered the job specification for the role of Chairman, emphasising the importance of the Chairman's oversight of the Company's strategy. The Committee considered who would be best placed to assume the role of Company Chairman and the Committee agreed that continuity and stability along with balancing the needs of strong independent governance and effective strategic leadership were key parameters for potential candidates given the current development of the Group. The Board wished to retain Gary's services for the longer term as he, along with his management team, had been instrumental in the Company's success both prior to and since the IPO. Gary also has significant experience as a Board Chairman having held similar positions at Barclaycard and VISA Europe. The Committee and the Board were cognisant that the appointment of a Chief Executive Officer as Chairman of the same company is not in line with the principles of the UK Corporate Governance Code (the Code); however for the reasons noted in my Chairman's Statement, the appointment of Gary as Non-Executive Chairman is in the best interests of the Company and all of its stakeholders.

The recommendation of Gary as Chairman therefore meant that the Company needed to search for suitable candidates for the position of Chief Executive Officer. Executive search agents, Russell Reynolds and Sainty Hird were engaged to source suitable candidates for this role. The Committee discussed the relative merits of potential external candidates who were considered alongside potential internal candidates. The Board had informed the Committee that an external candidate should be viewed as significantly stronger in all key areas to justify consideration ahead of the strongest internal candidate. The Board and the Committee considered continuity risk and the potential compromise to the effective functioning of the current senior executive team should an external candidate be proposed. The Committee recommended to the Board, two external candidates as potential successors to Gary along with two internal candidates. After detailed debate the Board acknowledged that Toby van der Meer, Managing Director of the Group's UK trading subsidiary Hastings Insurance Services Limited since 2011, emerged as the strongest potential candidate for succession to the role and referred the matter back to the Committee to continue and finalise its thoughts before making a formal recommendation to the Board.

Recommendations for the appointment of Gary as Board Chairman and Toby as Chief Executive Officer were considered on 8 January 2018; the Board confirmed those appointments. Tom Colrairie, Senior Independent Director, will be appointed as Committee Chairman from 1 March this year. The Committee recommended and the Board approved that Gary Hoffman will not become a member of any of the Board's Committees and that Tom will continue to be able to allocate sufficient time to discharge his responsibilities effectively.

Board and Committee changes during 2017

Director	Board or Committee	Appointment	Resignation
Edward Fitzmaurice	Board Remuneration Committee		March 2017 March 2017
Michele Titi-Cappelli	Board Risk Committee		March 2017 March 2017
Herman Bosman	Board	March 2017	
Richard Brewster	Remuneration Committee Board Nomination Committee	March 2017	August 2017 August 2017 August 2017
Selina Sagayam	Board	August 2017	
Gary Hoffman	Nomination Committee		October 2017
Sumit Rajpal	Remuneration Committee Nomination Committee		November 2017 November 2017

Nomination Committee

continued

Board and Committee composition and review

As required by the Code a listed company's board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively. The board and its committees should also meet relevant independence criteria in terms of the number of Independent Non-Executive Directors.

The Committee noted that the Independent Non-Executive Directors on the Board have not yet reached the end of their first term of office and that the balance of skills, experience, independence and knowledge of the Company by these Directors remains appropriate. Succession plans and talent development for the Executive Directors and senior executive management were reviewed by the Committee throughout the year and advice was sought from independent, external search agencies in relation to establishing a pipeline of potential successors, either externally or internally. The Committee also reviewed whether there is a sufficient and continuous supply of suitable, highly qualified internal candidates who will be able to be considered for Board membership.

At the time of the IPO in 2015, the Company entered into a relationship agreement between the Company and certain shareholders representing Founder Shareholders and Goldman Sachs Shareholders (GS) whereby these shareholders were able to appoint up to two Directors each to the Board as long as they maintain a certain shareholding in the Company. As reported in my Chairman's Statement last year, on 1 March 2017 Rand Merchant Investment Holdings Limited and its wholly owned subsidiary Main Street 1353 Proprietary Limited (RMI) acquired a holding of 29.9% in the Company. As a result of this transaction and under the terms of their relationship agreement with the Company, the GS Shareholders' and Founder Shareholders' respective entitlement to nominate Directors for appointment to the Board was reduced from two Directors each to one Director each. Michele Titi-Cappelli resigned as a Director representing the GS Shareholders and Edward Fitzmaurice resigned as a director representing the Founder Shareholders on 14 March 2017. A relationship agreement was entered into between the Company and RMI whereby RMI can appoint one Director to the Board as long as they maintain a certain shareholding in the Company. Herman Bosman was appointed to the Board on 14 March 2017. The Committee confirmed the appointment of Herman Bosman under the terms of that relationship agreement. Further information about these agreements can be found on pages 51 and 52.

During 2017, Richard Brewster stated his intention to step down as a Director of the Company and, under the terms of the relationship agreement, the Founder Shareholders nominated Selina Sagayam as their representative Director in his place. The Committee confirmed the appointment and Selina joined the Board in August 2017.

The relationship agreement between the Founder Shareholders and GS Shareholders also permitted these shareholders to appoint one director respectively to the Remuneration and Nomination Committee. As noted last year, the Remuneration Committee was not fully Code compliant in that the Committee was not wholly composed of Independent Non-Executive Directors. Whilst the composition of the Nomination Committee complies with the Code, the presence of Non-Independent Directors on this Committee was not deemed to be in the spirit of the Code. The Committee reviewed the composition of both of these Committees during the year and recommended to the Board that the membership of both should fully comply with the Code in line with the statement of intent made last year that the Company would be fully Code compliant.

Following Edward Fitzmaurice's resignation in March 2017 and Richard Brewster's resignation in August 2017, the Founder Shareholders no longer have a representative on the Nomination Committee and the Remuneration Committee. Gary Hoffman stepped down as a member of the Committee in November and the GS shareholders also confirmed that Sumit Rajpal would step down as a member of the Committee and the Remuneration Committee. As such I am pleased to confirm that the Company is now Code compliant in terms of the composition of these Committees.

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

“Plans are in place for the orderly succession for all appointments to the Board and to senior management.”

Meetings

The Committee met three times during the year. The following matters were considered and challenged as appropriate by Committee members at these meetings:

Meetings

Area of focus	Matter considered
Composition of the Board, Committee and senior executive and succession planning	<ul style="list-style-type: none"> • Approval of Board changes following the completion of the investment by RMI • Confirmation of the nomination of Selina Sagayam as a Director appointed by Founder Shareholders under the Relationship Agreement • Reviewed progress on succession planning and talent development for Executive Directors and senior executives • Reviewed the composition of the Board evaluating balance of skills, knowledge and experience • Reviewed and challenged the composition of the Nomination and Remuneration Committees in line with the independence requirements of the Code • Considered how and if the Board reflected the diversity of the Group and the market within which it operates • Made recommendations to the Board in relation to the appointments for Board Chairman and Chief Executive Officer
Governance/other matters	<ul style="list-style-type: none"> • Reviewed its Terms of Reference and confirmed the Committee's Terms of Reference had been adhered to during 2017 • Conducted an annual review of Committee effectiveness and agreed an action plan to further improve Committee operations

Board diversity

The Board is responsible for setting the Group's values and standards and ensuring that obligations to its shareholders and others are understood and met. As such it is important that the Board reflects the diversity both of its workforce as well as the market within which it operates. The Committee has reviewed the composition of the Board in light of its diversity as a whole and recognises that it remains the policy of the Company that when proposing appointments of Directors, the Committee considers the independence, skills, knowledge and experience that a candidate possesses compared to the skill sets and experience of the Board as it currently stands. Selection of candidates also takes into consideration the breadth of knowledge that the Board has and the fact that it is required to provide a well-balanced environment which encourages scrutiny and appropriate challenge. The Committee is also committed to ensure that the Board is representative in terms of diversity and candidates from a wide range of backgrounds, disciplines and experience are considered. The Committee abides by this policy by ensuring that the best candidate is selected to join the Board and the Board does not intend to adopt a quota system with prescriptive, quantitative targets.

Priorities for 2018

In the coming year the Nomination Committee will focus on Board composition and succession planning for Directors and senior executive management within the Company and the Group's trading entities. It will also consider the re-appointment of certain Independent Non-Executive Directors whose first three year terms of office under their letters of appointment will expire.

On behalf of the Nomination Committee

Mike Fairey
Chairman of the Nomination Committee
 28 February 2018

Risk Committee

Dear Shareholders

I am pleased to present the report of the Risk Committee for the financial year ended 31 December 2017.

Role

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

Membership

Biographies of the Committee members are set out on page 62. Michele Titi-Cappelli resigned as a Committee member upon his resignation as a Director. The Company Secretary acts as Secretary to the Committee and takes the minutes of meetings. The Terms of Reference for the Committee have been agreed by the Board and are available online at www.hastingsplc.com/company-information/corporate-governance.

Member	Member since
Pierre Lefèvre (Chairman)	September 2015
Alison Burns	July 2016
Teresa Robson-Capps	July 2016
Michele Titi-Cappelli	September 2015 until March 2017
Malcolm Le May	September 2015

The Committee obtained information and advice during the period under review from the Chief Risk Officer, the Company Secretary and, where appropriate, the Executive Directors. It may also seek advice from any other employees as required.

“A number of improvements have been made to the Assurance, Risk and Compliance framework across the Group.”

During the year the Committee oversaw a number of improvements to the Assurance, Risk and Compliance (ARC) framework across the Group. The ARC framework helps to embed assurance practices, culture, policy and responsibilities, clarifies the role of the second line of defence functions across the Group, enhances skills and knowledge and provides a centre for assurance excellence. The ARC framework also provides the Committee with effective reporting to maintain effective oversight and provide challenge on risks across the Group, for example mapping and ranking risks in order of profile and likelihood. This framework will continue to embed in the coming year.

The Committee received updates on preparations for the implementation of the forthcoming General Data Protection Regulation (GDPR). The UK Government has confirmed that the legislation will be adopted in full and will replace current data protection law in the UK. The Committee received an independent assessment of the Group's preparedness for GDPR in April 2017 which identified the risks that needed to be addressed. Since that assessment was completed further guidance has been published and management are progressing with an implementation programme in preparation for the May 2018 deadline.

In relation to Brexit, the Committee was updated on the implications of the departure of the UK from the EU and likely impacts to the Group. The Group's customer base is solely within the UK and it is not expected that Brexit will significantly impact on its operations. A contingency plan was also reviewed in the event that AICL, which is based in Gibraltar, were unable to continue to underwrite UK motor insurance under current passporting rights between the UK and Gibraltar. It is not expected that these rights will be impacted by Brexit, however the plan provides contingency in the event this risk crystallises.

As part of the Board effectiveness evaluation conducted in October 2017, the Risk Committee was also subject to an appraisal by its members. The evaluation considered how it discharged its responsibilities as well as the performance of the Committee members. The Committee has agreed a number of actions for the coming year.

Meetings

The Committee met four times during the year. The following matters were considered and challenged as appropriate by Committee members at these meetings:

Meetings

Area of focus	Matter considered
Risk management	<ul style="list-style-type: none"> Reviewed the Group's Assurance, Risk and Compliance management framework and strategy Reviewed, assessed and approved the Risk Management Policy Reviewed, assessed and approved the Risk Appetite Statements Reviewed and approved the Risk Appetite Statements for Financial Crime following a review of internal procedures and processes Defined, assessed and ranked Group risks and examined a number of critical risks in detail Reviewed and challenged the Group and the regulated subsidiaries Risk Reports and risk profile Examined in detail critical risks and risk events Reviewed and approved the mapping of Group risks to Principal Risks as reported in Financial Statements Considered emerging risks across the Group Assessed and challenged resourcing requirements for the Group's Assurance, Risk and Compliance functions Received and challenged Group Health and Safety updates Reviewed the Group Health and Safety report for the year ended 2016 Received updates on the Regulatory Landscape for the UK and Gibraltar and reviewed adherence reports Reviewed preparations for the implementation of the General Data Protection Regulation Reviewed risks relating to Brexit and a Brexit contingency plan
Governance/ other matters	<ul style="list-style-type: none"> Reviewed and approved the statements in the 2016 Annual Report related to Risk Management Reviewed and approved the Viability statement for the 2016 Annual Report in conjunction with the Audit Committee Reviewed and approved the Principal Risks contained in the financial statements for the half year ended 30 June 2017 Reviewed its Terms of Reference and confirmed the Committee's terms of reference had been adhered to during 2017 Conducted an annual review of Committee effectiveness and agreed an action plan to further improve operations

Risk Committee

continued

As well as my role as a Director of the Company and Chairman of its Risk Committee, I am also an Independent Non-Executive Director of AICL, and Committee Chairman of that company's Risk Committee. Along with my oversight of risk within AICL, I regularly correspond with Selina Sagayam, the Risk Committee Chairman of HISL. During these meetings I am updated on matters and concerns raised by the HISL Risk Committee enabling me to fully discharge my role as Group Risk Committee Chairman. Minutes of the AICL and HISL Risk Committees are contained in Group Risk Committee papers for all members.

Priorities for 2018

In the coming year the Risk Committee will focus on:

- execution of strategies developed to deal with key Group Risks including Information and Cyber Security and Data Protection;
- enhancing the governance over outsourcing, both intra-Group and external, arrangements to ensure that appropriate levels of oversight are maintained;
- continued oversight of capital management and developing pre-emptive actions to mitigate risk in context of regulatory obligations;
- ensuring adequate approach and actions are being taken to ensure compliance with new legislation and regulatory requirements;
- ongoing embedding Risk Management and Compliance to support the Group strategic and commercial priorities; and
- monitoring the Group risk strategy with regard to market risk and liquidity.

Internal control and risk management

The Risk Committee ensures that the Group's material risks have been identified and that appropriate arrangements are in place to assess, mitigate, monitor and report on those risks effectively. The Committee also ensures these practices are consistently applied in each of the regulated trading subsidiaries as delegated to the respective company Boards. The Risk Committees within these trading entities are composed of independent Non-Executive Directors and executive management who oversee and report on the effectiveness of the Assurance, Risk and Compliance Management Framework for their respective entities. In the Group's UK regulated subsidiary, conduct risk and customer outcome matters are considered by the Conduct Committee and risk and regulatory compliance is considered by the Risk and Compliance Committee. This cohesive and integrated approach to Risk Management leverages the Risk Committees at subsidiary level and provides effective assessment of the Group's enterprise wide risk profile.

The description of the Group's internal control and risk management is covered in the Managing Our Risks report on page 43. The Viability Statement is provided on page 43 in relation to the expectations that the Group will continue to operate and meet its liabilities as they fall due for the next three years following the Committee's review of the Group's risk appetite and principal risks.

On behalf of the Risk Committee

Pierre Lefèvre
Chairman of the Risk Committee
28 February 2018

Remuneration Committee

Dear Shareholders

I am pleased to present the report of the Remuneration Committee for the financial year ended 31 December 2017. The Committee met six times during the period to assess performance and consider developments in the external markets along with reviewing external benchmark data including giving consideration to alternative long-term incentive plan proposals.

Priorities for 2018

In the coming year the Remuneration Committee will focus on:

- in relation to the Chief Executive Officer, Chief Financial Officer and senior executive management within the Group's trading entities:
 - assessment of Group performance against 2017 budget and approval of bonus awards for 2017;
 - approval of bonus performance measures and targets for 2018;
- review of any issues raised by shareholders in relation to remuneration and the remuneration policy;
- assessment of the ongoing appropriateness of remuneration arrangements and remuneration trends and market practice;
- recommendation for approval by the Board awards and performance conditions under the Company's Long-Term Incentive Plan for 2018; and
- analysis of performance conditions under the Company's Long-Term Incentive Plan at the year end.

