Hastings Group Holdings plc

Preliminary results announcement for the year ended 31 December 2019

27 February 2020

Hastings Group Holdings plc (the 'Group', or 'Hastings'), the technology driven insurance provider, today announces its annual results for the year ended 31 December 2019.

Financial highlights

- **Gross written premiums stable at £961.6m** for the year (2018: £958.3m). The Group's underlying average premiums were up 5% with the increase in prices being offset by a change in the risk mix of business.
- **Growth in live customer policies ('LCP') to 2.85 million,** up 5% from last year driven by continued strong retention rates.
- **Further growth in home to 209,000 policies,** a 27% increase year on year, as we continued to enhance the capabilities of the Group's in-house underwriting team and work with third party panel members.
- **Adjusted operating profit[1] of £109.7m** (2018: £190.6m) or £118.1m before the impact of the Ogden rate change (2018: £176.0m before the one off VAT recovery).
- **Profit after tax for the year of £69.7m** (2018: £130.6m).
- **Calendar year loss ratio[2] before the impact of the Ogden rate change of 81.6% (2018: 75.0%), or 82.6% after the impact of the Ogden rate change.** This has been driven by elevated market claims inflation, with increases in repair and third party credit hire costs, and a small number of larger bodily injury losses.
- **Free cash generation[3] of £141.0m** for the year ended 31 December 2019 (2018: £167.7m).
- **Strong solvency position, with our underwriting subsidiary achieving Solvency II coverage ratio of 151%** (2018: 161%), or 156% before deducting the anticipated dividend due to be paid to the Group entity in the first half of 2020.
- **Final dividend proposed for 2019 of 5.5p per share** (2018: 9.0p per share) which, together with the interim dividend of 4.5p per share, equates to a total dividend payout ratio of 88.0% of adjusted profit after tax[4] (2018: 58.9%).

Operational highlights

- **Pricing discipline has remained a priority** and the Group has continued to increase rates during 2019 ahead of the market, alongside continued development of enhanced risk selection and pricing capabilities.
- **2020 reinsurance programme** successfully placed with strong demand.
- **Strong customer retention sustained over second half of the year,** and up five percentage points since last year, reflecting the new pricing models and operational initiatives implemented during the year.
- **The Group remains supportive of the ongoing FCA work on general insurance pricing practices.** The Group's agile business model, technology, and focus on price comparison website distribution should leave the Group well positioned to respond to the FCA's final recommendations.
- **Successful transition to the Group's new repair service and mobility providers,** supporting improved customer service and helping to increase our claims customer net promoter score by 6 points.
- **The Group's next generation anti-fraud platform** has been able to detect sophisticated types of policy and claims fraud through the use of social network analytics and new data point connections, with a 96% increase in the number of fraud cases identified during 2019.

- **Continued focus on the Group's digital investments and strategic initiatives** with 550,000 mobile app downloads since its launch, which has contributed towards an 18% reduction in customer service calls per LCP.
- **Continued drive to do business in the right way**; successfully achieving the 30% Club gender diversity target, and continued progress on the Group's ESG agenda.

***Notes*[1 to 4]** *refer to the end of the Financial review section for definitions and explanations.*

Toby van der Meer, Chief Executive Officer, commented:

"As outlined in our January trading statement, the market environment was challenging in 2019, particularly due to elevated claims inflation which has impacted our loss ratio for the year and our adjusted operating profit. We remain focused on pricing discipline and are applying rate ahead of the market. Against this backdrop, I'm really pleased by the progress the Hastings team has made delivering on our strategy during 2019, which positions us well for 2020 and beyond.

"Policy numbers have increased 5% to 2.85 million, with that growth delivered through more of our existing customers choosing to stay with us, leading to a five percentage point improvement in our customer retention rates.

"We have improved our digital proposition, with record levels of digital adoption. Our continued investment in technology, data and modelling techniques has also enhanced our capabilities in pricing and fraud detection, with 96% more cases of fraud identified in 2019 compared to 2018.

"Our colleagues and culture are fundamental to our success. We've achieved the second highest colleague engagement score in the Group's history and met the 30% Club target a year early.

"It's an honour and privilege to lead such a great team and my thanks go to our 3,300 colleagues for what they do every day for our customers and each other."

Outlook statement

2020 trading has started in line with expectations. The Group remains focussed on pricing discipline, targeting a 75-79% loss ratio on written business, supported by advanced risk selection and claims initiatives.

The Board and management are confident in the Group's profitable growth opportunities and its ability to deliver on its vision to become the best and biggest digital insurance provider, with growth in the right market conditions. This will be driven by the Group's competitive advantages of agile pricing, anti-fraud capabilities and digital distribution.

Webcast

The Group will host an update webcast for investors and analysts at 10:30am GMT on 27 February 2020. Details are available on the Group's website www.hastingsplc.com.

Forward looking statements

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

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

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Chair's statement

“We have continued to strengthen Board engagement with our colleagues to ensure that things that matter to them are well understood and taken into consideration when decisions are made”

Colleague engagement

Engagement with our colleagues has long been part of the Group’s 4Cs ways of working which underpins everything we do. Strong two-way interaction between colleagues and senior management has long been a feature of our way of working; this was further endorsed in 2017, during my time as Chief Executive Officer, when the Hastings Colleague Forum (‘HCF’) was formally re-constituted, having been in place since December 2008. The HCF comprises elected colleagues from across the business, proportionately representative of function and location, and is chaired by a duly elected colleague. It enables communication and consultation with colleagues via an informed representative group and forms part of the wider approach to colleague communications, both formal and informal, which support our open and transparent culture. Mindful of its obligations under the revised UK Corporate Governance Code, and taking into account my previous role in the business, the Board has designated me to represent colleagues’ views.

The HCF regularly meets with senior executive management, including Toby van der Meer, Chief Executive Officer, and Carole Jones, Group HR Director. This year Tom Colraine, Senior Independent Director and Chair of the Remuneration and Nomination Committee, joined me at a number of meetings with the HCF; it was helpful for Tom to hear first-hand comments from colleagues. The HCF’s inaugural Annual General Meeting was held in London this summer; an all-day event attended by over 40 colleague representatives.

The meeting provided an opportunity for all colleague representatives to meet their counterparts across the business and to discuss matters with myself, Tom, Toby and Carole. The meeting covered a number of topics relating to business performance, operational matters, benefits, pensions, colleague wellbeing, childcare, diversity and gender based pay. A number of actions were agreed and these will be considered by management and the Board over the coming months. I keep the Board updated on matters discussed and ensure that they are aware of issues and concerns that affect our colleagues.

In addition to interactions with the HCF, the Board is also provided with updates from the Group’s annual colleague engagement survey *YourVoice* and visits the Group’s operating sites to enable all Board members to meet with colleagues directly. Toby, in his role as Chief Executive Officer, also provides regular updates on colleague matters at meetings of the Board. Colleagues are also encouraged to contact me directly should they have any matters that they would like to raise with me outside of formal meetings.

Our colleagues are fundamental to the Group’s success, being the primary point of contact with our customers. It is very important for the Board to hear directly from colleagues, either on any issues and concerns they may have or on the positive things that make Hastings a great place to work. On behalf of the Board I would like to express my thanks to all of our colleagues - it is their knowledge, skills and professionalism that make a difference to our customers and other stakeholders and enables us to continue to grow and enhance the Hastings brand and reputation

Board Composition and UK Corporate Governance Code 2018 (‘the Code’) Compliance

Richard Hoskins joined the Board as Chief Financial Officer in April 2015 and played a significant role guiding the Group through its IPO in October that year. Over the past four years he helped it deliver sustained profitable growth underpinned by disciplined cost management. After over four years, having made the decision to retire, Richard stepped down in May 2019; I would like to thank him for his contribution to the Group during his time. John Worth joined us on 10 May 2019 from MS Amlin where he was Chief Financial Officer; on behalf of the Board I welcome John.

Due to external commitments, Ian Cormack left the Board on 23 May 2019 having served since September 2015. On behalf of the Board I thank him for his contribution as Non-Executive Director and wish him well for the future. The Nomination Committee reviewed the composition of the Board and made a recommendation that no further Director appointments would be made at this time as it considers the composition of the Board remains appropriate in terms of its size, independence, and diversity. The Board continues to have a majority of independent Non-Executive Directors as well as meeting gender diversity targets with at least 33% of the Board being female. I am pleased to say that the Board has significantly increased its gender diversity since its IPO in 2015, when there were no female Directors; the Board now has four female members: 36% of the Board.

The Company recently responded to the Sir John Parker Review survey on the composition of the Board in relation to the number of Directors with Black, Asian and Minority Ethnic (‘BAME’) origins. The proportion of Directors who identify themselves as BAME is 18%. Whilst this figure is slightly lower than the overall composition of our colleague population as a whole, in line with the Company’s stated policy, the Nomination Committee continues to consider director and senior leadership candidates from diverse ethnic and social backgrounds.

I am pleased to report that we are fully compliant with the Code, which came into force from 1 January 2019, with the continued exception of one provision in relation to me not being considered independent upon appointment as Chair of the Board. Further information on Code compliance is contained later in this Report.

Shareholder value – dividends

The Board remains confident in the Group's long term prospects and is pleased to propose a final dividend of 5.5p per share. This dividend will be paid on 29 May 2020 to shareholders on the register on 17 April 2020 with an ex-dividend date of 16 April 2020. Following the interim dividend of 4.5p per share paid in November 2019, this brings the total dividend for the year to 10.0p per share. This final dividend is subject to shareholder approval at the Annual General Meeting to be held on 21 May 2020.

Gary Hoffman

Chair

26 February 2020

Chief Executive Officer's Statement

"Continued investment to build the best and biggest digital insurance provider."

Looking back over 2019, I am immensely proud of the progress that the Hastings team has made in delivery towards our vision and strategy. It's not been an easy market environment, with lower prices and rising claims costs impacting our financial results for 2019. Through a combination of pricing discipline and strategic investments, we remain well positioned for 2020 and beyond, taking advantage of the evolving market, consumer and technology changes. We also continue to monitor and support the regulatory reforms which are likely to conclude during 2020, including the FCA market pricing study and the whiplash reforms.

Throughout the year, we have continued to invest in our digital capabilities to ensure that we become the best and biggest digital insurance provider in the UK. In addition to the launch of new online functionality, our mobile app remains the number one rated UK insurance app, providing customers with an easy way to manage their insurance, as well as keeping us low cost. 38% of customers now make policy adjustments online and via the app and we've seen an 18% reduction in customer service calls per policy, and happier customers! This continued focus on digital will allow us to remain sustainably low cost and give customers the best prices, with great service.

As a result of some great work from our colleagues, new renewal pricing models and the launch of our new custom built technology loyalty tool, our already strong customer retention rates have improved further. This has supported ongoing growth in our customer base and we finished the year with around 140,000 additional customers; a good result in a competitive market environment.

I am also pleased with our progress on claims transformation. During the year we transitioned to our new claims service providers which will enable us to provide an even better customer experience as well as reducing our claims costs through a higher quality and larger network of repair centres, with new mobile repair capability also saving our customers' time and hassle.

There is more to come and we have ambitious plans for 2020 and beyond. Our initiatives aim to further strengthen our existing technology and people capabilities, setting us up to be market leaders in pricing, anti-fraud and digital. This will continue to be underpinned by our focus on remaining low cost and delivering strong returns for shareholders. Consumer switching is set to continue and digital channels, including price comparison websites in particular, continue to grow at the expense of more traditional distribution models. All of this plays to our core strategy of proving good value products in an accessible way for customers, enabled by digital technology.

Fundamental to our success are our colleagues and culture, as framed by our 4Cs approach. Our colleague engagement scores remain high. In fact, in 2019 we achieved the second highest score in the company's history, which is also in the upper quartile when compared to other companies with over 3,000 employees. We have achieved this through further investing in training and career development and actively managing the diversity agenda, including ensuring the progression of women into senior roles. I'm really pleased we hit our 30% Club target a year early and will now focus on this to drive even more leadership diversity in 2020 and beyond. We are also doing more for local charities and the environment, including the removal of single-use plastics. I still can't believe the amount of single use plastic we have been able to remove and am proud of how colleagues have embraced this.

Overall, I am very pleased with what our 3,300 colleagues have achieved and it is an honour and privilege to lead such a great team.

Toby van der Meer

Chief Executive Officer

26 February 2020

Chief Financial Officer's statement

“We’ve maintained our focus on pricing discipline and have increased premiums in a competitive market environment, whilst continuing to invest in our strategic initiatives and digital proposition.”

Conditions in the motor market have remained competitive, with claims inflation exceeding premium inflation across the market. Whilst market premiums started to improve over much of 2019, the average across the year remain lower than in 2018. Furthermore the market is experiencing elevated claims inflation, which is now estimated to be running at 7%-8%, across the industry. This reflects increases in repair and third party credit hire costs, together with a small number of larger bodily injury losses. As a result of the heightened claims experience, the full year loss ratio, before the impact of the Ogden rate change, is 81.6%. This is outside the Group’s full year target range of 75%-79% and, as a consequence, adjusted operating profit for the year has decreased to £109.7m. We will maintain our pricing discipline and continue to write business targeting the 75-79% loss ratio.

The Group has maintained its pricing discipline, with average motor premium prices increasing by 5% during 2019. The impact of this increase on gross written premiums has been offset by a change in the risk mix of business that is aimed at lower risk segments and a reduction in younger drivers. With premium prices increasing ahead of the market, new business competitiveness has reduced. However, this has been more than offset by a sustained improvement in retention rates by 5 percentage points. Together, this means that motor LCP has grown by 3.7% to 2.64 million.

Our strategy with respect to growing our home book has been progressing well with home policies growing 27% year on year to 209,000 thanks to the Group’s embedded in-house home underwriting capability and the support of the third party panel members.

The regulatory environment continues to evolve. We remain supportive of the Financial Conduct Authority’s Market Pricing Study and have provided input and insight throughout the process. The Study is well progressed and conclusions are expected to be available during the first quarter of 2020. We remain well placed to respond to conclusions which aim to further protect consumers.

Similarly, we are supportive of the Whiplash Reforms outlined in the 2018 Civil Liability Act and are working with the Motor Insurance Bureau, which is currently still aiming to introduce the Reforms on behalf of the Ministry of Justice by April 2020.

Furthermore, we don’t expect any material impact on our business following the UK’s withdrawal from the EU and, specifically, the UK Government and Government of Gibraltar have committed to ensure the passporting provisions for financial services firms between Gibraltar and the UK remain in place following the end of the transition period.

The Group remains highly cash generative and has generated retail free cash of £76.0m in the year, the reduction since last year being in line with market pressures and expectations. Net debt has remained stable in 2019 with funding secured by the long term fixed rate Bonds issued in 2018. The Group’s Underwriting business, AICL, is well capitalised and its Solvency II capital ratio of 151% continues to track the target range of 140%-160%.

We are proposing a final dividend of 5.5p per share (2018: 9.0p per share), which, together with the interim dividend, represents an overall payout ratio of 88.0%, ahead of the Group’s payout ratio target range of 65%-75% through the cycle.

John Worth

Chief Financial Officer

26 February 2020

Financial information

Summary consolidated statement of profit or loss

	Year ended					
	31 December 2019			31 December 2018		
	Underlying trading[5]	Non-trading items[5]	Total	Underlying trading[5]	Non-trading items[5]	Total
	£m	£m	£m	£m	£m	£m
Gross written premiums	961.6	-	961.6	958.3	-	958.3
Net earned premiums	439.3	-	439.3	440.7	-	440.7
Other revenue	291.6	-	291.6	308.7	-	308.7
Investment and interest income	10.4	-	10.4	7.0	-	7.0
Net revenue	741.3	-	741.3	756.4	-	756.4
Net claims incurred	(362.7)	-	(362.7)	(330.6)	-	(330.6)
Acquisition costs	(76.4)	-	(76.4)	(74.6)	-	(74.6)
Other expenses	(192.5)	-	(192.5)	(160.6)	-	(160.6)
Adjusted operating profit[1]	109.7			190.6		
Impact of Ogden rate change	8.4			-		
VAT refund in respect of prior periods	-			(14.6)		
Adjusted operating profit before specific items	118.1			176.0		
Amortisation and depreciation	(15.8)	(2.0)	(17.8)	(7.5)	(21.5)	(29.0)
Finance costs	(9.6)	(0.2)	(9.8)	(8.5)	(0.2)	(8.7)
Taxation	(12.8)	0.4	(12.4)	(26.1)	3.8	(22.3)
Profit after tax	71.5	(1.8)	69.7	148.5	(17.9)	130.6

Net revenue is down 2%, to £741.3m, reflecting the earn through of lower average premiums, including the impact of the change in risk mix, and lower reinsurance commission. This is partially offset by the growth in customer numbers. Adjusted operating profit decreased by 42% to £109.7m, due to an increase in the calendar year loss ratio, the impact of the Ogden rate change, increased underwriting levies and investment in strategic initiatives, and the recognition of a VAT refund in 2018.

Gross written premiums

	Year ended	
	31 December 2019	31 December 2018
Gross written premiums by product	£m	£m
Private car	924.7	919.5
Van	8.9	13.6
Bike	18.5	18.1
Home	9.5	7.1
Total gross written premiums	961.6	958.3
Total gross earned premiums	965.0	949.9

The Group increased gross written premiums by £3.3m, with the 5.1% growth in LCP partially offset by the 3.3% reduction in average motor written premiums. Underlying premium prices increased 5% during the year, with this increase in prices being offset by a change in the risk mix of business that is aimed at lower risk segments and a reduction in younger drivers. The growth in policy numbers is supported by the continued focus on retention rates. The Group's UK car market share increased to 7.7% from 7.5%.

Financial information

Hastings is an established brand in a market of 32 million cars and 21 million homes. Customers in both of these markets are increasingly using digital channels, primarily PCW, to purchase their insurance. These market dynamics, coupled with the continued programme of investment in digital capabilities, means Hastings is well positioned to drive future growth.

Advantage Insurance Company Limited ('AICL'), the Group's Underwriting business, has continued underwriting home policies and, with the support of the Group's third party home panel insurers who joined in 2018, the Group has increased home LCP for the year by 27%.