Role

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

Membership

Biographies of the Committee members are set out on page 62. Edward Fitzmaurice and Richard Brewster resigned as Committee members upon their resignation as a Director and Rajpal resigned as a member of the Committee only. The Company Secretary acts as Secretary to the Committee. The Terms of Reference for the Committee have been agreed by the Board and are can be viewed online at www.hastingsplc.com/company-information/corporate-governance.

Member	Member since
Malcolm Le May (Chairman)	September 2015
Alison Burns	July 2016
Thomas Colrairie	September 2015
Mike Fairey	September 2015
Edward Fitzmaurice	September 2015 until March 2017
Richard Brewster	March 2017 until August 2017
Sumit Rajpal	September 2015 until November 2017

The Chief Executive Officer may be invited, from time to time, to attend meetings of the Committee. No individuals are involved in decisions relating to their own remuneration. The Committee obtained information and advice during the period under review from the Group HR Director, the Company Secretary and, where appropriate, the Executive Directors. It may also seek advice from any other employees as required. As permitted by its Terms of Reference, the Committee has engaged the advice and support of Deloitte LLP as independent remuneration consultants at the expense of the Company.

Remuneration Committee

continued

Meetings

The Committee met six times during the year. The following matters were considered at these meetings:

Meetings

Area of focus	Matter considered
Remuneration policy and practice	<ul style="list-style-type: none"> Performance review of the Chief Executive Officer, Chief Financial Officer and senior executives in context of bonus plan performance targets and overall colleague bonus pool Approved changes to remuneration of certain senior executives in context of appointments and role changes endorsed by the Nomination Committee Reviewed performance measure projections for the 2016 LTIP Reviewed proposed performance measures for the 2017 LTIP and approved the award Considered market and other benchmark data for Executive Director remuneration and that of other senior executives as well as the Board Chairman Reviewed alternative long-term incentive plan proposals Reviewed draft gender pay reports for the Group
Narrative reporting	<ul style="list-style-type: none"> Reviewed and approved the Director's Remuneration Report for the financial year ended 31 December 2017 Reviewed investor engagement proposals for remuneration reporting for 2017
Remuneration governance and practice developments	<ul style="list-style-type: none"> Reviewed published voting guidelines from institutional shareholder advisers Received updates from Deloitte LLP on current developments for executive remuneration Reviewed UK government green paper on corporate governance reform relating to executive remuneration
Governance /other matters	<ul style="list-style-type: none"> Reviewed its Terms of Reference and confirmed the Committee's terms of reference had been adhered to during 2017 Conducted an annual review of Committee effectiveness and agreed an action plan to further enhance Committee activities

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

The activity of the Committee is detailed in table above and further explanation on these activities is provided in my annual Committee Chair statement on page 85.

Remuneration Report and Policy

The Directors' Remuneration Report and Remuneration Policy follows this Committee report. The Remuneration Policy (Policy) was approved by shareholders at the AGM in 2016 and no changes to the Policy are proposed at this time. In accordance with the Large and Medium sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, a new Policy will be placed before shareholders at the AGM in 2019 for approval. Should any substantive changes be proposed to the existing Policy, the Company intends to consult with major shareholders.

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

For and on behalf of the Remuneration Committee

Malcolm Le May
Chairman of the Remuneration Committee
28 February 2018

Annual statement from the Remuneration Committee Chairman

Dear Shareholders

On behalf of the Board, I am pleased to present our Directors' Remuneration Report (DRR) for the year ended 31 December 2017.

Last year we received a vote of 99.99% for our Annual Report on Remuneration (Report) by our shareholders at our Annual General Meeting (AGM) in 2017. This year, we are not proposing to make any changes to the Directors' Remuneration Policy (Policy). We have included, at the end of this Report, an extract of our Remuneration Policy for ease of reference. A summary table, setting out an overview of remuneration elements and how these will be implemented in 2018, is also included at the start of the Report. The full Policy, as approved by shareholders, can be found in the 2015 Annual Report (www.hastingsplc.com/investors/results-centre/annual-reports).

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

Remuneration in context

2017 was the Company's second full year as a listed company. During this year, the Company has continued to deliver very strong performance including adjusted operating profit growth of 21% before the impact of Ogden rate change, and continued momentum with increasing customer policy numbers, higher average premiums and growing retail income driving profitable growth and strong cash generation. These achievements have also been reflected in the value generated for our shareholders with an 88% increase in the share price since the IPO.

There have been a number of wider events in the year that provided important context to the Remuneration Committee when considering Directors' remuneration.

Firstly, during 2017, all vesting conditions attaching to interests under the legacy Management Incentive Plan (MIP), which was put in place prior to the Company's Admission to the London Stock Exchange, were met and all entitlements under the MIP satisfied in full. The final value attributed to the MIP interests reflected the significant growth in the value of the business, from around £300m at the time the MIP was inceptioned in 2014, to around £2.1bn when the MIP interests fully vested.

Secondly, as announced in January 2018, Mike Fairey has decided to retire as Chairman and will step down from the Board at the 2018 AGM. Succession planning has been high on the Board's agenda over recent years as it seeks to sustain the Company's growth and development. As described in this Annual Report and subject to shareholder agreement, Mike Fairey will be replaced as Non-Executive Chairman by Gary Hoffman, who has served as Chief Executive Officer since November 2012. Gary Hoffman will step down as Chief Executive Officer from 1 March 2018 and continue to serve as an Executive Director until Mike Fairey retires. Toby van der Meer, who has been Managing Director of the Company's UK trading subsidiary, Hastings Insurance Services Limited since June 2011, will be appointed to the Company's Board with effect from 1 March 2018 and take over the role of Chief Executive Officer as of that date.

Remuneration decisions in the year

The commercial context described above illustrates the Company's continued growth and development in the listed environment. As part of its deliberations on executive remuneration, the Remuneration Committee considered it important to reflect this maturity as a listed company in the remuneration arrangements. Against that background the Committee determined the following:

Executive Director salary levels

The historic salary positioning of our Chief Executive Officer and Chief Financial Officer has been below market, reflecting in part a continuation of a pay philosophy that operated prior to our listing as a public company and when legacy incentive arrangements such as the MIP, which has now fully paid out, were in place. In light of the continued strong performance and increasing maturity of the Company, the Committee determined that salary levels should be set at a level to better reflect the role and responsibilities, as well as the experience and performance of the individuals. Against that background it is proposed that the Chief Financial Officer, who has a proven track record of strong performance in the role as Chief Financial Officer of a listed entity and who has not received an increase since IPO, will receive a 11% salary increase, bringing his salary to £350,000. In recognition of this increase, it is proposed that the Long-Term Incentive Plan (LTIP) award to the Chief Financial Officer in 2018 be reduced by 25% of salary.

Similarly, the Remuneration Committee determined that the salary for the new Chief Executive Officer be £500,000, reflecting a c.5% increase on that of the previous incumbent. In both cases, the salaries still remain conservatively positioned against market.

Annual statement

continued

Wider Executive Directors remuneration arrangements

The Remuneration Committee annually reviews the executive remuneration arrangements. As part of this review it was determined that the current arrangements remain fit for purpose, subject to the adjusted salary levels and decreased Chief Financial Officer LTIP award as described above. Upon the appointment of the new Chief Executive Officer, it followed that the wider remuneration arrangements be wholly aligned to the existing Policy, as summarised on page 97 of this report.

The Remuneration Committee is due to undertake a detailed review of the Policy over the year ahead, in advance of putting a revised Policy to shareholder vote at the 2019 AGM. The Committee closely follows the emerging corporate governance and best practice guidance on executive remuneration and these will be carefully considered as part of the forthcoming review.

Non-Executive Chairman fee

In line with best practice, the Non-Executive Chairman will not participate in any variable incentive plans or receive any wider benefits (e.g. pension) previously provided to him in the role of Chief Executive Officer. Upon review of the anticipated role and responsibilities of the Chairman, the Remuneration Committee determined that the Chairman fee be set at £250,000 per annum. This represents an increase on the previous Chairman's fee of £150,000; something that is considered appropriate in the context of the increased anticipated time commitment of the role in light of the recent leadership changes. It is also consistent with typical market levels for a FTSE 250 Chairman.

Other decisions in the year: 2017 annual bonus payments

As in prior years, the annual bonus awards are determined by reference to predetermined targets, primarily adjusted operating profit, as well as overall corporate and individual performance within our 4Cs framework including objectives aligned to colleagues, customers, company and community. This ensures a balanced overall assessment of performance, in line with best practice. Further information on the 4Cs is provided in the Corporate Responsibility report on pages 36-42.

This bonus framework applies to all colleagues on a consistent basis. When considering remuneration outcomes, the Committee carefully considers the distribution of bonuses across the entire business to ensure it is fair and equitable.

In recognition of the significant value created for shareholders in the year, the Committee determined a bonus of £292,250 be made to the Chief Executive Officer, representing 62% of salary, and £187,050 be made to the Chief Financial Officer, representing 59% of salary. 25% of these bonuses will be deferred into shares for three years.

Conclusion

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

We value the views of our shareholders and we actively welcome any feedback on our Policy and its implementation. We hope you find this report helpful and informative and we hope to receive your support for the DRR at our AGM in May 2018.

Malcolm Le May
Chairman

Remuneration Committee
28 February 2018

Annual report on remuneration

This section sets out how the Policy of the Company has been applied during the year and details how the Committee intends to apply the Policy going forward.

An advisory shareholder resolution to approve this report will be proposed at the AGM in May 2018.

Compliance statement

This is the Company's Directors' Remuneration Report (DRR) which has been produced pursuant to, and in accordance with, the Listing Rules, section 420 of the Companies Act 2006 and Schedule 8 to the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended 2013).

The Company also complies with the requirements of the UK Corporate Governance Code (the Code). This report contains both auditable and non-auditable information.

Overview of Executive Directors policy and approach for 2018

An overview of the key remuneration elements in place for Executive Directors and details of the implementation of the Policy for 2018 are set out below. There are no structural changes from 2017.

Executive Directors Remuneration

Key element	Summary of Policy	Details of approach for 2018
Base salary	Salaries are normally reviewed annually, with any increase usually taking effect from January.	Chief Executive Officer salary of £500,000 (new incumbent from 1 March 2018). Chief Financial Officer salary of £350,000, representing an 11% increase. This reflects sustained strong performance in the role and remains conservatively positioned against the market.
Pension	The Company operates a defined contribution scheme. The maximum annual contribution is 10% of salary.	Executive Directors will receive a contribution of 10% of salary and both will receive cash in lieu of pension.
Benefits	Benefits include a car allowance of £8,000p.a., private medical cover for the Executive and family, life assurance, long term disability insurance and costs associated with rental property.	
Share Incentive Plan (SIP)	Executive Directors may participate in the SIP on the same terms as other employees.	
Annual bonus	Awards are based on financial, operational and individual goals during the year. At least 50% of the award will be assessed against the Company's financial performance. The remainder of the award will be based on personal performance against individual objectives. 50% of salary awarded for on target performance with an absolute maximum opportunity of 100% of salary. A proportion earned is deferred into Company shares, which vest over three years.	For 2018, the level of the award will be based primarily on adjusted operating profit. In determining individual payouts, the Committee will also consider performance against pre-determined 4Cs objectives, aligned to our strategy. This includes financial and non-financial metrics relating to colleagues, customers, company and community, in line with our bonus approach across the organisation. The details of the performance targets for 2018 are commercially sensitive and will therefore be disclosed in next year's report. 25% of any award made will be deferred into shares for three years.
Long-Term Incentive Plan (LTIP)	Awards granted under the LTIP vest subject to the achievement of performance conditions measured over a three year period. The normal maximum level of awards that may be made in respect of any financial year is 225% of salary. In exceptional circumstances the Committee may grant awards of up to 300% of salary.	Awards of 225% of salary to the new Chief Executive Officer and 200% of salary for the Chief Financial Officer, representing a 25% of salary decrease on prior year. Vesting will be determined on the basis of: <ul style="list-style-type: none"> 50% on Total Shareholder Return (TSR) relative to FTSE 250, with 25% of this element vesting for achievement of median performance, rising to 100% for upper quartile performance; 50% on earnings per share (EPS), with 25% of this element vesting for achievement of cumulative adjusted EPS of 68.2p per share, rising to 100% for 79.1p per share.
Shareholding guidelines	The Executive Directors are expected to build up and maintain a value holding equivalent to twice their base salary.	

Annual report on remuneration

continued

Board changes in 2018

As described in the introductory letter to the DRR, there will be a number of Board changes in 2018. The key remuneration implications of these changes are summarised below:

(i) Toby van der Meer: appointment to Chief Executive Officer from 1 March 2018

Remuneration arrangements as Chief Executive Officer are aligned to the current Executive Director Policy. All legacy awards granted to him in respect of his prior role as Managing Director of Hastings Insurance Services Limited will continue on the previous terms.

(ii) Gary Hoffman: transition to Non-Executive Chairman

Gary will continue as an Executive Director until appointment as Non-Executive Chairman at the 2018 AGM. In the period prior to appointment as Chairman he will continue to receive salary and benefit payments. He has agreed to waive entitlement of payments due from not serving his full notice period as Chief Executive Officer.

In accordance with the plan rules (the full terms of which can be found in the Company's listing prospectus), outstanding deferred bonus and LTIP awards will continue on the same terms, reflecting Gary's continued services to the Company. He will not receive a 2018 LTIP award. As Non-Executive Chairman, he will receive a fee of £250,000. This fee level reflects the increased scope, responsibilities and time commitment required of the new Chairman role in the context of the recent leadership changes. The revised fee is also consistent with typical market levels for a FTSE 250 Chairman.

(iii) Mike Fairey: stepping down as Non-Executive Chairman

Mike Fairey received fees in respect of the services performed as Non-Executive Chairman up to the 2018 AGM. No additional payments will be made.

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

The following table sets out the audited total remuneration for the Executive Directors.

	Gary Hoffman		Richard Hoskins	
	2017 (1 January 2017 – 31 December 2017)	2016 (1 January 2016 – 31 December 2016)	2017 (1 January 2017 – 31 December 2017)	2016 (1 January 2016 – 31 December 2016)
Salary	£475,000	£475,000	£315,000	£315,000
Benefits	£40,837	£38,368	£12,708	£12,324
Retirement benefits	£47,500	£47,500	£31,500	£31,500
Annual bonus	£292,250	£237,500	£187,050	£157,500
LTIP	–	–	–	–
Legacy Incentives	£10,973,879	–	£3,064,155	–
Total – including Legacy Incentives	£11,829,466	£798,368	£3,610,413	£516,324
Less Legacy Incentives	£(10,973,879)	–	£(3,064,155)	–
Total	£855,587	£798,368	£546,258	£516,324

Additional notes to the table

Benefits

The benefits consist of private medical insurance (for the Executive Directors and their families), long term sickness cover, health screening, life assurance and a car allowance. The Company meets the cost of a rental property in the Bexhill area and the cost of travel to and from the Bexhill and Leicester offices and any consequent tax liability for the Chief Executive Officer. The cost of these benefits is included based on the latest completed returns to HMRC for the year ended 5 April 2017. The costs incurred since that return are not believed to be substantially different to those reported.

Retirement benefits

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

Legacy incentives

As disclosed in previous reports, a Management Incentive Plan (MIP) was established at the time of the Goldman Sachs investment in the business in January 2014, prior to our listing as a public company. The interests were subject to the following vesting conditions: 50% of the interests on a time basis and 50% on a performance basis. The time vesting element vested over a five year period, or sooner upon full redemption of all preference share capital in the issuing entity, with no performance conditions. The performance element vested in whole or in part when Goldman Sachs and Founder Shareholder interests in the Group fell below 35% in aggregate or 8 July 2018, and subject to certain valuation and investment return targets being met.

In 2017, all conditions were met in full, leading to full vesting of the MIP interests. As required by regulation, the value of MIP shown in the single total figure of remuneration table above comprises the 50% of interests that were based on performance. For completeness, the total value delivered to Gary Hoffman was £8,077,175 in cash and 4,358,118 ordinary shares of the Company valued at £13,870,582. Richard Hoskins received £2,255,352 in cash and 1,216,878 ordinary shares of the Company valued at £3,872,958.

The interests were satisfied partly in cash, from the proceeds of dividends and sale of shares in the Company held by Hastings Investco Limited, and partly in shares in the Company, via distribution of assets of Hastings Holdco Limited, the parent entity of Hastings Investco Limited, upon dissolution. Satisfaction of the MIP interests was made solely from the assets of Hastings Holdco Limited and Hastings Investco Limited, and not settled by the Company. The final value attributed to the MIP interests reflected the significant growth in the value of the business, from around £300m at the time the MIP was inception, to around £2.1bn when the MIP interests fully vested.

Annual bonus

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

2017 Annual bonus outcome

The table below provides full disclosure of the operating profit targets set at the start of the year and how the performance achievement in 2017 compares to these targets.

	Performance range				Actual	Outcome (% of maximum)
	Entry	Target	Stretch	Maximum		
Bonus outcome (% of maximum)	20%	50%	75%	100%		
Adjusted operating profit target	£165m	£180m	£187m	£191m	£184.1m	64.5%
Growth on 2016 achievement on a like for like basis	+8%	+18%	+23%	+26%	+21%	

Annual report on remuneration

continued

Assessment of corporate performance against 4Cs objectives

Our 4Cs	Corporate performance achievement
Colleagues Ensuring colleagues are engaged and that Hastings actively promotes a culture where colleagues can contribute and thrive.	2017 saw another year of significant investment in headcount across the Company. Against that background, key achievements in the year included: <ul style="list-style-type: none">• exceeded 'Your Voice' target for the year, including improvement on prior year;• undertook a survey on benefits and subsequent introduction of a number of new initiatives;• continued focus on colleague productivity levels; and• successful delivery of a new HR Platform.
Customers Differentiating us from our competitors through great value pricing and products and the way our customers buy insurance.	Delivery of a first-class customer experience remains a priority for the Company. Performance against customer related objectives include the following: <ul style="list-style-type: none">• Net Promoter Score (NPS) exceeded target, with Claims Net Promoter Score in particular significantly outperforming target;• quality score was on target for the year;• significant progress against targets relating to effective complaint handling, including significant outperformance on the number of outstanding complaints and also comfortably exceeding Financial Ombudsman Service uphold rate. Continued focus required on the speed of complaints being dealt with;• progress on delivering a digital service including 'mobile', with substantial increased customer contacts in the year being via digital channels; and• continued progress on effective claims processes, with some targets being exceeded and others requiring continued focus.
Company Enabling us to grow profitably and sustainably.	2017 has seen strong financial performance for the Company, including: <ul style="list-style-type: none">• 21% growth in adjusted operating profit, after adjusting for the £20m impact of the Ogden rate adjustment in 2016;• calendar year loss ratio outperforming against the target range;• continued progress on Guidewire implementation; and• met wider financial targets including debt/EBITDA multiple and free cash flow.
Community Taking an active part in serving the community, but being a good neighbour, nurturing home grown talent and being an ethical member of the financial services community.	Hastings continues to make a positive impact in the community. Key achievements this year include: <ul style="list-style-type: none">• over 1,000 community days delivered and 242 students supported under the Hastings 'Be the Change' programme;• maintenance of a positive relationship with external stakeholders, including regulatory bodies; and• continued adherence to high risk and compliance standards throughout the Company.

Chief Executive Officer

The Chief Executive Officer has lead the Company through another strong year. The Company remains on track to meet or beat the four published targets, demonstrating the Company's continued financial and operational success under his leadership. In addition, the Chief Executive Officer continues to be central to driving the Company's culture, providing strong foundations for future growth.

Chief Financial Officer

The Chief Financial Officer has continued to lead the development of the Company's finance function and financial stature of the Company. The Company's financial performance is testament to the Chief Financial Officer's continued solid and significant contribution to the Company.

Bonus outcomes for Executive Directors

2017 has been a strong year, with continued delivery of our enviable track record of strong profitable growth. Against that background, and taking into account the Company's and individual Executive Director performance against the 4Cs objectives, the Committee determined that the Chief Executive Officer should receive a bonus of £292,250 (62% of salary) and the Chief Financial Officer receive £187,050 (59% of salary). 25% of these bonus awards will be deferred into shares for three years.

Long Term Incentives

No Long-Term Incentive Plan awards were due to vest in respect of 2017.

Legacy arrangements

Management incentive plan

As described in the note to the single figure table above, all vesting criteria under the legacy Management Incentive Plan (MIP) were met in the year and all interests fully satisfied. As result there are no further MIP interests outstanding.

Admission Awards

As disclosed in previous reports, Executive Directors were granted conditional share awards at the time of the Company's admission to the London Stock Exchange (Admission Awards). In line with the original terms of these awards, half of these awards vested at the end of 2017, representing a value of £750,000 for Gary Hoffman and £500,000 for Richard Hoskins. The remaining half will vest at the end of 2018, subject to the individuals continuing to hold office / employment with the Company.

Scheme interests awarded to Executive Directors in the year

The LTIP awards shown in the table below were granted to Executive Directors for the first time in 2017. These awards may vest in 2020 conditional on performance over a three year period to 31 December 2019. The deferred bonus awards represent the portion of the 2016 bonus that was deferred into shares.

	Scheme	Basis of award (maximum)	Face value	Percentage vesting at threshold performance	Performance period end date
Gary Hoffman	LTIP (conditional share award)	225% of salary	£1,068,750	25%	31 December 2019
	Deferred bonus (conditional share award)	25% of 2016 bonus	£59,375	n/a	n/a
Richard Hoskins	LTIP (conditional share award)	225% of salary	£708,750	25%	31 December 2019
	Deferred bonus (conditional share award)	25% of 2016 bonus	£39,375	n/a	n/a

Annual report on remuneration

continued

The LTIP and Deferred Bonus awards were granted on 6 April 2017. The face values have been calculated using the average share price over the five dealing days 2 March to 8 March 2017 of £2.3636.

The Committee considered the key long term objectives over the performance period and determined that the awards should be linked to the value created for shareholders over the period. As a consequence the awards are equally weighted against relative Total Shareholder Return (TSR) and adjusted earnings per share (EPS) performance targets. The EPS target is a cumulative pence per share target over each of the three years. The targets for the LTIP granted in 2017 are summarised below:

EPS		Relative TSR	
Vesting is based on the cumulative pence per share target over each of a three year performance cycle		Vesting is based on TSR performance measured against the constituents of the FTSE 250 (excluding investment trusts)	
EPS performance	Proportion vesting	TSR performance	Proportion vesting
Below Threshold	0%	Below median	0%
Threshold (63.8p per share)	25%	Median	25%
Stretch (73.9p per share)	100%	Upper quartile	100%
Straight line vesting between threshold and stretch		Straight line vesting between median and upper quartile	

Awards made in 2018 will vest on the basis of:

- 50% on relative TSR, with targets and vesting schedule unchanged from those that applied to the 2017 awards as set out in the table above;
- 50% on cumulative adjusted EPS, with threshold target set at 68.2p per share and stretch at 79.1p per share.

External appointments

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

Gary Hoffman currently holds three external appointments. He is Non-Executive Director of Visa Inc., Non-Executive Chairman of Visa Europe and Chairman of The Football Foundation. He received £252,544 in respect of his roles at Visa Inc. and Visa Europe. The appointment with The Football Foundation is unpaid.

Richard Hoskins currently holds one external appointment, as Non-Executive Director of Aztec Group Limited, for which he received £27,500.

Service agreements

Director	Date of appointment	Notice period	Unexpired term
Gary Hoffman (CEO to 1 March 2018) ¹	15/06/2015	6 months	6 months
Richard Hoskins	03/09/2015	6 months	6 months
Toby van der Meer (CEO from 1 March 2018)	01/03/2018	6 months	6 months

¹ As disclosed elsewhere in this report, Gary Hoffman will be seeking election as non-executive Chairman at the 2018 AGM.

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

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

The following table sets out the audited total remuneration for the Non-Executive Directors.

	2017 (1 January 2017 – 31 December 2017) Fees and expenses	2016 (1 January 2016 – 31 December 2016) Fees and expenses
Michael Fairey	£160,000	£157,917
Thomas Colrairie	£82,419	£80,000
Malcolm Le May	£66,704	£65,762
Ian Cormack	£50,000	£50,000
Pierre Lefèvre	£49,074	£46,955
Sumit Rajpal	-	-
Alison Burns (appointed July 2016)	£50,659	£22,131
Teresa Robson-Capps (appointed July 2016)	£51,836	£22,293
Selina Sagayam (appointed 14 August 2017)	£12,304	-
Herman Bosman (appointed 14 March 2017)	-	-
Richard Brewster (stepped down 14 August 2017)	-	-
Edward Fitzmaurice (stepped down 14 March 2017)	-	-
Michele Titi-Cappelli (stepped down 14 March 2017)	-	-

Notes to the table

Fees

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

The fees shown include additional fees for chairing Board committees where appropriate. In 2016 and 2017, Richard Brewster, Edward Fitzmaurice, Sumit Rajpal, Michele Titi-Cappelli, and Herman Bosman waived their fees for their roles as Non-Executive Directors.

Non-Executive Director fees for 2018

Non-Executive Director fees are set out below.

Role	Fee per annum
Chairman basic fee ¹	£250,000
Non-Executive Director basic fee	£50,000
Additional fees	
Chairman of the Nomination Committee	£10,000
Senior Independent Director	£15,000
Chairman of the Audit Committee	£15,000
Chairman of the Risk Committee	£10,000
Chairman of the Remuneration Committee	£15,000

¹ Proposed fee for the new incumbent, to be appointed at the 2018 AGM. This fee level reflects the increased scope, responsibilities and time commitment required of the new Chairman role in the context of the recent leadership changes. The revised fee is also consistent with typical market levels for a FTSE 250 Chairman. The previous incumbent will continue to receive a fee of £150,000 per annum to the date of stepping down.

Annual report on remuneration

continued

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

In addition, Selina Sagayam is entitled to receive a total annual fee of £88,000, comprising £35,000 for her duties as Non-Executive Director of the Company, and £53,000 for her role as Non-Executive Director and chairman of the Risk Committee of Hastings Insurance Services Limited.

Letters of Appointment

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

Director	Date of Letter of Appointment	Notice period	Unexpired term
Mike Fairey ¹	01/06/2015	3 months	5 months
Herman Bosman	14/03/2017	3 months	25 months
Alison Burns	12/07/2016	3 months	18 months
Tom Colrairie	01/08/2015	3 months	7 months
Ian Cormack	01/08/2015	3 months	7 months
Pierre Lefèvre	03/09/2015	3 months	8 months
Malcolm Le May	01/08/2015	3 months	7 months
Sumit Rajpal	28/09/2015	3 months	9 months
Teresa Robson-Capps	12/07/2016	3 months	18 months
Selina Sagayam	14/08/2017	3 months	31 months

¹ Mike Fairey will not be seeking re-election at the 2018 AGM. Gary Hoffman will be seeking election as Non-Executive Chairman.

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

The table below sets out the Directors' shareholdings in the Company as at 31 December 2017

The Executive Directors are expected to build up and maintain a holding equivalent to twice their base salary. Both Gary Hoffman and Richard Hoskins have met this target.

Director	Number of shares owned	Scheme interests ¹	
		Unvested conditional share awards	Deferred shares (not subject to further performance conditions)
Gary Hoffman	8,555,742	25,120	452,170
Richard Hoskins	1,216,878	16,658	299,860
Michael Fairey	29,411		
Thomas Colrairie	76,470		
Ian Cormack	35,294		
Pierre Lefèvre	82,169		
Malcolm Le May	17,647		
Sumit Rajpal	-		
Teresa Robson-Capps	-		
Alison Burns	-		
Selina Sagayam	-		
Herman Bosman	-		

¹ Mike Fairey will not be seeking re-election at the 2018 AGM. Gary Hoffman will be seeking election as Non-Executive Chairman.

The following changes occurred to the Directors' direct beneficial interests in shares between 31 December 2017 and 17 March 2018. Gary Hoffman acquired 124,553 Company shares on 16 January 2018 following partial vesting of Admission Awards and sold 403,671 Company shares on 26 January 2018. Richard Hoskins acquired 83,035 Company shares on 16 January 2018 following partial vesting of Admission Awards and sold 173,002 Company shares on 26 January 2018. No Director has a non-beneficial interest in the shares of the Company.

Details of outstanding scheme interests:

Deferred shares:

2016 deferred bonus 25% of 2016 bonus deferred into shares. Awards granted on 6 April 2017 and due to vest on 15 March 2020.

LTIP awards:

2017 LTIP award Awards of conditional shares, granted on 6 April 2017. Vesting is based on TSR relative to the FTSE 250 (excluding Investment Trusts) and EPS performance against pre-determined targets in the three year period to 31 December 2019. To the extent the performance conditions are met, awards will vest early 2020.

Other information

Payments to former Directors

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

Payments for loss of office

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

TSR chart

The graph below shows the TSR of the Company and the UK FTSE 250 Index from the Company's Admission in October 2015 to 31 December 2017. The FTSE 250 Index was selected on the basis that the Company is a member of the FTSE 250.

Historical Chief Executive Officer pay

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

		2017 (1 January 2017 – 31 December 2017)	2016 (1 January 2016 – 31 December 2016)	2015 (1 January 2015 – 31 December 2015)
Single figure of remuneration	Including legacy arrangements	£11,829,466	£798,368	£1,830,477
	Excluding legacy arrangement	£855,587	£798,368	£330,477
Annual bonus payout (as a % of maximum opportunity)		62%	50%	44%
Long-term incentive payout (as a % of maximum opportunity)		N/A ¹	N/A	N/A

1 As noted above, the first Long Term incentive award was granted in 2017, with vesting not occurring until 2020.

Annual report on remuneration

continued

Percentage change in Chief Executive Officer remuneration

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

	Change in remuneration from 31 December 2016 to 31 December 2017		
	Change in base salary	Change in benefits	Change in bonus
Chief Executive Officer	0.0%	6.4%	23.1%
Employee comparator group	5.4%	12.8%	31.9%

Relative importance of spend on pay

The following table illustrates total remuneration for all Company colleagues compared to distributions to shareholders for the financial years ended 31 December 2017 and 31 December 2016.