Net revenue

	Year ended	
	31 December 2019	**31 December 2018**
Net revenue by type	**£m**	**£m**
Net earned premiums	439.3	440.7
Fees and commission	99.8	101.2
Ancillary product income	54.8	49.6
Premium finance interest	105.6	104.0
Reinsurance commissions	7.7	35.3
Other income	23.7	18.6
Other revenue	291.6	308.7
Investment and interest income	10.4	7.0
Net revenue	741.3	756.4

Net revenue decreased by 2% to £741.3m for the year (31 December 2018: £756.4m) predominantly due to reinsurance commissions having reduced by 78% as a result of a higher loss ratio. Retail income per policy, including fees, ancillaries and premium finance interest, was largely consistent year on year. Investment and interest income increased by 49%.

Financial information

Loss ratio, expense ratio and combined operating ratio

	Year ended	
Combined operating ratio reconciliation	31 December 2019	31 December 2018
Accident year loss ratio before the impact of change in Ogden rate	81.8%	76.1%
Prior year development before the impact of change in Ogden rate	(0.2%)	(1.1%)
Calendar year loss ratio before the impact of change in Ogden rate	81.6%	75.0%
Impact of change in Ogden rate on accident year loss ratio	0.1%	-
Impact of change in Ogden rate on prior year development	0.9%	-
Impact of change in Ogden rate on calendar year loss ratio	1.0%	-
Calendar year loss ratio[2]	82.6%	75.0%
Calendar year loss ratio[2]	82.6%	75.0%
Expense ratio[2]	15.4%	14.4%
Combined operating ratio[2]	98.0%	89.4%

The calendar year loss ratio excluding the impact of the Ogden rate change is 81.6%. The year on year increase in loss ratio is due to market wide claims inflation and the Group's lower earned premiums, as well as lower releases from prior periods. Claims inflation remains elevated and ahead of earned premium inflation, reflecting increases in repair and third party credit hire costs, slightly higher winter frequencies than the prior year, and a small number of larger bodily injury losses, which has resulted in a higher calendar year loss ratio.

The calendar year loss ratio after the impact of the Ogden rate change, which increased claims reserves for current period and previous years, is 82.6%.

The expense ratio increased to 15.4% mainly due to the rise in the rate of Motor Insurers' Bureau underwriting levies as well as investment in strategic initiatives.

Taxation

The tax charge for the year was £12.4m (2018: £22.3m), representing an effective tax rate ('ETR') of 15.1% (2018: 14.6%). The tax charge has reduced as a result of a reduction in profit before tax. The ETR has increased due to lower taxable profits earned by Underwriting, which is taxed in Gibraltar, and higher taxable profits earned by 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 as well as the prevailing tax rates.

Financial information

Summary consolidated balance sheet

	As at	
	31 December 2019 £m	31 December 2018 £m
Assets		
Goodwill	470.0	470.0
Intangible assets	87.7	80.5
Property and equipment	22.6	22.7
Deferred income tax assets	5.6	6.6
Reinsurance assets	1,365.0	1,212.1
Deferred acquisition costs	34.3	34.5
Insurance and other receivables	450.5	452.3
Financial assets at fair value	583.4	558.0
Cash and cash equivalents	160.9	146.0
Total assets	3,180.0	2,982.7
Liabilities		
Loans and borrowings	245.3	244.3
Insurance contract liabilities	2,023.7	1,820.8
Deferred income tax liabilities	8.0	8.5
Current tax liabilities	3.2	14.7
Insurance and other payables	257.7	243.4
Total liabilities	2,537.9	2,331.7
Net assets	642.1	651.0

The Group's net assets decreased from £651.0m to £642.1m as at 31 December 2019. Working capital, insurance contract liabilities and related reinsurance assets have increased as a result of the continued growth of the business and a higher level of claims costs.

Insurance contract liabilities

Total insurance contract liabilities of £2,023.7m at 31 December 2019 (31 December 2018: £1,820.8m) comprise £477.4m (31 December 2018: £480.7m) of unearned premiums, which are deferred and recognised in the Statement of Profit or Loss in subsequent periods, and outstanding claims liabilities of £1,546.3m (31 December 2018: £1,340.1m). Gross outstanding claims liabilities have increased due to the greater exposure from the increase in LCP and the impact of claims inflation.

The Group applies a consistent reserving methodology to calculate an internal actuarial best estimate and an additional risk margin. The Group's reinsurance programme, described below, manages insurance risk and protects against volatile movements typically caused by large bodily injury claims.

Reinsurance contracts

	As at	
Reinsurance contract assets by credit rating	31 December 2019 £m	31 December 2018 £m
AA	1,020.9	848.5
A	344.1	362.4
BBB	-	1.2
Total reinsurance assets	1,365.0	1,212.1

Reinsurance assets, comprising reinsurers' share of outstanding claims liabilities and unearned premiums, increased to £1,365.0m as at 31 December 2019 (31 December 2018: £1,212.1m).

Financial information

The Group uses excess of loss and quota share reinsurance arrangements to limit its exposure to claims. The motor 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. These arrangements reduce the volatility that could otherwise be caused by individual large claims.

The Group's reinsurance programme carefully manages insurance risk by working with a range of high quality, highly regarded and stable reinsurers. The Group has successfully placed its 2020 reinsurance arrangements on largely the same terms as 2019, with an increase in the cost of excess of loss insurance. The Group believes this increase is at the lower end of the range of market increases for 2020.

Cash and net debt

	As at	
	31 December 2019	31 December 2018
	£m	£m
Loans and borrowings	245.3	244.3
Add back transaction costs	4.7	5.7
Gross debt	250.0	250.0
Deduct:		
Retail free cash[3]	(15.7)	(15.7)
Corporate free cash[3]	(1.9)	(3.4)
Free cash[3]	(17.6)	(19.1)
Net debt[6]	232.4	230.9
Adjusted operating profit	109.7	190.6
Net debt leverage multiple	2.1x	1.2x

As at 31 December 2019 the net debt leverage multiple was 2.1x, after the payment of the interim dividend, an increase from 1.2x last year as a result of a lower adjusted operating profit. The Group's net debt remains stable and the Group remains cash generative. The Group remains comfortable with the level and structure of debt which is provided through a long term fixed rate Bond repayable in 2025.

Financial information

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

	Year ended	
	31 December 2019 £m	31 December 2018 £m
Opening net debt	230.9	254.3
Retail free cash generated[3]	(76.0)	(127.7)
AICL dividend received	(65.0)	(40.0)
Group free cash generated	(141.0)	(167.7)
Retail and Corporate taxation paid	18.1	20.5
Capital expenditure	21.6	20.0
Dividends paid	89.1	85.5
Interest, corporate and refinancing costs	13.7	16.1
Discount on issue of 3% Bonds	-	2.2
Closing net debt	232.4	230.9

During the year, the Group generated £141.0m of free cash (31 December 2018: £167.7m) comprising Retail free cash generated of £76.0m and the £65.0m dividend declared and paid by AICL.

Investments

	As at	
Cash and cash equivalents and investments by credit rating	31 December 2019 £m	31 December 2018 £m
AAA and AA	323.3	305.2
A	254.3	227.9
BBB	142.5	147.4
Less than BBB	11.9	12.8
Not rated	12.3	10.7
Total cash and cash equivalents and investments	744.3	704.0

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 2019, the Group's percentage of the total portfolio of investments rated A or equivalent and above was 78% (31 December 2018: 76%). The weighted average credit rating of investments and cash and cash equivalents is A+ (31 December 2018: A+).

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

Financial information

Return on capital employed

	Year ended	
	31 December 2019 £m	**31 December 2018 £m**
Average AICL deployed capital[7]	288.4	293.6
Average HISL deployed capital[7]	52.2	40.7
Average corporate free cash[3]	2.6	4.0
Average capital employed	343.2	338.3
Net income[8]	71.5	148.5
Return on capital employed	20.8%	43.9%

Return on capital employed measures the capital efficiency of the Group and reflects net income over average capital employed. The Group's capital position has increased marginally whilst net income has fallen 52% as a result of the increase in calendar year loss ratio.

Dividends

	Year ended	
Dividend payout ratio	**31 December 2019 £m**	**31 December 2018 £m**
Net income	71.5	148.5
Share based payment expense (including social security charges)	3.5	3.1
Tax on share based payment expense	0.2	(0.4)
Adjusted profit after tax[4]	75.2	151.2
Interim dividend paid	29.8	29.6
Final dividend proposed	36.4	59.5
Total dividends in respect of financial year	66.2	89.1
Dividend payout ratio	88.0%	58.9%

The proposed final dividend for the year ended 31 December 2019 is £36.4m (31 December 2018: £59.5m), a payout of 5.5p per share (31 December 2018: 9.0p per share). The increased dividend payout ratio of 88.0% is above the Group's current target payout ratio of 65% to 75% of adjusted profit after tax.

Dividends are satisfied by the Group's free cash, which is derived from cash generated by Retail, and dividends received from AICL. During the year, the Group generated free cash of £141.0m, representing a 16% decrease from £167.7m last year.

Financial information

Solvency

The table below presents the unaudited Solvency II coverage ratio for AICL, the Group's Underwriting business, on a standard formula basis with undertaking specific parameters applied:

	As at	
	31 December 2019	31 December 2018
Solvency II:		
Own funds (£m)	277.5	270.4
Solvency Capital Requirement (£m)	183.8	168.2
Solvency II coverage ratio	151%	161%

The Solvency II coverage ratio at 31 December 2019 is stated after taking into account the anticipated dividend to be paid by AICL, which is expected to be paid to the Group in April 2020. The Solvency II coverage ratio before deducting this anticipated dividend would have been 156% (2018: 194%).