	Year ended 31 December 2017	Year ended 31 December 2016
Shareholder distributions (dividends and share buy backs)	£70.3m	£36.1m
Total Company colleague remuneration	£92.3m	£76.7m

Advice and support provided to the Remuneration Committee

During the year Deloitte LLP (Deloitte) provided advice as independent remuneration consultants at the expense of the Company. Total fees in 2017 for advice and support provided to the Remuneration Committee were £117,600. Deloitte has voluntarily signed up to the Remuneration Consultants' Code of Conduct in relation to executive remuneration consultancy during the year. The Committee is comfortable that the Deloitte engagement partner and team that provides remuneration advice to the Committee do not have connections with the Company that may impair their independence. During the year, Deloitte also provided unrelated tax, mobility and share schemes services to the Group. The Chief Executive Officer, HR Director and Head of Reward attended Committee meetings by invitation in order to support the discussion of the agenda items as appropriate. No individual participates in discussions regarding their own remuneration.

Shareholder context

The table below shows the results of the binding vote on the last Policy approved in 2015 and the advisory vote on the 2016 Directors' Annual Report on Remuneration cast at the 2017 AGM. It is the Committee's policy to consult with major shareholders prior to any major changes to the Policy, and to maintain an ongoing dialogue on executive remuneration matters.

	For	Against	Abstentions
2016 Annual Report on Remuneration	498,521,956 94%	18,608 0%	29,251,878 6%
2015 Remuneration Policy	529,122,180 99.98%	90,504 0.02%	1,775 0%

For and on behalf of the Remuneration Committee

Malcolm Le May
Chairman of the Remuneration Committee
 28 February 2018

Directors' Remuneration Policy

Policy table extract

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

No changes are proposed to the Policy this year.

Remuneration Policy table

Executive Directors

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

Directors' Remuneration Policy

continued

Executive Directors

Element and link to strategy	Operation	Maximum opportunity	Performance measures
Annual bonus Variable remuneration that rewards the achievement of annual financial, operational and individual objectives integral to Company strategy over a one year period.	<p>Objectives are set annually based on the achievement of strategic goals. At the end of the year, the Committee meets to review individual and corporate performance against objectives and determines payout levels.</p> <p>From the performance year 2016 onwards, a portion of bonus normally will be deferred into an award of shares under the Deferred Bonus Plan (DBP). Normally, not less than 25% of any bonus will be deferred for a period of three years.</p> <p>Accrued dividends can be paid in cash or shares, to the extent that awards vest.</p> <p>The Committee may adjust and amend awards in accordance with the DBP rules.</p> <p>The Committee may reduce the size of unvested awards if (a) there is a material misstatement of audited results or an error in the calculation of the bonus; (b) the Executive Director commits gross misconduct; or (c) events or the Executive Director's behaviour has a significant detrimental impact on Hastings' reputation and the Committee determines the Executive Director is responsible or directly accountable for that damage during a period beginning at the start of the bonus year and ending three years after the bonus was determined. Where appropriate, the Committee may also require the participant to repay some or all of the value of the shares received under an award in the circumstances referred to in (a) or (b) during the same period.</p>	50% of salary for on target performance with an absolute maximum opportunity of 100% salary.	<p>Awards are based on financial, operational and individual goals during the year.</p> <p>At least 50% of the award will be assessed against the Company's financial performance. The remainder of the award will be based on personal performance against individual objectives. The split between these performance measures will be determined annually by the Committee.</p>

Executive Directors

Element and link to strategy	Operation	Maximum opportunity	Performance measures
Long-Term Incentive Plan (LTIP) Variable remuneration designed to incentivise and reward the achievement of long term targets aligned with shareholder interests. The LTIP also assists in the retention of Executive Directors.	<p>Awards granted under the LTIP vest subject to the achievement of performance conditions measured over a three year period.</p> <p>LTIPs are made as conditional share awards, however may be made in other forms (e.g. nil cost options) if it is considered appropriate.</p> <p>Accrued dividends may be paid in cash or shares, to the extent that awards vest.</p> <p>The Committee may adjust and amend awards in accordance with the LTIP rules.</p> <p>The Committee may reduce the size of unvested awards if (a) there is a material misstatement of audited results or an error in the assessment of the performance conditions applicable to an award; (b) the Executive Director commits gross misconduct; or (c) events or the Executive Director's behaviour has a significant detrimental impact on Hastings' reputation and the Committee determines the Executive Director is responsible or directly accountable for that damage during a period beginning at the start of the performance period and ending on the sixth anniversary of the grant date. After vesting but before the sixth anniversary of the grant date, the Committee may also require the participant to repay some or all of the value of the shares received under an award in the circumstances referred to in (a) or (b).</p>	<p>The normal maximum level of awards that may be made in respect of a financial year is 225% of salary. In exceptional circumstances the Committee may grant awards of up to 300% of salary.</p>	<p>LTIP performance conditions will be reviewed annually. Conditions and targets will be selected to align with the Company's long term strategy. The current intention is that Executive Directors will not participate in the LTIP during 2016 but will be eligible in 2017.</p> <p>Performance measures for awards going forward are yet to be determined, however the current intention is that they will be linked to a measure based on shareholder returns and a measure based on earnings performance. At threshold performance, no more than 25% of the award will vest, rising to 100% for maximum performance.</p>

Non-Executive Directors

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

Independent auditor's report

to the members of Hastings Group Holdings plc



1. Our opinion is unmodified

We have audited the Financial Statements of Hastings Group Holdings plc (the Company) for the year ended 31 December 2017 which comprise the Consolidated Statement of Profit and Loss, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows, Parent Company Balance Sheet, Parent Company Statement of Changes in Equity, Parent Company Statement of Cash Flows and the 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 Group's and of the parent Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation

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 believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the shareholders on 23 September 2015. The period of total uninterrupted engagement is for the three financial years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality:	£6.5m (2016: £5.4m)
group financial statements as a whole	4.6% of profit before tax (2016: 1.0% of total revenue)
Coverage	100% (2016: 100%) of group profit before tax

Risks of material misstatement vs 2016

Recurring risks	Outstanding claims liabilities
	Reinsurance assets
	Recoverability of the cost of investment in subsidiaries

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the Financial Statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters which are unchanged from 2016, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the Financial Statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Key audit matter

Outstanding claims liabilities (£1,193.3m, 2016: £901.9m)

Refer to page 71 (Audit committee report), Note 2 (Accounting policies) and pages 121 to 123 and 136 to 138 (financial disclosures).

The risk

Subjective valuation:

Reserving for outstanding claims liabilities is the area requiring the most significant judgement in the Financial Statements. The Group maintains reserves to cover the estimated cost of settling all expected future claims with respect to losses or injuries, whether or not those losses or injuries have been reported to the Group.

Estimating the reserves required for claims incurred but not reported (IBNR) to the Group involves significant judgement and the use of actuarial and statistical projections. This includes whether any of the larger bodily injury claims will result in any periodical payment orders (PPOs) which are payments made periodically over several years or even the lifetime of a policyholder. PPOs and potential PPOs increase the complexity and uncertainty of the estimation of reserves due to the increased range of assumptions required.

Our response

Our procedures included:

- **Control observation:** including whether the Group had followed their documented reserving policy in setting claims reserves.
- **Control re-performance:** We tested controls over the completeness and accuracy of claims data underlying the actuarial projections used by the internal and external actuaries to set the incurred but not reported (IBNR) reserves.
- **Our actuarial experience:** Using our actuarial specialists we considered the findings of the Group's internal actuary and the independent actuary report. Through critical assessment of these actuarial reports and supporting documentation, and through discussion with both actuaries, we analysed and challenged the differences in reserving methodology applied by both actuaries as well as the key assumptions being used including claims inflation, discount rates, subrogation and the impact of legislative and process developments.
- **Benchmarking assumptions:** We assessed the assumptions through the assessment of claims, development trends and benchmarking to market data.
- **Historical comparisons:** We have compared prior year reserves to actual outcomes to assess whether the Group has historically set adequate reserves. We assessed the extent to which the margin between the reserves booked and the actuarial best estimate was determined consistently with prior periods and in line with the reserving methodology.

Benchmarking:

- **Large bodily injury claims** – we challenged the Group's estimate of the effect of potential changes in the "Ogden" discount rate applied to bodily injury claims and whether the frequency assumption, sensitivity and development patterns were comparable to our actuarial benchmarks, market data and the group's historical experience.
- **Assessing transparency:** We considered the adequacy of the Group's disclosures regarding the degree of estimation uncertainty and the sensitivity of recognised amounts to changes in assumptions.

Our result

We found the valuation of the outstanding claims liabilities to be acceptable.

Key audit matter

Reinsurance assets (£1,087.7m, 2016: £822.0m)

Refer to page 71 (Audit committee report), Note 2 (Accounting policies) and pages 121 to 123 and 136 to 138 (financial disclosures).

The risk

Subjective valuation:

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

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

Independent auditor's report

continued

Our response

Our procedures included:

- **Control re-performance:** We tested the process and controls over the approval of new reinsurance contracts in order to support the recognition of a reinsurance asset.
- **Our actuarial experience and benchmarking:** We used our own actuarial specialists to assess the accuracy and recoverability of the reinsurance assets over IBNR claims by considering the historical reinsurance recovery ratios whilst taking into consideration changes in the underlying reinsurance programme.
- **Methodology choice:** Using our own actuaries we assessed the methodology for establishing reinsurers' share of IBNR claims reserves against current market practices and for consistency with prior periods.
- **Control observation:** We tested the monitoring of controls over the credit ratings of the panel of reinsurers to assess the risk of default.
- **Benchmarking assumptions:** We assessed the credit ratings of the panel of reinsurers against rating agencies. We assessed the reasonableness of the reinsurance bad debt assumptions and checked the post period end receipts of reinsurance receivables to provide evidence over the recoverability of the year end reinsurance assets.
- **Test of detail:** We obtained third party confirmation of the contractual arrangements in place and reported claims amounts with the reinsurance broker.

Our result

We found the valuation of the Group's reinsurance assets to be acceptable.

Key audit matter

Recoverability of the cost of investment in subsidiaries (£1,274.3 m; 2016: £1,271.0 m). Refer to page 71 (Audit committee report), Note 2 (Accounting policies) and page 155 (financial disclosures).

The risk

Low risk, high value

The carrying amount of the Parent Company's investments in subsidiaries represents 99.91% of the Company's total assets as at 31 December 2017.

Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of its Parent Company Financial Statements, this is considered to be the area that had the greatest effect on our overall parent company audit.

Our response

Our procedures included:

- **Tests of detail:** Comparing the carrying amount of 100% of investments with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making.
- **Our sector experience:** For the investments where the carrying amount exceeded the net asset value, comparing the carrying amount of the investment with the expected value of the business based on the recoverable amount.
- **Assessing subsidiary audits:** Assessing the work performed by the subsidiary audit teams on all of those subsidiaries and considering the results of that work, on those subsidiaries' profits and net assets.

Our result

We found the Company's assessment of the recoverability of the investment in subsidiaries to be acceptable.

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

Materiality for the Group Financial Statements as a whole was set at £6.5m (2016: £5.4m), determined with reference to a benchmark of Group profit before tax, of which it represents 4.6% (2016: 1.0% of total revenue).

We consider profit before tax to be the most appropriate benchmark for Hastings Group Holdings plc this year as the Group continues to seek to maximise shareholder value through maximising its profits. In the prior years, we had used total revenue as the benchmark due to increased profit volatility as a result of one off costs including those arising from the IPO transaction and debt restructuring. These one-off costs reduced profit before tax to a level that was not reflective of the size of the overall business.

Materiality for the Parent Company Financial Statements as a whole was set at £3.1m which represents 4.6% of profit before tax.

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.3m (2016: £0.3m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 10 (2017: 10) reporting components, we subjected 10 (2017: 10) to full scope audits for group purposes.

These audits were undertaken by the Group audit team with the exception of Advantage Insurance Company Limited (AICL) where the audit was undertaken by overseas component auditors who reported back to the Group audit team.

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

The Group team agreed the AICL component performance materiality of £4.8m (2016: £3.7m), which was also applied by all components for the audit for group reporting purposes.

The Group team visited KPMG Gibraltar during 2018 to discuss the significant audit risks, findings and also to complete a file review. Telephone conference meetings were also held with KPMG Gibraltar throughout the year.

4. We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the Financial Statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- if the related statement under the Listing Rules set out on page 55 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the Financial Statements. Our opinion on the Financial Statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information 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 other information.

Strategic Report and Directors' Report

Based solely on our work on the other information:

- 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.

Directors' Remuneration Report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

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

- the Directors' confirmation within the Viability Statement on page 43, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Independent auditor's report

continued

Under the Listing Rules we are required to review the Viability Statement. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the annual report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee;
- we are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

Based solely on our work on the other information described above:

- with respect to the Corporate Governance Statement disclosures about internal control and risk management systems in relation to financial reporting processes and about share capital structures:
 - we have not identified material misstatements therein; and
 - the information therein is consistent with the financial statements;
- in our opinion, the Corporate Governance Statement has been prepared in accordance with relevant rules of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

6. We have nothing to report on the other 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 by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 56, the Directors are responsible for: the preparation of the Financial Statements including 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 Group and Parent 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 Group or the Parent 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, other irregularities, 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, other irregularities 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. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the Financial Statements.

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

Irregularities – ability to detect

Our audit aimed to detect non-compliance with relevant laws and regulations (irregularities) that could have a material effect on the Financial Statements. We identified relevant areas of laws and regulations from our sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence.

We had regard to laws and regulations in areas that directly affect the Financial Statements including financial reporting and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related Financial Statements.

In addition we considered the impact of laws and regulations in the specific areas of regulatory capital and conduct, recognising the financial and regulated nature of the Group's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related Financial Statement items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at group level, with a request to report on any indications of potential existence of irregularities in these areas, or other areas directly identified by the component team.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

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

28 February 2018

Financial statements

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Consolidated statement of profit or loss

for the year ended 31 December 2017

		Year ended							
		31 December 2017				31 December 2016			
	Note	Underlying trading £m	Non-trading items¹ £m	Total £m	Underlying trading pre-Ogden rate change £m	Ogden rate change impact² £m	Underlying trading £m	Non-trading items¹ £m	Total £m
Gross written premiums	6	930.8	-	930.8	769.0	-	769.0	-	769.0
Gross earned premiums	6	856.1	-	856.1	691.8	-	691.8	-	691.8
Earned premiums ceded to reinsurers	6	(446.0)	-	(446.0)	(357.0)	-	(357.0)	-	(357.0)
Net earned premiums	6	410.1	-	410.1	334.8	-	334.8	-	334.8
Other revenue	7	298.7	-	298.7	254.9	(6.6)	248.3	-	248.3
Investment and interest income	8	6.8	-	6.8	7.2	-	7.2	-	7.2
Net revenue		715.6	-	715.6	596.9	(6.6)	590.3	-	590.3
Claims incurred	9	(786.9)	-	(786.9)	(551.7)	(160.1)	(711.8)	-	(711.8)
Reinsurers' share of claims incurred	9	487.4	-	487.4	305.0	146.7	451.7	-	451.7
Net claims incurred	9	(299.5)	-	(299.5)	(246.7)	(13.4)	(260.1)	-	(260.1)
Acquisition costs		(64.9)	-	(64.9)	(51.9)	-	(51.9)	-	(51.9)
Other expenses	10	(167.1)	-	(167.1)	(146.2)	-	(146.2)	-	(146.2)
Adjusted operating profit³		184.1			152.1	(20.0)	132.1		
Amortisation and depreciation	10	(5.5)	(21.5)	(27.0)	(5.6)	-	(5.6)	(22.0)	(27.6)
Finance costs	14	(7.8)	(0.3)	(8.1)	(9.6)	-	(9.6)	(0.6)	(10.2)
Profit before tax		170.8	(21.8)	149.0	136.9	(20.0)	116.9	(22.6)	94.3
Taxation expense	15	(26.2)	3.9	(22.3)	(22.0)	2.0	(20.0)	4.1	(15.9)
Total profit attributable to the equity holders of the parent		144.6	(17.9)	126.7	114.9	(18.0)	96.9	(18.5)	78.4
Earnings per share attributable to the equity holders of the parent (expressed in pence per share)									
Basic earnings per share	16			19.3p					11.9p
Diluted earnings per share	16			19.2p					11.9p

All results arose from continuing operations.

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

1 Non-trading items are defined as expenses or earnings that are not representative of the underlying activities of the Group and include reorganisation, refinancing and transaction costs and the impact of accounting for business combinations as described in Note 11.

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

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

Consolidated statement of comprehensive income

for the year ended 31 December 2017

	Note	Year ended	
		31 December 2017 £m	31 December 2016 £m
Total profit attributable to the equity holders of the parent		126.7	78.4
Other comprehensive income			
<i>Items that may be subsequently reclassified to profit or loss</i>			
Fair value (loss)/gain on available for sale investments	25	(2.0)	5.7
Total items that may be subsequently reclassified to profit or loss		(2.0)	5.7
<i>Items that may not be subsequently reclassified to profit or loss</i>			
Revaluation (loss)/gain on property	19	(0.1)	0.1
Total items that may not be subsequently reclassified to profit or loss		(0.1)	0.1
Total other comprehensive (loss)/gain		(2.1)	5.8
Total comprehensive income attributable to the equity holders of the parent		124.6	84.2

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

Consolidated balance sheet

as at 31 December 2017

	Note	31 December 2017 £m	31 December 2016 £m
Assets			
Goodwill	17	470.0	470.0
Intangible assets	18	87.4	97.2
Property and equipment	19	14.2	12.7
Deferred income tax assets	20	6.6	4.5
Reinsurance assets	21	1,087.7	822.0
Deferred acquisition costs	22	31.1	24.2
Prepayments		5.3	4.0
Insurance and other receivables	23, 25	421.0	356.5
Financial assets at fair value	25	539.6	403.6
Cash and cash equivalents	24, 25	154.6	168.0
Total assets		2,817.5	2,362.7
Liabilities			
Loans and borrowings	25, 26	272.0	286.6
Insurance contract liabilities	21	1,665.6	1,299.5
Insurance and other payables	25, 27	239.8	198.1
Deferred income tax liabilities	20	16.0	18.5
Current tax liabilities		11.2	6.4
Total liabilities		2,204.6	1,809.1
Equity			
Share capital	28	13.1	13.1
Share premium		172.6	172.6
Merger reserve	28	(756.0)	(756.0)
Other reserves	28	2.5	4.9
Retained earnings		1,180.7	1,119.0
Total equity		612.9	553.6
Total equity and liabilities		2,817.5	2,362.7

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

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

Gary Hoffman
Chief Executive Officer
Hastings Group Holdings plc
Company Number: 09635183



Consolidated statement of changes in equity

for the year ended 31 December 2017

	Note	Share capital £m	Share premium £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
As at 1 January 2016		13.1	172.6	(756.0)	(0.7)	1,074.2	503.2
Total profit attributable to the equity holders of the parent		-	-	-	-	78.4	78.4
Total other comprehensive income		-	-	-	5.8	-	5.8
Total comprehensive income for the year		-	-	-	5.8	78.4	84.2
Transactions with equity holders of the parent							
Share based payments	29	-	-	-	-	2.4	2.4
Tax on share based payments	29	-	-	-	-	0.1	0.1
Acquisition of own shares		-	-	-	(0.2)	-	(0.2)
Dividends paid	33	-	-	-	-	(36.1)	(36.1)
Total transactions with equity holders of the parent		-	-	-	(0.2)	(33.6)	(33.8)
As at 31 December 2016 and 1 January 2017		13.1	172.6	(756.0)	4.9	1,119.0	553.6
Total profit attributable to the equity holders of the parent		-	-	-	-	126.7	126.7
Total other comprehensive income		-	-	-	(2.1)	-	(2.1)
Total comprehensive income for the period		-	-	-	(2.1)	126.7	124.6
Transactions with equity holders of the parent							
Share based payments	29	-	-	-	-	4.8	4.8
Tax on share based payments		-	-	-	-	0.5	0.5
Acquisition of own shares		-	-	-	(0.3)	-	(0.3)
Dividends paid	33	-	-	-	-	(70.3)	(70.3)
Total transactions with equity holders of the parent		-	-	-	(0.3)	(65.0)	(65.3)
As at 31 December 2017		13.1	172.6	(756.0)	2.5	1,180.7	612.9

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

Consolidated statement of cash flows

for the year ended 31 December 2017

		Year ended	
	Note	31 December 2017 £m	31 December 2016 £m
Profit after tax		126.7	78.4
Adjustments for:			
Depreciation of property and equipment	10, 19	2.6	2.7
Amortisation of intangible assets	10, 18	24.4	24.9
Net fair value gains on financial assets recognised in profit or loss	8	(0.4)	(1.1)
Other interest income	8	(6.4)	(6.1)
Finance costs	14	8.1	10.2
Taxation expense	15	22.3	15.9
Share based payments	29	4.8	2.4
Change in insurance and other receivables and prepayments		(69.3)	(91.1)
Change in insurance and other payables		37.4	42.5
Change in reinsurance assets		(265.4)	(274.5)
Change in deferred acquisition costs	22	(6.9)	(4.3)
Change in insurance contract liabilities		365.4	387.4
Taxation paid		(21.6)	(14.8)
Net cash flows from operating activities		221.7	172.5
Purchase of property and equipment		(3.1)	(1.6)
Acquisition of intangible assets		(14.2)	(19.3)
Interest received		6.8	0.5
Outlays for acquisition of financial assets at fair value		(231.1)	(162.2)
Proceeds from disposal of financial assets at fair value		98.6	81.9
Net cash flows from investing activities		(143.0)	(100.7)
Purchase of own shares	28	(0.3)	(0.2)
Repayment of loans and borrowings		(15.0)	(10.0)
Interest paid on loans and borrowings		(6.0)	(9.7)
Other interest and finance costs paid		(0.5)	-
Dividends paid	33	(70.3)	(36.1)
Net cash flows from financing activities		(92.1)	(56.0)
Net movement in cash and cash equivalents		(13.4)	15.8
Cash and cash equivalents at beginning of year		168.0	152.2
Net movement in cash and cash equivalents		(13.4)	15.8
Cash and cash equivalents at end of year	24	154.6	168.0

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

Notes to the consolidated financial statements

1. Basis of preparation

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

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

The Consolidated Financial Statements comprise the consolidated results of the Company and its subsidiaries (the Group) for the year ended 31 December 2017 and comparative figures for the year ended 31 December 2016.

The Consolidated Financial Statements have been prepared and approved by the Directors in accordance with the Companies Act 2006 and International Financial Reporting Standards as adopted by the EU (IFRS) that are in effect at 31 December 2017. IFRS comprise standards and interpretations approved by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee.

Going concern

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

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

Basis of measurement

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

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

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

Adoption of new IFRS

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

- Amendments to IAS 7 Disclosure Initiative - endorsed by the EU on 6 November 2017. The amendments require additional disclosure in relation to changes in the value of liabilities arising from financing activities. This has resulted in additional disclosure in Note 26 of movements in liabilities arising from financing activities.
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – endorsed by the EU on 6 November 2017. The amendments clarify that unrealised losses on debt instruments measured at fair value can give rise to deductible temporary differences.

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

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

1. Basis of preparation continued

Adoption of new IFRS continued

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

IFRS 9 Financial Instruments

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

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

IFRS 16 Leases

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

The undiscounted value of the Group's operating lease obligations is disclosed in Note 30.

IFRS 17 Insurance Contracts

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

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

Basis of consolidation

The Consolidated Financial Statements incorporate the financial statements of the Company and all of its subsidiary undertakings for the years ended 31 December 2017 and 31 December 2016.

Accounting policies have been consistently applied throughout the Group.

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

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

Notes to the consolidated financial statements continued**2. Accounting policies****Revenue recognition****Insurance premiums, reinsurance and profit commission**

Premiums related to insurance contracts are recognised as revenue proportionally over the period of cover provided. Premiums with an inception date after the period end are held in the Consolidated Balance Sheet in deferred income. Outstanding premiums from customers at the year end are recognised within insurance receivables.

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

Under certain reinsurance contracts, profit commission may become receivable or payable in respect of a particular underwriting year dependent on the difference between the ultimate loss ratio and the loss ratio threshold set out in the contract. Profit commission receivable or payable at each reporting date is recognised based on the estimated ultimate loss ratio for that underwriting year at the reporting date. Any movement on the profit commission receivable or payable in the period is recognised in profit or loss within reinsurance commissions.

Other reinsurance commissions are recognised in profit or loss within reinsurance commissions in the period to which they relate.

Revenue from insurance broking activities

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

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

Premium finance interest

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

Investment and interest income

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

Discounts

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

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

Insurance contracts and reinsurance assets**Claims liabilities**

Gross outstanding claims liabilities are recognised at the value of expected future payments relating to claims incurred at the reporting date. The expected future payments include those in relation to claims reported but not yet paid or not yet paid in full, and claims incurred but not reported (IBNR). The liabilities are not discounted to present value, except for periodic payment orders (PPOs). PPOs are awarded as a result of certain large bodily injury claims made under insurance contracts. Such awards are generally for a fixed instalment over an indeterminate time period. Claims settled, or expected to be settled, by means of a PPO are recognised at the present value of expected future cash flows of the award granted over the expected term of the PPO, and are recognised immediately when the award is considered probable. Discounting is implicit within these reserving calculations at each period end for each expected PPO.

While the Directors consider that the gross outstanding claims liabilities and the related reinsurance assets are fairly stated on the basis of the information currently available to them, the amount that claims liabilities ultimately settle at will vary as a result of subsequent information and events and may result in significant adjustments to the amounts recognised.

Adjustments to the amounts of outstanding claims liabilities established in prior years are reflected in profit or loss for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

2. Accounting policies continued

Insurance contracts and reinsurance assets continued

Reinsurance contracts

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

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

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

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

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

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

Co-insurance contracts

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

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

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

Unearned premiums reserve

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

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

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

Salvage and subrogation recoveries

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

Notes to the consolidated financial statements continued

2. Accounting policies continued

Insurance contracts and reinsurance assets continued

Salvage and subrogation recoveries continued

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

Deferred acquisition costs

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

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

Claims handling expenses

The Group accrues for claims handling expenses incurred in processing and settling all incurred claims that remain outstanding at the reporting date, including those not yet reported. The liability, which is not discounted for the time value of money, is determined based on past claims handling experience and is reported within insurance and other payables in the Consolidated Balance Sheet. Claims handling expenses are recognised in the Consolidated Statement of Profit or Loss within other expenses as the claims are incurred.

Employee benefits

Pension contributions

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

Share based payments

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

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

Non-trading items and material items

Non-trading items are expenses or earnings, and the related tax impacts thereof, which the Directors believe are not representative of the underlying activities of the Group and have therefore been presented separately in the Consolidated Statement of Profit or Loss. These include expenses incurred in the course of the Group reorganisation and IPO in 2015, as well as the ongoing impact of the Goldman Sachs investment on 8 January 2014.

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

Finance costs

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

Taxation

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

2. Accounting policies continued

Taxation continued

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

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

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

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

Goodwill

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

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

Intangible assets

Software

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

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

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

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

Brands and customer relationships

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

Amortisation

Amortisation is provided on intangible assets 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 of intangible assets are as follows:

- Software 3-7 years
- Brands 8 years
- Customer relationships 5 years

Notes to the consolidated financial statements continued**2. Accounting policies** continued**Intangible assets** continued**Work in progress**

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

Property and equipment

The Group has chosen to value property using the revaluation model. Properties are initially recognised at cost and subsequent to initial recognition properties are carried at their revalued amount, which is the fair value at the date of revaluation less subsequent depreciation and impairment losses. Property is revalued annually using level 3 inputs as defined in Note 2 Fair values, with independent expert valuations being performed every three years.

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

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

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

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

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

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

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

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

Impairment

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

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

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

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

2. Accounting policies continued

Leased assets

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

Financial assets

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

Financial assets at fair value through profit or loss

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

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

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

Available for sale financial assets

Non-derivative financial assets are classified as available for sale when they are not classified as either loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

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

Interest income or expense calculated using the effective interest rate on available for sale financial assets is recognised in the profit or loss.

Loans and receivables

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

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

Derecognition of financial assets

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

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

Notes to the consolidated financial statements continued**2. Accounting policies** continued**Financial assets** continued**Impairment of financial assets**

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

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

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

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

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

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

Financial liabilities

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

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

Offsetting financial assets and liabilities

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

Cash and cash equivalents

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

Insurance intermediary assets and liabilities

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

2. Accounting policies continued

Share capital

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

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

Dividends

Dividends are recognised directly in equity when approved and payable.

Fair values

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

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

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

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

3. Critical accounting estimates and judgements in applying accounting policies

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

The judgements that the Directors have made in applying the Group's accounting policies that have the most significant effect on the amounts recognised in the Consolidated Financial Statements and the major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Claims liabilities

The estimation of liabilities arising from claims made under insurance contracts and the related reinsurance recoveries are the Group's most critical accounting estimates. Estimates, and the resulting loss ratios, are informed by detailed actuarial analysis and reflect a balanced assessment of risk and probability, resulting in a sufficiently prudent liability to give the Directors of the Group confidence that the Group is adequately provisioned to meet its future liabilities.

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

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

Notes to the consolidated financial statements continued

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

Claims liabilities continued

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

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

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

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

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

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

Large third party injury claims typically involve costs that relate to future periods, such as covering the loss of future earnings or the ongoing cost of care, and will either be settled through a lump sum settlement or through a periodic payment order (PPO). Such claims, including PPOs, are generally assessed individually, either being measured on a case by case basis or projected separately in order to reduce the possible distortive effect of the development and incidence.

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

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

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

Short tail claims are normally reported soon after the incident and are generally settled within the months following the reported incident. Hence any development on short tail claims is normally limited to the period in which the incident occurred and the following period. For long tail claims it can be more than one period before a claim is reported and several periods before it is settled, hence the original estimation involves greater uncertainty and it is inherently more likely that there will be a greater disparity between the original and current estimates. It is for these long tail claims that the development of the outstanding claims liability generally occurs over a number of periods.

The development of claims from prior periods is set out in Note 21. Given the uncertainty in establishing the outstanding claims liabilities, it is likely that the final outcome will be different from the original liability established.

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

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

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

Reinsurance assets

The Group uses both non proportional excess of loss reinsurance and quota share reinsurance arrangements. The calculation of reinsurance recoveries is intrinsically linked to the calculation of outstanding claims liabilities, and requires the same estimations and judgements, as reinsurance assets are recognised to the extent that the Group can recover the cost of a claim.

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

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

4. Insurance contracts risk management

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

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

Risk management objectives and policies for mitigating insurance risk

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

Acceptance of risk

The Board of Directors of the Group's Underwriting subsidiary, Advantage Insurance Company Limited (AICL) approves the underwriting and pricing policy, and reviews and monitors the underwriting and pricing standards and strategies. The Group's underwriting strategy is focused on a sophisticated data driven approach to pricing and underwriting through:

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

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

Notes to the consolidated financial statements continued**4. Insurance contracts risk management** continued**Risk management objectives and policies for mitigating insurance risk** continued**Pricing**

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

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

Claims management

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

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

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

Reinsurance contracts

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

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

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

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

The use of reinsurance contracts does not discharge the AICL's liability as primary insurer. If a reinsurer fails to pay a claim, AICL remains liable for the payment to the policyholder. As part of managing reinsurance contract risk and controlling exposure to reinsurance counterparty default, the creditworthiness of reinsurers is considered on a quarterly basis by reviewing their financial strength. In addition, management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. The recent payment history of reinsurers is also used to update the reinsurance purchasing strategy. The credit ratings of the Group's reinsurers are disclosed in Note 25.