The Solvency Capital Requirement has increased, and Solvency II coverage ratio decreased, due to the increase in exposures and the increase in the loss ratio, including the impact of the Ogden change.

Solvency II sensitivity analysis

The table below shows the impact on the Group's Solvency II coverage ratio in the event of the following scenarios as at 31 December 2019. These sensitivities cover the two most material risk types, insurance risk and market risk, to the Group.

	Solvency II coverage ratio (%)	Excess own funds £m
Solvency II coverage ratio/ excess own funds (pre-dividend) as at 31 December 2019	156	103.6
Scenario		
Interest risk free rate up 1%	157	102.6
100bps increase in credit spreads[9]	150	92.2
Movement in all currencies by 20%	156	103.5
Accident year loss ratio up 3%	140	74.4
New business volumes up 10%	153	99.2

Notes

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

2 Calendar year loss ratio is a measure of underwriting performance, representing net claims incurred as a percentage of net earned premiums. Expense ratio is a measure of underwriting operational efficiency, representing the Group's share of incurred operational and acquisition expenses over net earned premiums. The combined operating ratio is a measure of the Group's overall underwriting performance and is the sum of the calendar year loss ratio and the expense ratio. See page 47 for a reconciliation of the calendar year loss ratio, expense ratio and combined operating ratio.

3 Group free cash consists of Retail free cash and Corporate free cash. Retail free cash comprises cash held by the Retail business in excess of the regulatory capital required, and excluding cash held on behalf of insurers. Corporate free cash comprises cash held in Group entities which are not subject to FCA or Solvency regulations. See page 48 for reconciliation of cash and cash equivalents to free cash and Group free cash generated.

4 Adjusted profit after tax for the purposes of the dividend payout ratio is profit after tax adjusted to exclude the post-tax impact of non-trading items and share scheme costs.

Financial information

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

6 Net debt represents gross debt, before the deduction of arrangement fees, less Group free cash. Net debt leverage multiple represents the Group's net debt expressed relative to 12 months trailing adjusted operating profit.

7 The deployed capital of HISL and AICL represents respectively the average of HISL's net tangible assets and the average of AICL's net assets during each year.

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

9 Credit spread is defined as the difference between the interest paid on bonds that have a low level of risk and the interest paid on those that have a high level of risk.

Financial information

Consolidated Statement of Profit or Loss

for the year ended 31 December 2019

		Year ended					
		31 December 2019			31 December 2018		
		Underlying trading	Non-trading items[1]	Total	Underlying trading	Non-trading items[1]	Total
	Note	£m	£m	£m	£m	£m	£m
Gross written premiums	6	961.6	-	961.6	958.3	-	958.3
Gross earned premiums	6	965.0	-	965.0	949.9	-	949.9
Earned premiums ceded to reinsurers	6	(525.7)	-	(525.7)	(509.2)	-	(509.2)
Net earned premiums	6	439.3	-	439.3	440.7	-	440.7
Other revenue	7	291.6	-	291.6	308.7	-	308.7
Investment and interest income	8	10.4	-	10.4	7.0	-	7.0
Net revenue		741.3	-	741.3	756.4	-	756.4
Claims incurred	9	(875.1)	-	(875.1)	(774.6)	-	(774.6)
Reinsurers' share of claims incurred	9	512.4	-	512.4	444.0	-	444.0
Net claims incurred	9	(362.7)	-	(362.7)	(330.6)	-	(330.6)
Acquisition costs		(76.4)	-	(76.4)	(74.6)	-	(74.6)
Other expenses	10	(192.5)	-	(192.5)	(160.6)	-	(160.6)
Adjusted operating profit[2]		109.7			190.6		
Amortisation and depreciation	10	(15.8)	(2.0)	(17.8)	(7.5)	(21.5)	(29.0)
Finance costs	12	(9.6)	(0.2)	(9.8)	(8.5)	(0.2)	(8.7)
Profit before tax		84.3	(2.2)	82.1	174.6	(21.7)	152.9
Taxation expense	13	(12.8)	0.4	(12.4)	(26.1)	3.8	(22.3)
Total profit attributable to the equity holders of the parent		71.5	(1.8)	69.7	148.5	(17.9)	130.6
Earnings per share attributable to the equity holders of the parent (expressed in pence per share)							
Basic earnings per share	14			10.6p			19.9p
Diluted earnings per share	14			10.6p			19.8p

All results arose from continuing operations.

[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] 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.

Financial information

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2019

		Year ended	
	Note	31 December 2019 £m	31 December 2018 £m
Total profit attributable to the equity holders of the parent		69.7	130.6
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Fair value gain / (loss) on available for sale investments	19	7.3	(6.8)
Total items that may be subsequently reclassified to profit or loss		7.3	(6.8)
Items that may not be subsequently reclassified to profit or loss			
Revaluation gain / (loss) on property		0.3	(0.4)
Total items that may not be subsequently reclassified to profit or loss		0.3	(0.4)
Total other comprehensive profit / (loss)		7.6	(7.2)
Total comprehensive income attributable to the equity holders of the parent		77.3	123.4

Financial information

Consolidated Balance Sheet

as at 31 December 2019

	Note	31 December 2019 £m	31 December 2018 £m
Assets			
Goodwill		470.0	470.0
Intangible assets		87.7	80.5
Property and equipment		22.6	22.7
Deferred income tax assets		5.6	6.6
Reinsurance assets	16, 19	1,365.0	1,212.1
Deferred acquisition costs		34.3	34.5
Prepayments		8.9	7.6
Insurance and other receivables	17, 19	441.6	444.7
Financial assets at fair value	19	583.4	558.0
Cash and cash equivalents	18, 19	160.9	146.0
Total assets		3,180.0	2,982.7
Liabilities			
Loans and borrowings	19, 20	245.3	244.3
Insurance contract liabilities	16	2,023.7	1,820.8
Deferred income tax liabilities		8.0	8.5
Current tax liabilities		3.2	14.7
Insurance and other payables	19, 21	257.7	243.4
Total liabilities		2,537.9	2,331.7
Equity			
Share capital		13.2	13.2
Share premium		172.6	172.6
Merger reserve		(756.0)	(756.0)
Other reserves		2.3	(5.0)
Retained earnings		1,210.0	1,226.2
Total equity		642.1	651.0
Total equity and liabilities		3,180.0	2,982.7

Financial information

Consolidated Statement of Changes in Equity
for the year ended 31 December 2019

	Note	Share capital £m	Share premium £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
As at 1 January 2018		13.1	172.6	(756.0)	2.5	1,180.7	612.9
Impact of implementing IFRS 15		-	-	-	-	(1.3)	(1.3)
Impact of implementing IFRS 16		-	-	-	-	(0.3)	(0.3)
Tax on opening balance adjustments		-	-	-	-	0.4	0.4
Adjusted as at 1 January 2018		13.1	172.6	(756.0)	2.5	1,179.5	611.7
Total profit attributable to the equity holders of the parent		-	-	-	-	130.6	130.6
Total other comprehensive income		-	-	-	(7.2)	-	(7.2)
Total comprehensive income for the year		-	-	-	(7.2)	130.6	123.4
Transactions with equity holders of the parent							
Share based payments		-	-	-	-	2.1	2.1
Tax on share based payments		-	-	-	-	(0.4)	(0.4)
Acquisition of own shares		-	-	-	(2.2)	-	(2.2)
Issue of shares		0.1	-	-	-	(0.1)	-
Dividends paid	22	-	-	-	-	(85.5)	(85.5)
Capital contribution		-	-	-	1.9	-	1.9
Total transactions with equity holders of the parent		0.1	-	-	(0.3)	(83.9)	(84.1)
As at 31 December 2018 and1 January 2019		13.2	172.6	(756.0)	(5.0)	1,226.2	651.0
Total profit attributable to the equity holders of the parent		-	-	-	-	69.7	69.7
Total other comprehensive income		-	-	-	7.6	-	7.6
Total comprehensive income for the period		-	-	-	7.6	69.7	77.3
Transactions with equity holders of the parent							
Share based payments		-	-	-	-	3.2	3.2
Acquisition of own shares		-	-	-	(0.3)	-	(0.3)
Dividends paid	22	-	-	-	-	(89.1)	(89.1)
Total transactions with equity holders of the parent		-	-	-	(0.3)	(85.9)	(86.2)
As at 31 December 2019		13.2	172.6	(756.0)	2.3	1,210.0	642.1