Investment management

Assets and liabilities are managed so as to effectively match the expected pattern of claims payments with the assets that are held to back outstanding claims liabilities. The mix of investment between cash and cash equivalents and marketable securities is managed to ensure that the Group has the ability to meet expected and unexpected requirements for cash. See Note 25 for further details.

Terms and conditions of insurance contracts

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

Concentrations of insurance risk

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

5. Segmental reporting

Segments

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

Underwriting

The Underwriting segment comprises the Underwriting business which is based in Gibraltar. It includes AICL and its investment in Conquest House Limited. The principal activity of AICL is the underwriting of general insurance, predominantly private car insurance in the UK. Since 2015, AICL has underwritten UK home policies under a co-insurance arrangement both as secondary insurer, and from 2017 as lead insurer. Conquest House Limited owns property which is utilised by the Group.

Retail

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

Corporate

The Corporate segment comprises the combined results of the Group's head office companies, whose primary activities are as holding and finance companies.

Consolidation adjustments

Consolidation adjustments comprise the adjustments required to consolidate the Group's results under IFRS, including the elimination of intercompany balances, revenue between operating segments and investments in subsidiaries. Transactions between the Group's two reportable segments and corporate head office are recognised in accordance with the Group's accounting policies and are carried out at arm's length.

Adjusted operating profit

Adjusted operating profit, is a non-IFRS measure used by management and represents profit before taxation expense, finance costs, amortisation and depreciation and non-trading costs.

Segment performance

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

	Underwriting £m	Retail £m	Corporate £m	Consolidation adjustments £m	Group £m
Year ended 31 December 2017					
Net earned premiums	448.8	-	-	(38.7)	410.1
Other revenue	37.1	335.3	0.3	(74.0)	298.7
Investment and interest income	6.7	0.1	-	-	6.8
Net revenue	492.6	335.4	0.3	(112.7)	715.6
Net claims incurred	(299.5)	-	-	-	(299.5)
Other expenses	(121.7)	(220.4)	(7.2)	117.3	(232.0)
Adjusted operating profit	71.4	115.0	(6.9)	4.6	184.1
Amortisation and depreciation					(27.0)
Finance costs					(8.1)
Profit before tax					149.0

Included within other revenue is £104.1m recognised by the Retail segment and £0.3m recognised by the Corporate segment, arising from transactions with the Underwriting segment. Other revenue recognised by the Underwriting segment includes £0.4m arising from transactions with the Retail segment.

Notes to the consolidated financial statements continued

5. Segmental reporting continued

Segment performance continued

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

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

Segment assets and liabilities

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

As at 31 December 2017	Underwriting £m	Retail £m	Corporate £m	Consolidation adjustments £m	Group £m
Goodwill	–	1.9	–	468.1	470.0
Intangible assets	–	60.4	–	27.0	87.4
Investments in subsidiaries	–	–	1,274.2	(1,274.2)	–
Investments	4.2	–	–	(4.2)	–
Property and equipment	1.7	8.6	–	3.9	14.2
Deferred income tax assets	–	2.5	0.7	3.4	6.6
Reinsurance assets	1,084.8	–	–	2.9	1,087.7
Deferred acquisition costs	30.8	–	–	0.3	31.1
Prepayments	0.5	5.3	0.1	(0.6)	5.3
Insurance and other receivables	410.4	307.2	12.9	(309.5)	421.0
Financial assets at fair value	539.6	–	–	–	539.6
Cash and cash equivalents	90.5	59.5	4.6	–	154.6
Total assets	2,162.5	445.4	1,292.5	(1,082.9)	2,817.5
Loans and borrowings	–	–	272.0	–	272.0
Insurance contract liabilities	1,688.4	–	–	(22.8)	1,665.6
Insurance and other payables	187.2	360.3	2.2	(309.9)	239.8
Deferred income tax liabilities	0.1	–	–	15.9	16.0
Current tax liabilities	2.3	9.0	–	(0.1)	11.2
Total liabilities	1,878.0	369.3	274.2	(316.9)	2,204.6
Total equity	284.5	76.1	1,018.3	(766.0)	612.9

5. Segmental reporting continued

Segment assets and liabilities continued

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

Underwriting's investments consist of a property, Conquest House, which is leased to another Group company. This is classified as property and equipment in the Consolidated Balance Sheet.

6. Insurance premiums

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

Notes to the consolidated financial statements continued

7. Other revenue

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

8. Investment and interest income

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

9. Claims incurred

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

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

10. Expenses

	Year ended	
	31 December 2017	31 December 2016
	£m	£m
Profit before taxation is stated after charging:		
Operating lease rentals – buildings	1.8	0.8
Employee benefits (Note 13)	92.3	76.7
Other administration and distribution costs	73.0	68.7
Other expenses	167.1	146.2
Amortisation of intangible assets (Note 18)	24.4	24.9
Depreciation of property and equipment (Note 19)	2.6	2.7
Amortisation and depreciation	27.0	27.6

11. Non-trading items

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

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

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

12. Auditor remuneration

	Year ended	
	31 December 2017 £m	31 December 2016 £m
Fees for audit services		
Group	0.1	0.1
Subsidiaries	0.3	0.2
Total fees for audit services	0.4	0.3
Fees for non-audit services		
Audit related assurance services	0.1	0.1
Other non-audit services	0.1	-
Total fees for non-audit services	0.2	0.1

Notes to the consolidated financial statements continued

13. Employee benefits

Included in other operating expenses were the following employee benefits:

	Year ended	
	31 December 2017	31 December 2016
	£m	£m
Salaries	76.8	66.4
Social security charges	9.1	6.5
Defined contribution pension plan costs	1.6	1.4
Share based payment charge	4.8	2.4
Total employee benefits	92.3	76.7

Staff numbers (including Directors)

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

	Year ended	
	31 December 2017	31 December 2016
	£m	£m
Operational staff	2,383	2,177
Support staff	202	190
Total staff	2,585	2,367

Directors' emoluments

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

Key management personnel

Key management personnel compensation comprised the following:

	Year ended	
	31 December 2017	31 December 2016
	£m	£m
Short term employee benefits	5.4	4.9
Post employment benefits	0.3	0.2
Share based payments	3.2	1.7
Total key management personnel compensation	8.9	6.8

14. Finance costs

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

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

15. Taxation expense

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

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

Factors affecting total taxation expense are:

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

For the year ended 31 December 2017 the UK Corporation tax rate applicable to the Company was 19.25% (2016: 20%).

Within the tax reconciliation, the impact of the different tax rate in Gibraltar is the difference between the UK tax rate and the Gibraltar tax rate applied to the Underwriting business' profits.

Non-taxable income comprises investment income arising within the Underwriting business in Gibraltar.

Expenses and provisions not deductible for tax purposes comprises disallowed expenditure such as business entertainment expenses and certain expenditure deemed capital under tax legislation.

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

Notes to the consolidated financial statements continued

15. Taxation expense continued

The Group's legal entities are subject to routine review and enquiries by tax authorities in the UK and Gibraltar. The Group is in discussion with HMRC regarding aspects of its business model and the allocation of certain elements of its profit between the Group's operating subsidiaries. Management have reviewed current and previous tax filings, and considered the nature of the ongoing discussion, and do not consider it appropriate to provide for any additional tax due. The Group provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities having taken consideration of any ongoing enquiries or reviews and based on guidance from professional firms. The final amounts paid may differ from the amounts provided depending on the ultimate resolution of such matters, and any changes to estimates or amounts payable in respect of prior periods are reported through adjustments relating to prior periods.

16. Earnings per share

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

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

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

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

17. Goodwill

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

Cost	Underwriting £m	Retail £m	Total £m
As at 31 December 2016 and 31 December 2017	374.8	95.2	470.0

The recoverable amount of the two CGUs has been determined based on value in use calculations. These calculations use pre-tax cash flow projections based on the most recent three year financial plans approved by the Directors, discounted by the Group's pre-tax discount rate of 6.9% (2016: 8.0%). The Directors determine financial budgets based on past performance and their expectations of market and business development.

Cash flows beyond the three year plan period are extrapolated using growth rates declining to a terminal rate of 2.0%. As the recoverable amount of each CGU is significantly higher than the cumulative total of allocated goodwill and the carrying value of the CGU's assets, the allocated goodwill is not deemed to be impaired.

18. Intangible assets

	Customer relationships £m	Brands £m	Software £m	Work in progress £m	Total £m
Cost					
As at 1 January 2016	64.0	13.0	57.4	20.2	154.6
Additions	-	-	0.1	19.2	19.3
Transfers	-	-	0.2	(0.2)	-
As at 31 December 2016	64.0	13.0	57.7	39.2	173.9
Accumulated amortisation					
As at 1 January 2016	25.4	3.2	23.2	-	51.8
Amortisation for the year	12.8	1.6	10.5	-	24.9
As at 31 December 2016	38.2	4.8	33.7	-	76.7
Net book value as at 31 December 2016	25.8	8.2	24.0	39.2	97.2
Cost					
As at 1 January 2017	64.0	13.0	57.7	39.2	173.9
Additions	-	-	0.8	13.8	14.6
Transfers	-	-	1.0	(1.0)	-
As at 31 December 2017	64.0	13.0	59.5	52.0	188.5
Accumulated amortisation					
As at 1 January 2017	38.2	4.8	33.7	-	76.7
Amortisation for the year	12.8	1.6	10.0	-	24.4
As at 31 December 2017	51.0	6.4	43.7	-	101.1
Net book value as at 31 December 2017	13.0	6.6	15.8	52.0	87.4

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18. Intangible assets continued

Software held as at 31 December 2017 includes internally generated software carried at £5.4m (2016: £7.4m). The Company is in the process of developing and implementing Guidewire, a state of the art, integrated end to end platform for claims, broking and billing. The claims platform, included within software, has a carrying value of £4.2m (2016: £5.0m) and a remaining useful economic life of 5 years (2016: 6 years); and work in progress includes £49.3m (2016: £38.0m) of development costs for the broking and billing platform.

19. Property and equipment

	Property £m	Property and leasehold improvements £m	Computer equipment £m	Fixtures, fittings and equipment £m	Work in progress £m	Total £m
Cost or valuation						
As at 1 January 2016	5.9	3.5	6.0	1.6	-	17.0
Additions	-	0.6	0.6	0.3	0.1	1.6
Revaluations	0.1	-	-	-	-	0.1
Transfers	-	-	0.1	-	(0.1)	-
As at 31 December 2016	6.0	4.1	6.7	1.9	-	18.7
Accumulated depreciation						
As at 1 January 2016	-	0.5	2.1	0.7	-	3.3
Charge for the year	0.1	0.5	1.7	0.4	-	2.7
As at 31 December 2016	0.1	1.0	3.8	1.1	-	6.0
Net book value as at 31 December 2016	5.9	3.1	2.9	0.8	-	12.7
Cost or valuation						
As at 1 January 2017	6.0	4.1	6.7	1.9	-	18.7
Additions	-	2.0	1.8	0.2	0.2	4.2
Revaluations	(0.1)	-	-	-	-	(0.1)
Transfers	-	-	0.1	-	(0.1)	-
Disposals	-	(0.1)	-	(0.1)	-	(0.2)
As at 31 December 2017	5.9	6.0	8.6	2.0	0.1	22.6
Accumulated depreciation						
As at 1 January 2017	0.1	1.0	3.8	1.1	-	6.0
Charge for the year	0.1	0.7	1.5	0.3	-	2.6
Disposals	-	(0.1)	-	(0.1)	-	(0.2)
As at 31 December 2017	0.2	1.6	5.3	1.3	-	8.4
Net book value as at 31 December 2017	5.7	4.4	3.3	0.7	0.1	14.2

Property comprises the freehold buildings at The Old Bank, Cannon Lane, Gibraltar and Conquest House, Bexhill-on-Sea, UK.

During 2017, The Old Bank was valued by management, resulting in a revaluation loss of £0.1m being recognised during 2017. Conquest House was valued by independent valuation experts during 2015, and management's valuation of Conquest House during the year did not result in a change to the carrying value.

If carried at cost, property would be held at £5.2m (2016: £5.2m).

20. Deferred income tax

	As at 1 January 2016 £m	Recognised in retained earnings £m	Recognised in profit or loss £m	31 December 2016 £m
Deferred income tax assets				
Depreciation in excess of capital allowances	0.7	–	0.1	0.8
Insurance provisions	0.2	–	(0.1)	0.1
Deferred acquisition costs	2.4	–	0.5	2.9
Share based payments	0.1	0.1	0.5	0.7
Total deferred income tax assets	3.4	0.1	1.0	4.5
Deferred income tax liabilities				
Intangible assets	12.8	–	(4.1)	8.7
Deferred acquisition costs	3.7	–	0.9	4.6
Insurance provisions	4.0	–	1.1	5.1
Revaluation of property	0.1	–	–	0.1
Total deferred income tax liabilities	20.6	–	(2.1)	18.5
	As at 1 January 2017 £m	Recognised in retained earnings £m	Recognised in profit or loss £m	31 December 2017 £m
Deferred income tax assets				
Depreciation in excess of capital allowances	0.8	–	0.2	1.0
Insurance provisions	0.1	–	–	0.1
Deferred acquisition costs	2.9	–	0.2	3.1
Share based payments	0.7	0.5	1.0	2.2
Claims handling provision	–	–	0.2	0.2
Total deferred income tax assets	4.5	0.5	1.6	6.6
Deferred income tax liabilities				
Intangible assets	8.7	–	(3.9)	4.8
Deferred acquisition costs	4.6	–	1.3	5.9
Insurance provisions	5.1	–	0.1	5.2
Revaluation of property	0.1	–	–	0.1
Total deferred income tax liabilities	18.5	–	(2.5)	16.0

Deferred income tax assets of £1.2m have not been recognised by the Group as at 31 December 2017 in respect of tax losses (2016: £1.2m). These tax losses do not expire under current tax legislation. Deferred income tax assets have not been recognised because it is not probable that future taxable profit will be available against which the Group can utilise these tax losses.

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21. Reinsurance assets and insurance contract liabilities

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

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

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

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

The expected timing of the settlements for the net and gross claims liabilities are shown in Note 25.

Claims development

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

The development is presented for each of the most recent seven accident periods and all historic periods prior to these from incorporation of the Group's underwriter in 2002 as estimated at each reporting date. The table also shows a reconciliation of the gross outstanding claims liabilities, net of salvage and subrogation recoveries, to the gross outstanding claims liabilities in the Consolidated Balance Sheet as at 31 December 2017.

The information is presented on an accident period basis. The fair value acquisition adjustment relates to business combination accounting as a result of the Goldman Sachs investment (described in Note 11).

21. Reinsurance assets and insurance contract liabilities continued**Claims development continued**

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

Notes to the consolidated financial statements continued

21. Reinsurance assets and insurance contract liabilities continued

Claims development continued

The following table shows the development of the outstanding claims liabilities net of both reinsurance assets and salvage and subrogation recoveries, together with a reconciliation of these to the net outstanding claims liabilities as at 31 December 2017.