Financial information

Consolidated Statement of Cash Flows

for the year ended 31 December 2019

	Note	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Profit after tax		69.7	130.6
Adjustments for:			
Depreciation of property and equipment	10	5.8	5.0
Amortisation of intangible assets	10	12.0	24.0
Net fair value (gains)/losses on financial assets recognised in profit or loss	8	(1.7)	1.3
Other interest income	8	(8.7)	(8.3)
Loss on disposal of property and equipment		1.0	1.3
Finance costs	12	9.8	8.7
Taxation expense	13	12.4	22.3
Share based payment charge		3.3	2.1
Change in insurance and other receivables and prepayments		6.8	(30.0)
Change in insurance and other payables		13.4	(6.5)
Change in reinsurance assets		(152.6)	(124.2)
Change in deferred acquisition costs		0.2	(3.0)
Change in insurance contract liabilities		202.4	154.4
Taxation paid		(27.8)	(26.3)
Net cash flows from operating activities		146.0	151.4
Purchase of property and equipment		(3.6)	(3.1)
Acquisition of intangible assets		(18.8)	(17.2)
Interest received		16.4	17.4
Outlays for acquisition of financial assets at fair value		(212.8)	(202.0)
Proceeds from disposal of financial assets at fair value		188.0	166.4
Net cash flows from investing activities		(30.8)	(38.5)
Purchase of own shares		(0.3)	(2.2)
Repayment of lease liabilities		(3.4)	(1.2)
Proceeds from new loans and borrowings	20	-	247.8
Repayment of loans and borrowings	20	-	(275.0)
Interest paid on loans and borrowings		(7.5)	(6.2)
Other interest and refinancing costs paid		-	(1.1)
Capital contribution		-	1.9
Dividends paid	22	(89.1)	(85.5)
Net cash flows from financing activities		(100.3)	(121.5)
Net movement in cash and cash equivalents		14.9	(8.6)
Cash and cash equivalents at beginning of year		146.0	154.6
Net movement in cash and cash equivalents		14.9	(8.6)
Cash and cash equivalents at end of year	18	160.9	146.0

Financial information

Notes

1. Basis of preparation

Hastings Group Holdings plc ('the Company', 'Hastings', or '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 2019 and comparative figures for the year ended 31 December 2018.

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 2019. IFRS comprise standards and interpretations approved by the International Accounting Standards Board ('IASB') and the International Financial Reporting Interpretations Committee.

The financial information set out does not constitute the Company's statutory accounts for the years ended 31 December 2019 or 2018 but is derived from those accounts. Statutory accounts for 2018 have been delivered to the registrar of companies, and those for 2019 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Going concern

The financial performance and position of the Group, its cash flows, liquidity position and borrowing facilities are set out in the primary financial statements and the subsequent notes. Further analysis of the Group's operations, capital management strategy, risk management practices and growth strategy can 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 (eg £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.

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 2019 and 31 December 2018.

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.

Adoption of new IFRS

Annual Improvements to IFRS Standards 2015-2017 Cycle (issued on 12 December 2017)

On 13 March 2019, the EU endorsed the following amendments, which are effective from 1 January 2019:

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: previously held interest in a joint operation
- IAS 12 Income Taxes: income tax consequences of payments on financial instruments classified as equity; and
- IAS 23 Borrowing Cost: borrowing costs eligible for capitalisation

These amendments did not have a material impact on the Group's Consolidated Financial Statements upon adoption on 1 January 2019.

Amendments to IAS 19 Employee Benefits ('IAS 19') – Plan Amendment, Curtailment or Settlement

The amendments require that, when an entity remeasures its net benefit liability or asset after a plan amendment, curtailment or settlement, it uses the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period. The amendments were effective from 1 January 2019, endorsed by the EU on 13 March 2019. The amendments do not have a significant impact on the Group's Consolidated Financial Statements.

Amendments to IAS 28 Investments in Associates and Joint Ventures ('IAS 28') – Long term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies IFRS 9 Financial Instruments to financial instruments in an associate or joint venture to which the equity method is not applied. These include long term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The amendments were endorsed on 8 February, effective from 1 January 2019. These amendments do not have a significant impact on the Group's Consolidated Financial Statements.

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

On 23 October 2018, the EU endorsed IFRIC 23 Uncertainty over Income Tax Treatments which provides additional guidance on the application of IAS 12 Income Taxes. There has been no material impact on the Group's financial statements upon adoption of this guidance on 1 January 2019.

IFRS developments

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

IFRS 17 Insurance Contracts

The IASB issued IFRS 17 Insurance Contracts on 18 May 2017 to replace IFRS 4. 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 effective from 1 January 2021, subject to endorsement. In June 2019, the IASB published the Exposure Draft Amendments to IFRS 17. The Exposure Draft Amendments proposed a one year delay to the date of adoption which, if approved, would delay the effective date to 1 January 2022. Industry feedback on the Exposure draft is currently being considered by the IASB, including a proposal to delay the effective date of IFRS 17 by a further year to 1 January 2023 by EFRAG, and the IASB plans to issue revised IFRS 17 in 2020. Management has taken the proposed deferral of the effective date into consideration and expects to apply IFRS 17 for periods beginning on or after 1 January 2022.

Management is in the process of assessing the changes required to current accounting practice, quantifying the accounting implications of IFRS 17 and preparing pro forma financial statements. This has included updating impact assessments for the changes proposed in the current Exposure Draft Amendments. The Group expects to apply the premium allocation approach to its insurance contracts and principal changes to existing practice are likely to include the discounting of claims liabilities, changes to the presentation of the consolidated statement of profit or loss, increased disclosures on portfolios of contracts and deferral of acquisition costs over subsequent renewal periods.

IFRS 9 Financial Instruments ('IFRS 9')

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 permits entities with a predominance of insurance activities to defer the implementation of IFRS 9 to align with the implementation of IFRS 17 Insurance Contracts are applied. The Group has applied these amendments to IFRS 4 and deferred application of IFRS 9, together with any subsequent amendments, in line with IFRS 17 Insurance Contracts. The Group conducted a high level assessment of the impact of IFRS 9 based on current information and consider that it is likely assets currently categorised as available-for-sale assets will continue to be recognised under fair value through other comprehensive income and movements in financial assets through profit or loss will continue to be recognised through profit or loss. The Group will also recognise an impairment provision on initial recognition of a financial asset, rather than on signs of impairment. This is expected to predominately impact premium finance debtors but is not expected to significantly impact the Group's Consolidated Financial Statements.

Financial information

Amendments to IAS 1 and IAS 8 – Definition of Material

The amendments clarify the definition of material and align the definitions used across IFRS Standards. The IASB issued the amendments on 31 October 2018, the EU endorsed these amendments on 29 November 2019 and they are effective from 1 January 2020. These amendments do not have a significant impact on the Group's Consolidated Financial Statements.

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

The amendments provide guidance to address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate benchmark. The amendments address issues for hedging relationships directly affected by uncertainties arising from the interest rate benchmark reform, including cross-currency interest rate swaps, and provide relief for highly probable and prospective assessments required by IFRS 9 and IAS 39 and retrospective assessments under IAS 39. The IASB issued these amendments on 26 September 2019, which are effective from 1 January 2020. The EU endorsed the amendments on 15 January 2020. Management is currently in the process of assessing the impact of these amendments on the Group's Consolidated Financial Statements.

2. Accounting policies

Revenue recognition

Insurance premiums, reinsurance and profit commission

Premiums related to insurance contracts are recognised as revenue, gross of commissions and net of insurance premium taxes 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 and in accordance with the terms of each reinsurance contract held.

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 contracts with customers

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

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

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

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 an effective interest rate method.

Investment and interest income

Investment and interest income comprises net gains and losses on certain financial assets held at fair value and interest income from financial assets. 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 an 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, claims incurred but not reported ('IBNR') and an allowance for future uncertainty. 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. The Group has settled a small number of claims with a PPO arrangement.

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 peer reviewed quarterly and subject to biannual independent reviews.

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 and subsequent movements in the reserve are recognised in the Consolidated Balance Sheet, through profit or loss.

Salvage and subrogation recoveries

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

Salvage and subrogation recoveries, gross of any amounts which fall under reinsurance contracts held, are included in insurance and other receivables and the corresponding reinsurance amounts arising from reinsurance contracts are included in insurance and other payables. Salvage recoveries are recognised at the amount that can be reasonably recovered from the disposal of the property. Subrogation recoveries 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 underwritten by the Group are recognised in the Consolidated Balance Sheet as deferred acquisition costs.

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

Acquisition costs incurred obtaining customers with an insurance contract underwritten by an external insurer are initially recognised within deferred acquisition costs and are then subsequently charged in the statement of profit or loss at each annual renewal date over the expected life of the customer relationship.

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. The cash and shares held by employee benefit trusts are consolidated within these Consolidated Financial Statements.

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

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 Goldman Sachs investment on 8 January 2014.

3. Judgements in applying accounting policies and critical accounting estimates

The preparation of financial statements in accordance with IFRS requires the Directors to make judgements, estimates 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, estimates and assumptions are based on the Directors' best knowledge of the amounts, events and actions, actual results may differ from these judgements and assumptions.

Judgements

The judgements that have been applied in preparing the Consolidated Financial Statements that could have a significant effect on the amounts recognised are as follows:

Taxation uncertainties

In preparing the Consolidated Financial Statements, judgement is required in assessing the likely outcome, or range of outcomes, of uncertain tax liabilities and contingent liabilities and what could be considered probable or remote, to determine whether assets or liabilities should be recognised under the relevant accounting standards. HMRC continues its enquiry into the attribution of profits for tax purposes in the Group's operating subsidiaries. This enquiry has created potential for uncertainty in the Group's income tax treatment. The Group has considered the requirements of IFRIC 23, which is mandatory for 2019 year ends, including the requirement to consider the likelihood of the tax authorities accepting the basis of the Group's income tax filings. Additional information regarding these judgements is disclosed in Notes 13 and 23.