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

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

22. Deferred acquisition costs

	Year ended	
	31 December 2017 £m	31 December 2016 £m
Deferred acquisition costs brought forward at start of year	24.2	19.9
Additions	68.0	50.5
Recognition of acquisition costs in profit or loss	(61.1)	(46.2)
Deferred acquisition costs carried forward at end of year	31.1	24.2

23. Insurance and other receivables

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

The table below analyses insurance and other receivables between current and overdue and also analyses any provisions held. The current portion comprises balances that are normally settled within 12 months. Overdue amounts comprise all amounts which remain uncollected after the date by which they were contractually due to be paid in full.

	Insurance and other receivables £m	Provision for impairment £m	Net insurance and other receivables £m
As at 31 December 2017			
Current	421.5	(0.7)	420.8
Overdue	7.0	(6.8)	0.2
Total	428.5	(7.5)	421.0
As at 31 December 2016			
Current	357.2	(0.8)	356.4
Overdue	5.1	(5.0)	0.1
Total	362.3	(5.8)	356.5

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

	As at	
	31 December 2017 £m	31 December 2016 £m
Provision for impairment brought forward at start of year	5.8	4.4
Utilised during the year	(3.4)	(2.6)
Impairments recognised during the year	5.1	4.0
Total provision for impairment carried forward at end of year	7.5	5.8

24. Cash and cash equivalents

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

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

Notes to the consolidated financial statements continued

25. Financial instruments, capital management and related disclosures

Financial assets and liabilities

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

At amortised cost

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

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

At fair value

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

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

The table below analyses the movement in financial assets carried at fair value:

	Investment funds	Debt securities	Total
	£m	£m	£m
As at 1 January 2016	51.9	264.6	316.5
Net increases to the fair value of assets held recognised in profit or loss	0.9	0.2	1.1
Net increases to the fair value of assets held recognised in other comprehensive income	-	5.7	5.7
Net (disposals)/additions to assets held	(4.3)	84.6	80.3
As at 31 December 2016 and 1 January 2017	48.5	355.1	403.6
Net increases to the fair value of assets held recognised in profit or loss	0.2	0.2	0.4
Net decreases to the fair value of assets held recognised in other comprehensive income	-	(2.0)	(2.0)
Net additions to assets held	17.0	120.6	137.6
As at 31 December 2017	65.7	473.9	539.6

25. Financial instruments, capital management and related disclosures continued

Financial assets and liabilities continued

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

Objectives, policies and procedures for managing financial risks

The Group is exposed to financial risk through its financial assets and liabilities. The most important components of financial risk for the Group are credit risk, market risk and liquidity risk.

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full as they fall due. The Group is exposed to credit risk through reinsurance assets, financial assets and cash and cash equivalents.

The Group manages its exposure to credit risk on high liquidity investments by pursuing a strategy whereby all investments in money market funds have credit ratings of AA or above. The credit ratings of the Group's banks are monitored on a regular basis and, where there is adverse movement, appropriate action would be determined by the Board's Risk Committee.

Investment funds and debt securities are assessed by management to ensure that the level of credit risk is acceptable, credit ratings are sufficiently strong and the investment is in line with the Group's investment policy.

The Standard & Poor's or equivalent credit ratings of the underlying assets within investment funds, debt security counterparty and banks with which the Group has significant credit risk, in relation to its investments in cash and cash equivalents and financial assets at fair value, were as follows:

	Debt securities £m	Investment funds £m	Cash and cash equivalents £m	Total £m
As at 31 December 2017				
AAA	73.4	4.2	94.8	172.4
AA	98.8	7.2	-	106.0
A	178.4	18.9	42.1	239.4
BBB	123.3	12.1	17.7	153.1
Less than BBB	-	10.9	-	10.9
Rating not available	-	12.4	-	12.4
Total	473.9	65.7	154.6	694.2
As at 31 December 2016				
AAA	69.0	6.0	119.9	194.9
AA	75.8	8.9	-	84.7
A	106.2	19.1	37.2	162.5
BBB	104.1	4.9	10.9	119.9
Less than BBB	-	4.8	-	4.8
Rating not available	-	4.8	-	4.8
Total	355.1	48.5	168.0	571.6

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

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

Notes to the consolidated financial statements continued

25. Financial instruments, capital management and related disclosures continued

Objectives, policies and procedures for managing financial risks continued

Credit risk continued

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

The Group's maximum exposure to credit risk at 31 December 2017 is the carrying value of financial assets at fair value and at amortised cost, reinsurance assets and cash and cash equivalents.

The Group's insurance receivables are an aggregation of small receivables and the Group uses multiple reinsurance providers to ensure that there are no significant concentrations of credit risk. Insurance receivables are monitored closely with a view to minimising the collection period of those items. Since other assets such as cash and cash equivalents and financial assets at fair value are well diversified, the Directors believe that the Group does not hold any significant concentrations of risk.

Market risk

The only significant market risk to which the Group is exposed to is interest rate risk.

Interest rate risk is defined by the Group as the impact of unfavourable movements in market interest rates which could adversely affect the values of financial assets and liabilities, or reduce future cash flows arising from them.

Cash and cash equivalents are held in current accounts or in short term money market instruments. These are generally less than 60 days in duration, considerably reducing sensitivity to significant movements in interest rates compared to longer duration assets. The Directors consider that the exposure to interest rate risk of cash and cash equivalents balances is immaterial for the purposes of sensitivity analysis.

The carrying values of the Group's financial assets at fair value are more susceptible to movements in interest rates. Loans and borrowings are also exposed to movements in interest rates, incurring interest at rates pegged to LIBOR. The Group does not use derivatives or similar instruments to mitigate exposure.

A 1% increase in interest rates would have the below impact on profit after tax and equity:

As at		
31 December	2017	2016
£m	£m	£m
Equity	(12.4)	(9.1)
Profit after tax	(1.6)	(1.8)

Liquidity risk

Liquidity risk is the risk that cash may not be available to meet obligations as they fall due. The Group maintains significant holdings in liquid funds to mitigate this risk. The Group makes use of regular forecasts to monitor and control its cash flow and working capital requirements.

Financial liabilities are settled in line with agreed payment terms and managed in accordance with cash availability and inflow expectations. All financial liabilities except loans and borrowings and an amount due to a reinsurer within insurance and other payables (see Note 27) are due within 12 months. Loans and borrowings are due for repayment in 2021.

The assets backing insurance contracts and other short-term liabilities held by the Group are considered to be more liquid than the related liabilities, and the Group is in a net current asset position.

25. Financial instruments, capital management and related disclosures continued

Objectives, policies and procedures for managing financial risks continued

Liquidity risk continued

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

	0-1 year £m	1-2 years £m	Over 2 years £m	Total £m
As at 31 December 2017				
Gross claims liabilities	589.1	345.2	619.9	1,554.2
Less reinsurance assets	(282.0)	(185.0)	(574.8)	(1,041.8)
Net cash outflows	307.1	160.2	45.1	512.4
As at 31 December 2016				
Gross claims liabilities	545.4	293.3	368.1	1,206.8
Less reinsurance assets	(344.8)	(197.1)	(243.4)	(785.3)
Net cash outflows	200.6	96.2	124.7	421.5

The expected contractual undiscounted cash flows of loans and borrowings, including interest payments, assuming LIBOR stays constant, fall due as follows:

	0-1 year £m	1-2 years £m	2-5 years £m	Total £m
As at 31 December 2017				
Term Loan and Revolving Credit Facility	7.5	7.3	286.8	301.6
Total	7.5	7.3	286.8	301.6
As at 31 December 2016				
Term Loan and Revolving Credit Facility	17.1	16.9	282.4	316.4
Total	17.1	16.9	282.4	316.4

Objectives, policies and procedures for managing capital

The Group's capital is made up of total equity of £612.9m (2016: £553.6m) and loans and borrowings of £272.0m (2016: £286.6m). The Group's dividend policy seeks to redistribute excess capital to shareholders, where such capital is surplus and not being used for growth, to meet regulatory requirements, or to reduce borrowing. The Group monitors and reviews the capital position of its two regulated trading subsidiaries, HISL and AICL, which are independently managed and required to comply with their respective external regulatory capital requirements.

AICL's objectives for managing capital are to comply with the Solvency II capital requirements; to safeguard its ability to continue as a going concern; and to provide an adequate return by pricing insurance contracts commensurately with the level of risk. AICL, as an insurance company, is subject to the provisions of the Solvency II regulations set by the European Insurance and Occupational Pensions Authority and implemented by the Gibraltar Financial Services Commission. AICL seeks to maintain a prudent threshold above the Solvency II minimum capital requirement at all times and has maintained its capital above the minimum capital requirement throughout the year.

HISL, as an insurance intermediary in the UK, is also subject to a minimum capital requirement under Financial Conduct Authority rules; it exceeded that minimum capital requirement at all times during the year. HISL regularly reviews and monitors its capital position and seeks to maintain a prudent threshold above the minimum capital requirement at all times.

Notes to the consolidated financial statements continued

26. Loans and borrowings

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

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

The table below reconciles the movement in the Term Loan and Revolving Credit Facility, which represents the Group's liabilities arising from financing.

	As at	
	31 December 2017 £m	31 December 2016 £m
As at 1 January	286.6	295.7
Cash movement		
Repayment of Term Loan and Revolving Credit Facility	(15.0)	(10.0)
Facility amendment fees incurred	(0.5)	–
Non-cash movement		
Amortisation of loans and borrowings	0.9	0.9
As at 31 December	272.0	286.6

27. Insurance and other payables

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

28. Share capital and reserves

Share capital

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

	As at	
	31 December 2017 £m	31 December 2016 £m
Authorised, issued and fully paid up Ordinary Share capital		
657,217,641 Ordinary Shares of 2p (2016: 657,217,641)	13.1	13.1
Total	13.1	13.1

Merger reserve

During 2015, the Company acquired the entire issued share capital of Hastings Insurance Group (Holdings) plc (HIG(H)), the ultimate parent company of AICL and HSL. Both the Company and HIG(H) were under common control before and after the reorganisation and, as a consequence, the Consolidated Financial Statements have been prepared under the principles of predecessor accounting. Under this method, the difference on consolidation between consideration paid and the book value of the underlying net assets acquired on the date of the reorganisation is included within the merger reserve in the Consolidated Financial Statements.

Other reserves

Unrealised fair value movements on available for sale financial assets (Note 25) and property held at revalued amounts (Note 19) are recognised in other comprehensive income and accumulated within other reserves.

Company shares acquired for the purposes of funding the Share Incentive Plan (SIP) are recorded within other reserves. The Group satisfies the share awards in the SIP as described in Note 29 through the acquisition of the Company's Ordinary Shares in the market. During the three year service period these matching shares are held by an employee benefit trust that is consolidated within these Consolidated Financial Statements.

At 31 December 2017, the employee benefit trust held 216,740 shares (2016: 103,801) acquired at a cost of £0.3m (2016: £0.2m).

29. Share based payments

The total charge for the share based payments recognised in the profit and loss during 2017 was £4.8m (2016: £2.4m) with no impact on the balance sheet (2016: £nil).

Admission awards

On 15 October 2015, certain key management personnel were granted share awards conditional upon the Company listing on the London Stock Exchange. The awards were for a fixed value of £5.9m, payable in Ordinary Shares in two tranches, the first on 31 December 2017 and the second on 31 December 2018. The awards were subject to a service condition that the members remain in employment by the Group until vesting date.

The awards are classified as equity settled share based payments and had a fair value of £4.9m at grant date. On 31 December 2017, the first tranche of £ 3.0m vested and was net settled by issue of 468,469 Ordinary Shares of the Company on 16 January 2018.

Long Term Incentive Plan

Certain management personnel are eligible to participate in the Hastings Long Term Incentive Plan (LTIP) giving them an option to acquire shares in the Company at an exercise price of £nil. Vesting is subject to a three year service period and the achievement of certain performance conditions in respect of total shareholder return and adjusted earnings per share over a three year period.

During 2017, 4.3m options were granted, with a fair value of £9.8m (2016: 2.4m options with a fair value of £3.4m).

Notes to the consolidated financial statements continued

29. Share based payments continued

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

	2017 LTIP grant	2016 LTIP grant
Share price at grant date	274p	172p
Exercise price	0p	0p
Volatility	26%	28%
Average comparator volatility	29%	27%
Dividend yield	n/a	n/a
Risk free rate	0.18%	0.6%
Expected life	3 years	3 years

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

The following table details the outstanding number of options under the LTIP:

	Year ended	
	31 December 2017 (million)	31 December 2016 (million)
Number of share options		
Outstanding at 1 January	2.4	-
Granted during the year	4.3	2.4
Exercised during the year	-	-
Forfeited during the year	(0.4)	-
Outstanding at 31 December	6.3	2.4
Exercisable at 31 December	-	-

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 a trust. The total number of awards granted was 2,252,460. 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. At the end of the performance period, two thirds of shares awarded must be held for one year, at the end of which, one third of the total awarded must be held for a further year.

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

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

Share Incentive Plan

The Group runs an employee Share Incentive Plan (SIP) under which employees are entitled to purchase each month, through a trust, shares in the Company worth up to £150. The Group matches employee contributions up to £30 a month through free share awards, subject to a three year service period before the matching shares are awarded. Dividends are paid on shares, including matching shares, held in the trust by means of dividend shares. The fair value of such awards is estimated to be the market value of the awards on grant date.

29. Share based payments continued

Share Incentive Plan continued

As at 31 December 2017, 218,447 matching shares (2016: 103,801) were granted to employees, with an estimated fair value of £0.3m (2016: £0.2m). The average unexpired life of SIP awards is 2.0 years (2016: 2.6 years).

Deferred Bonus

On 7 April 2017, certain key management personnel were awarded 82,234 free shares in the company with a fair value of £0.2m, in lieu of a bonus, to be deferred for three years. These were not subject to performance or service conditions.

30. Financial commitments

The Group is committed to making the following payments in future years for land and buildings under operating leases:

	As at	
	31 December 2017 £m	31 December 2016 £m
Within one year	1.8	2.0
Within two to five years	5.4	5.6
Over five years	2.6	2.6
Total operating lease commitments	9.8	10.2

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

	As at	
	31 December 2017 £m	31 December 2016 £m
IT transaction and support costs		
Within one year	6.2	5.7
Within two to five years	4.8	7.6
IT software development costs		
Within one year	3.0	–
Computer hardware costs		
Within two to five years	0.3	–
Total other financial commitments	14.3	13.3

Notes to the consolidated financial statements continued

31. Subsidiaries

The Company's subsidiaries are as follows:

Subsidiary	Registered office	Class of shares held	% ownership	Principal activity
Hastings Insurance Group (Holdings) plc	a	Ordinary	100%	Holding
Hastings Insurance Group (Investment) plc*	a	Ordinary	100%	Holding
Hastings Insurance Group (Layer Three) Limited*	a	Ordinary	100%	Dormant
Hastings Insurance Group (Layer Two) Limited*	a	Ordinary	100%	Dormant
Hastings Insurance Group (Finance) plc*	a	Ordinary	100%	Holding
Hastings Insurance Group Limited*	a	Ordinary	100%	Holding
Advantage Global Holdings Limited*	b	Ordinary	100%	Holding
Advantage Insurance Company Limited*	c	Ordinary	100%	Underwriting
Conquest House Limited*	d	Ordinary	100%	Leasing of property
Hastings (Holdings) Limited*	d	Ordinary	100%	Holding
Hastings (UK) Limited*	d	Ordinary	100%	Holding
Hastings Insurance Services Limited*	d	Ordinary	100%	Broking
Renew Insurance Services Limited*	d	Ordinary	100%	Dormant
1066 Direct Limited*	d	Ordinary	100%	Dormant
Advantage Insurance Services Limited*	d	Ordinary	100%	Dormant
Hastings Direct Limited*	d	Ordinary	100%	Dormant
Hastings Direct Accident Management Limited*	d	Ordinary	100%	Dormant
People's Choice (Europe) Limited*	d	Ordinary	100%	Dormant

* Held indirectly

The registered offices of the Company's subsidiaries are as follows:

- a) 47 Esplanade, St Helier, Jersey, JE1 0BD
- b) Nemours Chambers, Road Town, Tortola, British Virgin Islands, VG1110
- c) Suite 23, Portland House, Glacis Road, Gibraltar
- d) Conquest House, 32-34 Collington Avenue, Bexhill-on-Sea, East Sussex, TN39 3LW, UK

The Company holds 100% of the voting rights of both its directly and indirectly owned subsidiaries. The Company does not have any other significant holdings.