Critical accounting estimates

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 confidence that the Group is adequately provisioned to meet its future liabilities.

The outstanding claims liability is measured as the value of expected future payments relating to claims incurred as at the reporting date, which consists of claims incurred and reported and claims incurred but not reported. The actuarial best estimate of outstanding claims includes the estimate of expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original estimated liability. In order to reduce the risk of underestimation of these liabilities, a margin is maintained over and above the Group's internal actuarial best estimate of outstanding claims liabilities.

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

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

In addition, the actuarial team estimates the amount in respect of incurred but not reported ('IBNR') claims amounts, relating to those claims which have been incurred but not yet reported to the Group at the reporting period end, and which compensates for any systematic bias in the reserving for known claims. The estimation of 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. Standard actuarial projections have been carried out using chain ladder, Bornhuetter-Ferguson, average cost and loss ratio methods. Judgement has then been applied to select the most appropriate method or combination of methods. Data has been checked against internal and external sources and has also been prepared to fit the purpose. The analysis has been carried out at scheme level (private car, bike, commercial vehicle and home) and the information has been split by claim type (third party injury, third party property damage and accidental damage). The sensitivity to ultimate results has then been addressed by providing a range of possible outcomes.

Financial information

The development of claims from prior periods is set out in Note 16. Given the uncertainty in establishing the outstanding claims liabilities, it is likely that the final outcome will be different from the original liability established.

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.

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;
- changes in the mix of business; and
- the impact of large losses and likelihood of periodic payment orders.

Short tail claims, such as straightforward property damage cases, 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, such as the more complicated bodily injury cases, 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.

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. The Group has settled a small number of claims with a PPO arrangement.

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 and assumptions of mortality and real interest rates over the lifetime of the claimant. Where management assess that a claim will be settled through a lump sum payment, the liability is calculated with reference to the personal injury discount rate (or ‘Ogden rate’).

The Ogden rate is set by the UK Government’s Lord Chancellor and is used by the Courts to calculate lump sum personal injury compensation payments. On 19 March 2019, the Ministry of Justice announced that it was undertaking a review of the Ogden rate. The review concluded on 15 July 2019, with the announcement that the Ogden rate will increase from minus 0.75% to minus 0.25% with effect from 5 August 2019. The announced rate is lower than both the rate at which large bodily injury claims have been settling and the original guidance provided by the Ministry of Justice of between 0% and 1%. The Group has reflected the rate change in its reserving assumption from 0.5% to minus 0.25% in estimating the claims liabilities, the impact of which is disclosed in Note 15.

Reserving sensitivities

The following table sets out the impact on profit after tax and total equity that would result from a 1%, 3% and 5% variance in the estimated cost of settling open outstanding claims, due to either a move in frequency or severity, as at end of the reporting period:

	Year ended 31 December 2019					
Change in reserving assumptions	**1%**	**3%**	**5%**	**(1%)**	**(3%)**	**(5%)**
(Adverse) / favourable impact on profit after tax of % change in repair costs (£m)	(1.1)	(3.3)	(5.5)	1.1	3.3	5.5
(Adverse) / favourable impact on profit after tax of % change in personal injury costs (£m)	(5.8)	(17.4)	(29.0)	5.8	17.4	29.0
(Adverse) / favourable impact on profit after tax of % change in total claim costs (£m)	(6.9)	(20.7)	(34.5)	6.9	20.7	34.5

	Year ended 31 December 2018					
Change in reserving assumptions	**1%**	**3%**	**5%**	**(1%)**	**(3%)**	**(5%)**
(Adverse) / favourable impact on profit after tax of % change in repair costs (£m)	(1.0)	(3.0)	(5.0)	1.0	3.0	5.0
(Adverse) / favourable impact on profit after tax of % change in personal injury costs (£m)	(5.0)	(15.0)	(25.0)	5.0	15.0	25.0
(Adverse) / favourable impact on profit after tax of % change in total claim costs (£m)	(6.0)	(18.0)	(30.0)	6.0	18.0	30.0

Financial information

The above table assumes the loss transfer point for profit commission on quota share contracts has not been reached in any accident year. Once the loss transfer point is reached, the Group's exposure is reduced by 50%.

The following table sets out the impact on profit after tax and total equity that would result from a 1% increase or decrease in the calendar year loss ratio:

	Year ended	
	31 December 2019	**31 December 2018**
Adverse impact of 1% increase in calendar year loss ratio (£m)	8.1	8.1
Favourable impact of 1% decrease in calendar year loss ratio (£m)	(8.1)	(8.1)

The following table sets out the impact on profit after tax and total equity that would result from an increase and decrease of 0.5% in the Ogden rate at the end of the reporting period:

	Year ended	
	31 December 2019	**31 December 2018**
Favourable impact of Ogden rate increase by 0.5% (£m)	5.6	4.1
Adverse impact of Ogden rate decrease by 0.5% (£m)	(5.6)	(4.1)

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 estimation processes.

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. AICL'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.

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 50% quota share arrangements 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 up to a cap of £9.3m liability per event on any individual event between 1 January 2016 and 31 March 2018, in excess of £1.0m up to a cap of £19.3m on any individual loss event from 1 April 2018 to 31 March 2019 and in excess of £2.5m up to a cap of £28.7m on any individual loss event from 1 April 2019 onwards.

The use of reinsurance contracts does not discharge 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 19.

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 19 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.

Financial information

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.

Year ended 31 December 2019	Underwriting £m	Retail £m	Corporate £m	Consolidation adjustments £m	Group £m
Net earned premiums	488.7	-	-	(49.4)	439.3
Other revenue	8.1	330.3	-	(46.8)	291.6
Investment and interest income	10.0	1.1	0.1	(0.8)	10.4
Net revenue	506.8	331.4	0.1	(97.0)	741.3
Net claims incurred	(362.7)	-	-	-	(362.7)
Total expenses	(112.8)	(237.4)	(6.9)	88.2	(268.9)
Adjusted operating profit	31.3	94.0	(6.8)	(8.8)	109.7
Amortisation and depreciation					(17.8)
Finance costs					(9.8)
Profit before tax					82.1

Included within other revenue is £95.3m recognised by the Retail 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.

Year ended 31 December 2018	Underwriting £m	Retail £m	Corporate £m	Consolidation adjustments £m	Group £m
Net earned premiums	490.8	-	-	(50.1)	440.7
Other revenue	36.4	331.6	0.4	(59.7)	308.7
Investment and interest income	6.2	1.3	-	(0.5)	7.0
Net revenue	533.4	332.9	0.4	(110.3)	756.4
Net claims incurred	(330.6)	-	-	-	(330.6)
Total expenses	(130.9)	(208.1)	(7.0)	110.8	(235.2)
Adjusted operating profit	71.9	124.8	(6.6)	0.5	190.6
Amortisation and depreciation					(29.0)
Finance costs					(8.7)
Profit before tax					152.9

Financial information

Included within other revenue is £115.8m recognised by the Retail segment and £0.4m 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.

Segment assets and liabilities

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

	Underwriting	Retail	Corporate	Consolidation adjustments	Group
As at 31 December 2019	£m	£m	£m	£m	£m
Goodwill	-	1.9	-	468.1	470.0
Intangible assets	-	84.4	-	3.3	87.7
Investments in subsidiaries	-	-	1,277.4	(1,277.4)	-
Investments	4.2	-	-	(4.2)	-
Property and equipment	1.1	18.1	0.9	2.5	22.6
Deferred income tax assets	-	-	0.1	5.5	5.6
Reinsurance assets	1,363.2	-	-	1.8	1,365.0
Deferred acquisition costs	32.4	49.0	-	(47.1)	34.3
Prepayments	1.9	8.1	0.1	(1.2)	8.9
Insurance and other receivables	413.8	341.6	2.1	(315.9)	441.6
Financial assets at fair value	583.4	-	-	-	583.4
Cash and cash equivalents	114.7	44.3	1.9	-	160.9
Total assets	2,514.7	547.4	1,282.5	(1,164.6)	3,180.0
Loans and borrowings	-	-	245.3	-	245.3
Insurance contract liabilities	2,044.1	-	-	(20.4)	2,023.7
Deferred income tax liabilities	-	2.5	-	5.5	8.0
Current tax liabilities	-	3.1	-	0.1	3.2
Insurance and other payables	196.3	383.2	3.4	(325.2)	257.7
Total liabilities	2,240.4	388.8	248.7	(340.0)	2,537.9
Total equity	274.3	158.6	1,033.8	(824.6)	642.1

Financial information

As at 31 December 2018	Underwriting £m	Retail £m	Corporate £m	Consolidation adjustments £m	Group £m
Goodwill	-	1.9	-	468.1	470.0
Intangible assets	-	75.2	-	5.3	80.5
Investments in subsidiaries	-	-	1,275.7	(1,275.7)	-
Investments	4.2	-	-	(4.2)	-
Property and equipment	1.2	19.4	-	2.1	22.7
Deferred income tax assets	-	-	0.6	6.0	6.6
Reinsurance assets	1,212.6	-	-	(0.5)	1,212.1
Deferred acquisition costs	30.3	46.8	-	(42.6)	34.5
Prepayments	1.0	7.1	0.1	(0.6)	7.6
Insurance and other receivables	451.2	315.8	(9.3)	(313.0)	444.7
Financial assets at fair value	558.0	-	-	-	558.0
Cash and cash equivalents	86.7	55.9	3.4	-	146.0
Total assets	2,345.2	522.1	1,270.5	(1,155.1)	2,982.7
Loans and borrowings	-	-	244.3	-	244.3
Insurance contract liabilities	1,846.6	-	-	(25.8)	1,820.8
Deferred income tax liabilities	0.1	0.6	-	7.8	8.5
Current tax liabilities	3.2	11.4	-	0.1	14.7
Insurance and other payables	192.6	370.8	2.5	(322.5)	243.4
Total liabilities	2,042.5	382.8	246.8	(340.4)	2,331.7
Total equity	302.7	139.3	1,023.7	(814.7)	651.0