32. Related party transactions

The Group undertakes transactions with related parties in the normal course of business and all transactions with related parties are made on normal, arm's length, commercial terms.

During the year ended 31 December 2017, the Group entered into the following related party transactions:

- the Group was charged £0.5m in fees by Goldman Sachs Asset Management International, a subsidiary of a company with significant influence (2016: £0.5m). At 31 December 2017, £0.1m was outstanding (2016: £0.1m);
- the Group was charged £0.1m by Eclipse Resources Limited for the provision of key management personnel services (2016: £0.3m). There was no outstanding balance as at 31 December 2017; and
- the Group was charged £0.1m by OUTsurance Shared Services Limited, a subsidiary of a company with significant influence, for the provision of insurance intermediary support services (2016: £nil). There was an outstanding balance of £0.1m as at 31 December 2017.

In addition to the remuneration disclosed in Note 13, during the year key management personnel received a further allocation of interests in Hastings Holdco Limited, a former parent company, under the legacy Management Incentive Plan (MIP) in accordance with the rules of the MIP. The allocation was of previously unallocated interests held by a legacy Employee Benefit Trust. Hastings Holdco Limited and its subsidiary, Hastings Investco Limited, were subsequently liquidated, and the total value of these additional interests, which were satisfied in cash and shares in the Company, was £10.1m.

33. Dividends

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

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

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

Parent Company balance sheet

as at 31 December 2017

	Note	31 December 2017 £m	31 December 2016 £m
Assets			
Investment in subsidiary	5	1,274.3	1,271.0
Deferred income tax assets		0.7	0.3
Other debtors		-	0.7
Receivables		0.2	-
Cash and cash equivalents	6	0.2	0.1
Total assets		1,275.4	1,272.1
Liabilities			
Current liabilities	7	1.1	0.8
Total liabilities		1.1	0.8
Equity			
Share capital	9	13.1	13.1
Share premium	9	172.6	172.6
Retained earnings	9	1,088.6	1,085.6
Total equity		1,274.3	1,271.3
Total equity and liabilities		1,275.4	1,272.1

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

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

Gary Hoffman
Chief Executive Officer
Hastings Group Holdings plc

Company Number: 09635183

Parent Company statement of changes in equity

for the year ended 31 December 2017

	Note	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
As at 1 January 2016		13.1	172.6	1,087.4	1,273.1
Total profit for the year attributable to equity holders		-	-	31.8	31.8
Transactions with equity holders					
Share based payments	8	-	-	2.4	2.4
Tax on share based payments		-	-	0.1	0.1
Dividends paid		-	-	(36.1)	(36.1)
Total transactions with equity holders		-	-	(33.6)	(33.6)
As at 31 December 2016 and 1 January 2017		13.1	172.6	1,085.6	1,271.3
Total profit for the year attributable to equity holders		-	-	68.5	68.5
Transactions with equity holders					
Share based payments	8	-	-	4.7	4.7
Tax on share based payments		-	-	0.1	0.1
Dividends paid		-	-	(70.3)	(70.3)
Total transactions with equity holders		-	-	(65.5)	(65.5)
As at 31 December 2017		13.1	172.6	1,088.6	1,274.3

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

Parent Company statement of cash flows

for the year ended 31 December 2017

	Note	Year ended	
		31 December 2017	31 December 2016
Profit after tax		68.5	31.8
Adjustments for:			
Share based payments	8	1.4	0.7
Taxation expense		(1.2)	(1.1)
Change in other receivables		1.4	0.3
Change in current liabilities		0.3	(2.3)
Net cash flows from operating activities		70.4	29.4
Dividends paid		(70.3)	(36.1)
Net cash flows from financing activities		(70.3)	(36.1)
Net decrease in cash and cash equivalents		0.1	(6.7)
Cash and cash equivalents at beginning of year		0.1	6.8
Cash and cash equivalents outflow for the year		0.1	(6.7)
Cash and cash equivalents at end of year	6	0.2	0.1

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

Notes to the Parent Company financial statements

1. Basis of preparation

Hastings Group Holdings plc (the Company, HGH), was incorporated on 11 June 2015. The principal activity of the Company is that of a holding company and its registered office and principal place of business is at Conquest House, Collington Avenue, Bexhill-on-Sea, TN39 3LW, United Kingdom. The Company's registered number is 09635183.

The Financial Statements comprise the results of the Company for the year ended 31 December 2017 and comparative figures for the year ended 31 December 2016. The Company made a profit for the year ended 31 December 2017 of £68.5m (2016: £31.8m) and has elected not to present a Parent Company Statement of Profit or Loss as permitted by section 408 of the Companies Act 2006.

The Parent Company Financial Statements have been prepared and approved by the Directors in accordance with the Companies Act 2006 and International Financial Reporting Standards as adopted by the EU (IFRS) that are in effect as at 31 December 2017. IFRS comprise standards and interpretations approved by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee.

The accounting policies used in the preparation of these separate Financial Statements are consistent with the accounting policies used in the preparation of the Consolidated Financial Statements of Hastings Group Holdings plc.

Going concern

Having considered the financial performance and financial position of the Company, its cash flows and the dividend capacity of its trading subsidiaries over the next 12 months, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Parent Company Financial Statements.

Basis of measurement

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

The Financial Statements are prepared on the historical cost basis.

Application of IFRS

The accounting policies developed in accordance with the standards effective under IFRS as at 31 December 2017, have been applied consistently to these Financial Statements.

2. Accounting policies

Employee benefits

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

Share based payments

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

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

The expense for employees of the Company is recognised in profit or loss with a corresponding amount recognised within equity. Where shares are awarded to subsidiary employees, this results in an increase in the cost of investment in the subsidiary, with a corresponding amount recognised within equity.

Notes to the Parent Company financial statements continued**2. Accounting policies** continued**Investment in subsidiary**

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

Cash and cash equivalents

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

Financial liabilities

Financial liabilities comprise intercompany payables and other payables. Financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequently, financial liabilities are measured at amortised cost using the effective interest method.

Share capital

Shares are classified as equity when there is no obligation to transfer cash or other financial assets, or to exchange financial assets or liabilities under potentially unfavourable conditions. Incremental costs directly attributable to the issue of equity instruments are recognised as a deduction from share premium to the extent that there is sufficient share premium to do so, net of tax effects.

Dividends

Dividends are recognised directly in equity when approved and payable.

3. Auditor remuneration

For the period ended 31 December 2017, auditor remuneration for audit services in respect of these Financial Statements amounted to £0.1m (2016: £0.1m).

4. Employee benefits

Included in other operating expenses were the following employee benefits:

	Year ended	
	31 December 2017	31 December 2016
Salaries	2.8	2.3
Social security charges	1.2	0.4
Defined contribution pension plan costs	0.1	0.1
Share based payment charge	1.4	0.7
Total employee benefits	5.5	3.5

Directors emoluments are disclosed in the Directors' Remuneration Report.

Key management personnel compensation is as follows:

	Year ended	
	31 December 2017	31 December 2016
Short term employee benefits	2.6	1.7
Post employment benefits	0.1	0.1
Share based payments	1.4	0.7
Total key management personnel compensation	4.1	2.5

During the year, the average number of full-time equivalent support staff employed by the Company was five (2016: four).

5. Investment in subsidiary

	Year ended	
	31 December 2017	31 December 2016
As at 1 January	1,271.0	1,269.3
Share based payment charge	3.3	1.7
As at 31 December	1,274.3	1,271.0

The investment in subsidiary includes £3.3m (2016: £1.7m) relating to equity settled share based payments for certain management personnel employed by subsidiaries indirectly owned through HIG(H) (subsidiary undertakings).

6. Cash and cash equivalents

	As at	
	31 December 2017	31 December 2016
Cash at bank and in hand	0.2	0.1
Total cash and cash equivalents	0.2	0.1

7. Current liabilities

	As at	
	31 December 2017	31 December 2016
Accrued expenses	0.8	0.8
Intercompany payables	0.3	–
Total current liabilities	1.1	0.8

Payables are unsecured, non-interest bearing and are normally settled within 12 months.

8. Share based payments

On 15 October 2015, certain key management personnel were granted share awards conditional upon the Company listing on the London Stock Exchange. The awards were for a fixed value of £5.9m, payable in Ordinary Shares in two tranches, the first on 31 December 2017 and the second on 31 December 2018. The awards were subject to a service condition that the members remain in employment by the Group until vesting date.

The awards are classified as equity settled share based payments and had a fair value of £4.9m. On 31 December 2017, the first tranche of £ 3.0m vested and was net settled by the issue of 468,469 Ordinary Shares of the Company on 16 January 2018.

For the year ended 31 December 2017, share based payments of £1.4m relating to employees of the Company were recognised as employee benefits within profit or loss (2016: £0.7m). Share based payments of £3.3m relating to employees within the subsidiary undertakings, were recognised as an increase in the investment in subsidiary (2016: £1.7m).

Notes to the Parent Company financial statements continued**9. Equity****Share capital**

	As at	
	31 December 2017	31 December 2016
Authorised, issued and fully paid up Ordinary Share capital		
657,217,641 Ordinary Shares of 2p (2016: 657,217,641)	13.1	13.1
Total	13.1	13.1

Retained earnings

The Company's retained earnings of £1,088.6m (2016: £1,085.6m) represent the Company's distributable reserves.

10. Related party transactions

The Company undertakes transactions with related parties in the normal course of business and all transactions with related parties are made on normal arm's length commercial terms.

The Company has a balance payable to Hastings Insurance Services Limited of £0.3m relating to payments made on its behalf (2016: receivable of £0.7m).

During the year, key management personnel received a further allocation of interests in Hastings Holdco Limited, a former parent company, under the legacy Management Incentive Plan (MIP) in accordance with the rules of the MIP. The allocation was of previously unallocated interests held by a legacy Employee Benefit Trust. Hastings Holdco Limited and its subsidiary, Hastings Investco Limited, were subsequently liquidated, and the total value of these additional interests, which were satisfied in cash and shares in the Company, was £5.2m.

11. Dividends

Full details of the dividends declared during the year are included in the Consolidated Financial Statements of Hastings Group Holdings plc above in Note 33.

Reconciliations

Combined operating ratio reconciliation

The following tables reconcile the Group's profit before tax to the net underwriting margin used to calculate the combined operating ratio and its two component measures: expense ratio and loss ratio. The combined operating ratio is the primary indicator used to measure overall performance of the Underwriting business and shows the amount of each premium spent on either indemnity costs (the loss ratio) or underwriting operating expenses (the expense ratio). The combined operating ratio is therefore a measure of underwriting profitability.

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

Retail and other operating expenses are those costs incurred by the Retail business in the provision of broking services, and therefore do not include acquisition costs incurred in the sale of insurance contracts, claims handling costs and insurer service costs, which are recharged to the Underwriting business.

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

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

Reconciliations continued

Free cash reconciliation

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

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

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

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

The HISL regulatory cash requirement is the amount of capital that is required to be held as cash and cash equivalents to meet FCA regulations under the Mortgage and Insurance Prudential Standard (MIPRU) 4 Capital Resources.

Glossary

4Cs

Colleagues, customers, company and community. The Group's cultural approach that shapes decision making processes and performance.

Accident year loss ratio

Accident year loss ratio is defined as net claims incurred in the period divided by net earned premiums.

Calendar year loss ratio

Calendar year loss ratio is the accident year loss ratio adjusted to include the impact of prior year development of claims and PPO reserves.

Claims reserves

The Group's technical claims reserves represent the estimated ultimate cost of its exposure to claims and expenses against business which was previously underwritten.

Co-insurance

An agreement between more than one insurer to underwrite an insurance contract. Each co-insurer receives a pre-determined portion of the benefit and risk from the underwritten contract.

Combined operating ratio

Combined operating ratio is the sum of the calendar year loss ratio and expense ratio.

Expense ratio

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

Group

The combined operations of Hastings Group Holdings plc and its subsidiaries.

Gross earned premiums

Gross written premiums in the current and prior periods recognised over the life of the underlying insurance contracts.

Gross written premiums

Total premiums the Group expects to receive over the life of insurance contracts underwritten by Underwriting. This is before ceding to the Group's reinsurers' their share of premiums and includes the Group's portion of premiums under co-insurance agreements.

LCP

Live customer policies; i.e. the number of active policies.

Net claims incurred

Net claims incurred represents claims expensed in the period less the portion of claims covered by the Group's reinsurers.

Net earned premiums

Net earned premiums represents gross earned premiums after deducting earned premiums ceded to reinsurers.

Net written premiums

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

Ogden rate

The Ogden rate is a discount rate set by the Lord Chancellor and used by UK courts in the calculation of lump sum settlement awards.

PCW

Price comparison websites.

PPOs

Periodic payment orders; these are a type of compensation award, in existence in the UK since 2005, in respect of catastrophic personal injury claims. Instead of paying a claimant a single lump sum, PPOs involve making a series of regular payments to pay for the individual's care costs for the rest of his or her life.

Profit commission

Performance based payments from reinsurers based on contractual performance targets.

Reinsurance

Agreement with a panel of insurers whereby the Group mitigates its risk of losses from claims by transmitting a portion of risk in exchange for a portion of premium. The Group utilises reinsurance on a quota share basis (a percentage share of premiums, claims and expenses) and excess of loss basis (full reinsurance for claims over an agreed value).

Retail

The Group's Retail business, Hastings Insurance Services Limited (HISL), trading as Hastings Direct, based in Bexhill-on-Sea, UK.

Underwriting

The Group's Underwriting business, Advantage Insurance Company Limited (AICL), based in Gibraltar.

Company information

Registered office

Hastings Group Holdings plc
Conquest House
Collington Avenue
Bexhill-on-Sea
East Sussex
TN39 3LW

Auditor

KPMG LLP
15 Canada Square
Canary Wharf
London
E14 5GL

Actuarial Advisor

Willis Towers Watson Limited
Watson House
London Road
Reigate
RH2 9PQ

Bankers

Barclays Bank Plc
One Churchill Place
London
E14 5HP

Joint Corporate Brokers

Barclays Bank Plc
5 The North Colonnade
Canary Wharf
London
E14 4BB

Credit Suisse Securities (Europe) Limited

1 Cabot Square
London
E14 4QJ

Registrar

Link Market Services Ltd
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Shareholder information

Registered office

Conquest House
Collington Avenue
Bexhill-on-Sea
East Sussex
TN39 3LW

Corporate website

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

Financial calendar

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

For further information please visit:
hastingsplc.com

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