Underwriting's investments consist of a property, Conquest House, located in Bexhill-on-Sea, 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 2019			Year ended 31 December 2018		
	Gross £m	Reinsurers' share £m	Net £m	Gross £m	Reinsurers' share £m	Net £m
Written premiums	961.6	(519.3)	442.3	958.3	(522.8)	435.5
Unearned premiums reserve brought forward at start of the period	480.8	(261.0)	219.8	472.3	(247.5)	224.8
Unearned premiums reserve carried forward at end of the period	(477.4)	254.6	(222.8)	(480.7)	261.1	(219.6)
Total earned premiums	965.0	(525.7)	439.3	949.9	(509.2)	440.7

Financial information

7. Other revenue

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Fees and commission	99.8	101.2
Ancillary product income	54.8	49.6
Premium finance interest	105.6	104.0
Reinsurance commissions	7.7	35.3
Other retail income	23.7	18.6
Total other revenue	291.6	308.7

8. Investment and interest income

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Net fair value gains / (losses) on financial assets at fair value	1.7	(1.3)
Interest income from debt securities	7.8	7.3
Interest income from loans and receivables	0.9	1.0
Total investment and interest income	10.4	7.0

9. Claims incurred

	Year ended 31 December 2019			Year ended 31 December 2018		
	Gross £m	Reinsurers' share £m	Net £m	Gross £m	Reinsurers' share £m	Net £m
Current period	893.2	(533.4)	359.8	789.1	(453.8)	335.3
Prior periods	(18.1)	21.0	2.9	(14.5)	9.8	(4.7)
Total claims incurred	875.1	(512.4)	362.7	774.6	(444.0)	330.6

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 2019 £m	Year ended 31 December 2018 £m
Profit before taxation is stated after charging:		
Employee benefits	101.5	95.6
VAT refund in respect of prior periods	-	(14.6)
Auditor remuneration	0.7	0.6
Other administration and distribution costs	90.3	79.0
Other expenses	192.5	160.6
Amortisation of intangible assets	12.0	24.0
Depreciation of property and equipment	5.8	5.0
Amortisation and depreciation	17.8	29.0

Financial information

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

11. Non-trading items

	Year ended	
	31 December 2019 £m	**31 December 2018 £m**
Non-operational amortisation of intangibles recognised on acquisition	2.0	21.5
Non-trading amortisation	2.0	21.5
Non-cash unwind of fair value adjustments arising on business combination	0.2	0.2
Non-trading finance costs	0.2	0.2
Tax effect of the above non-trading items	(0.4)	(3.8)
Total non-trading items	1.8	17.9

Non-trading items are defined as expenses or earnings, together with the related tax impacts, that are not representative of the underlying activities of the Group. These include Group reorganisation and transaction expenses, and the impact of the Goldman Sachs investment on 8 January 2014. This was accounted for as a business combination, requiring assets and liabilities to be fair valued. The amortisation of intangibles and the unwind of fair value adjustments are the result of these fair value adjustments.

12. Finance costs

	Year ended	
	31 December 2019 £m	**31 December 2018 £m**
Interest on 3% senior bonds due 2025	7.4	4.6
Interest on Revolving Credit Facility	0.7	2.5
Non-cash amortisation of loans and borrowings	1.1	1.0
Interest on lease liabilities	0.4	0.4
Other interest expense	0.2	0.2
Total interest expense	9.8	8.7

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

13. Taxation expense

	Year ended	
	31 December 2019 £m	31 December 2018 £m
Current tax		
Corporation tax on profits for the year	15.6	30.7
Adjustments for prior years	(3.5)	(0.5)
Current taxation expense	12.1	30.2
Deferred tax		
Deferred taxation movement relating to temporary differences	(2.3)	(7.9)
Impact of change in the UK Corporation tax rate	(0.7)	-
Adjustments for prior years	3.3	-
Deferred taxation expense	0.3	(7.9)
Total taxation expense	12.4	22.3

Further details in respect of the Group's taxation expense can be found in Note 23 Contingent Liabilities.

14. 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 2019	31 December 2018
Profit attributable to the equity holders of the parent (£m)	69.7	130.6
Adjusted for non-trading items:		
Non-trading items net of taxation impact (£m)	1.8	17.9
Net income (£m)	71.5	148.5
Basic weighted average number of Ordinary Shares in issue (m)	659.1	656.9
Potential Ordinary Shares and contingently issuable shares (m)	1.0	2.2
Weighted average number of shares adjusted for dilutive potential Ordinary Shares (m)	660.1	659.1
Basic earnings per share	10.6p	19.9p
Non-trading items net of taxation per share	0.2p	2.7p
Adjusted earnings per share	10.8p	22.6p
Diluted earnings per share	10.6p	19.8p
Adjusted diluted earnings per share	10.8p	22.5p

15. Ogden discount rate impact

The personal injury discount rate (or 'Ogden rate') is a rate set by the UK Government's Lord Chancellor that is used by the Courts to calculate lump sum personal injury compensation payments. The rate was set at 2.5% in 2001 and was reduced to minus 0.75% on 27 February 2017. During the year, the Ministry of Justice undertook a review of the Ogden rate and announced on 15 July 2019 that the conclusion of its review was to increase the Ogden rate from minus 0.75% to minus 0.25% with effect from 5 August 2019. The announced rate is lower than both the rate at which large bodily injury claims have been settling and the original guidance provided by the Ministry of Justice of between 0% and 1%. Since the date of the announcement, the Group has reflected the rate change in its reserving assumption from 0.5% to minus 0.25% in estimating the claims liabilities and the impact on the results for the year is shown below:

	Year ended 31 December 2019				
	Underlying trading pre-Ogden rate change	**Ogden discount rate impact**	**Underlying trading**	**Non-trading items**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Gross written premiums	961.6	-	961.6	-	961.6
Gross earned premiums	965.0	-	965.0	-	965.0
Earned premiums ceded to reinsurers	(525.7)	-	(525.7)	-	(525.7)
Net earned premiums	439.3	-	439.3	-	439.3
Other revenue	295.7	(4.1)	291.6	-	291.6
Investment and interest income	10.4	-	10.4	-	10.4
Net revenue	745.4	(4.1)	741.3	-	741.3
Claims incurred	(792.5)	(82.6)	(875.1)	-	(875.1)
Reinsurers' share of claims incurred	434.1	78.3	512.4	-	512.4
Net claims incurred	(358.4)	(4.3)	(362.7)	-	(362.7)
Acquisition costs	(76.4)	-	(76.4)	-	(76.4)
Other expenses	(192.5)	-	(192.5)	-	(192.5)
Adjusted operating profit	118.1	(8.4)	109.7		109.7
Amortisation and depreciation	(15.8)	-	(15.8)	(2.0)	(17.8)
Finance costs	(9.6)	-	(9.6)	(0.2)	(9.8)
Profit before tax	92.7	(8.4)	84.3	(2.2)	82.1
Taxation expense	(13.6)	0.8	(12.8)	0.4	(12.4)
Total profit attributable to the equity holders of the parent	79.1	(7.6)	71.5	(1.8)	69.7

Estimating the claims liabilities required using the lower Ogden rate increased claims incurred by £82.6m as a result of the anticipated increase in the value of expected settlements of large personal injury claims. Of the gross amount, £78.3m is expected to be recovered from our reinsurance partners and has therefore increased the reinsurers' share of claims incurred and reinsurance assets. Net claims incurred increased by £4.3m and this subsequently reduced reinsurance profit commission by £4.1m, resulting in a net reduction in adjusted operating profit and profit before tax of £8.4m.

16. Reinsurance assets and insurance contract liabilities

	As at 31 December 2019			As at 31 December 2018		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	£m	£m	£m	£m	£m	£m
Claims incurred and reported	1,086.1	(737.9)	348.2	1,000.9	(692.0)	308.9
Claims incurred but not reported	460.2	(372.5)	87.7	339.2	(259.0)	80.2
Outstanding claims liabilities	1,546.3	(1,110.4)	435.9	1,340.1	(951.0)	389.1
Unearned premiums reserve	477.4	(254.6)	222.8	480.7	(261.1)	219.6
Total insurance contract liabilities	2,023.7	(1,365.0)	658.7	1,820.8	(1,212.1)	608.7

	As at 31 December 2019			As at 31 December 2018		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	£m	£m	£m	£m	£m	£m
Outstanding claims liabilities brought forward at start of year	1,340.1	(951.0)	389.1	1,193.3	(840.2)	353.1
Claims paid	(689.8)	350.2	(339.6)	(648.0)	329.2	(318.8)
Movement in liabilities	896.0	(509.6)	386.4	794.8	(440.0)	354.8
Outstanding claims liabilities carried forward	1,546.3	(1,110.4)	435.9	1,340.1	(951.0)	389.1
Unearned premiums reserve brought forward at start of year	480.8	(261.1)	219.7	472.3	(247.5)	224.8
Deferral in period	961.6	(519.2)	442.4	958.3	(522.8)	435.5
Release in period	(965.0)	525.7	(439.3)	(949.9)	509.2	(440.7)
Unearned premiums reserve carried forward	477.4	(254.6)	222.8	480.7	(261.1)	219.6
Total insurance contract liabilities	2,023.7	(1,365.0)	658.7	1,820.8	(1,212.1)	608.7

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

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

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 gross and 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 nine accident years 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 2019.

The reduction in the Ogden rate has had a £82.6m impact on gross claims liabilities and a £4.3m impact on net claims liabilities at the end of the current year.

Financial information

	Year ended										
	Prior periods	**31 December 2011**	**31 December 2012**	**31 December 2013**	**31 December 2014**	**31 December 2015**	**31 December 2016**	**31 December 2017**	**31 December 2018**	**31 December 2019**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Development											
At end of current year	768.8	167.0	266.7	320.6	392.7	493.9	668.7	711.7	777.2	893.2	5,460.5
One year earlier	770.0	172.1	267.0	326.4	409.5	496.2	649.8	705.3	789.1	-	4,585.4
Two years earlier	765.7	159.8	257.6	317.1	386.9	500.7	673.4	749.5	-	-	3,810.7
Three years earlier	761.8	163.0	252.6	326.4	384.3	491.0	644.8	-	-	-	3,023.9
Four years earlier	765.2	170.6	243.2	312.0	369.4	451.7	-	-	-	-	2,312.1
Five years earlier	762.8	168.5	247.6	304.5	368.6	-	-	-	-	-	1,852.0
Six years earlier	753.4	177.1	254.0	306.4	-	-	-	-	-	-	1,490.9
Seven years earlier	750.6	174.4	240.4	-	-	-	-	-	-	-	1,165.4
Eight years earlier	740.3	167.2	-	-	-	-	-	-	-	-	907.5
Payments to date	(740.3)	(163.5)	(225.8)	(282.9)	(360.6)	(409.0)	(473.3)	(480.8)	(481.5)	(342.3)	(3,960.0)
Gross outstanding claims liabilities, net of salvage and subrogation recoveries	28.5	3.5	40.9	37.7	32.1	84.9	195.4	230.9	295.7	550.9	1,500.5
Reconciliation to gross outstanding claims liabilities											
Anticipated salvage and subrogation recoveries											45.8
Gross outstanding claims liabilities											1,546.3

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 2019:

	Year ended										
	Prior periods	**31 December 2011**	**31 December 2012**	**31 December 2013**	**31 December 2014**	**31 December 2015**	**31 December 2016**	**31 December 2017**	**31 December 2018**	**31 December 2019**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Development											
At end of current year	639.5	93.1	104.3	125.3	173.8	207.4	263.3	292.0	326.0	359.8	2,584.5
One year earlier	638.3	93.0	104.3	124.9	173.7	208.0	256.9	287.5	335.3	-	2,221.9
Two years earlier	638.3	92.9	104.1	124.7	171.3	204.3	253.2	302.6	-	-	1,891.4
Three years earlier	638.7	93.5	105.4	125.3	169.1	203.4	256.4	-	-	-	1,591.8
Four years earlier	641.1	94.4	104.9	125.2	165.5	200.6	-	-	-	-	1,331.7
Five years earlier	640.9	95.0	108.8	130.8	163.4	-	-	-	-	-	1,138.9
Six years earlier	637.8	97.4	114.6								849.8
Seven years earlier	642.3	98.4									740.7
Payments to date	(635.8)	(93.0)	(104.2)	(124.8)	(168.5)	(196.3)	(227.9)	(232.1)	(229.4)	(159.7)	(2,171.7)
Net outstanding claims liabilities, net of salvage and subrogation recoveries	3.7	0.1	0.1	0.5	5.3	11.1	35.4	59.9	96.6	200.1	412.8
Reconciliation to net outstanding claims liabilities											
Anticipated salvage and subrogation recoveries											45.8
Reinsurers' share of salvage and subrogation recoveries											(22.7)
Net outstanding claims liabilities											435.9

Conditions and trends that have affected the development of the liabilities in the past may or may not occur in the future, and accordingly, conclusions about future results cannot necessarily be derived from the information presented in the tables above.

17. Insurance and other receivables

	As at	
	31 December 2019 £m	31 December 2018 £m
Insurance receivables	331.1	309.8
Salvage and subrogation recoveries	46.6	53.1
Reinsurance receivables	26.1	51.0
Interest receivable	7.7	7.1
Other receivables	30.1	23.7
Total insurance and other receivables	441.6	444.7

18. Cash and cash equivalents

	As at	
	31 December 2019 £m	31 December 2018 £m
Cash at bank and in hand	45.0	55.4
Money market funds	110.7	75.9
Short term deposits	5.2	14.7
Total cash and cash equivalents	160.9	146.0

Cash and cash equivalents include balances of £7.3m (31 December 2018: £10.6m) relating to cash and cash equivalents held on behalf of other insurers on an agency basis.

19. Financial instruments, capital management and related disclosures

a) Financial assets and liabilities

The Group’s financial instruments can be analysed as follows:

At amortised cost

The carrying values of all financial instruments carried at amortised cost are considered to be an approximation of fair value and the table below analyses these by balance sheet classification:

	As at	
	31 December 2019 £m	31 December 2018 £m
Financial assets		
Insurance and other receivables (excluding salvage and subrogation assets)	395.0	391.6
Total financial assets at amortised cost	395.0	391.6
Financial liabilities		
Loans and borrowings	245.3	244.3
Insurance and other payables (excluding salvage and subrogation payables and deferred income)	218.4	204.5
Total financial liabilities at amortised cost	463.7	448.8

Financial information

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 2019			As at 31 December 2018		
	Level 1 £m	**Level 2** £m	**Total** £m	**Level 1** £m	**Level 2** £m	**Total** £m
Fair value through profit or loss						
Investment funds	35.1	10.1	45.2	-	59.0	59.0
Total financial assets at fair value through profit or loss	35.1	10.1	45.2	-	59.0	59.0
Available for sale						
Debt securities	49.6	488.6	538.2	-	499.0	499.0
Total available for sale financial assets	49.6	488.6	538.2	-	499.0	499.0
Total financial assets at fair value	84.7	498.7	583.4	-	558.0	558.0

The table below analyses the movement in financial assets carried at fair value:

	Investment funds £m	**Debt securities** £m	**Total** £m
As at 1 January 2018	65.7	473.9	539.6
Net (decreases)/increases to the fair value of assets held recognised in profit or loss	(1.5)	0.2	(1.3)
Net decreases to the fair value of assets held recognised in other comprehensive income	-	(6.8)	(6.8)
Net (disposals)/additions to assets held	(5.2)	31.7	26.5
As at 31 December 2018 and 1 January 2019	59.0	499.0	558.0
Net increases to the fair value of assets held recognised in profit or loss	1.3	0.4	1.7
Net increases to the fair value of assets held recognised in other comprehensive income	-	7.3	7.3
Net (disposals)/additions to assets held	(15.1)	31.5	16.4
As at 31 December 2019	45.2	538.2	583.4

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.

b) 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

Financial information

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 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	Investment funds	Cash and cash equivalents	Total
	£m	£m	£m	£m
As at 31 December 2019				
AAA	47.7	4.0	112.1	163.8
AA	157.1	2.4	-	159.5
A	198.5	7.0	48.8	254.3
BBB	134.9	7.6	-	142.5
Less than BBB	-	11.9	-	11.9
Not rated	-	12.3	-	12.3
Total	538.2	45.2	160.9	744.3
As at 31 December 2018				
AAA	62.7	6.3	76.1	145.1
AA	149.0	11.1	-	160.1
A	145.5	12.5	69.9	227.9
BBB	140.1	7.3	-	147.4
Less than BBB	1.7	11.1	-	12.8
Not rated	-	10.7	-	10.7
Total	499.0	59.0	146.0	704.0

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

	As at	
	31 December 2019	31 December 2018
	£m	£m
AA	1,020.9	848.5
A	344.1	362.4
BBB	-	1.2
Total reinsurance assets	1,365.0	1,212.1

20. Loans and borrowings

	As at	
	31 December 2019 £m	31 December 2018 £m
3% senior bonds due 2025	250.0	250.0
Arrangement fees and discounts	(4.7)	(5.7)
Total loans and borrowings	245.3	244.3
Non-current	245.3	244.3
Total loans and borrowings	245.3	244.3

Loans and borrowings consist of £250.0m of seven year fixed rate investment grade senior unsecured bonds (the 'senior bonds') rated BBB which were issued on 24 May 2018. The senior bonds have a 3% coupon rate, payable six monthly in arrear. The Revolving Credit Facility ('RCF') has a commitment of £110.0m and the term of the RCF ends in May 2023. At 31 December 2019, the RCF remained undrawn (31 December 2018: nil).

21. Insurance and other payables

	As at	
	31 December 2019 £m	31 December 2018 £m
Amounts owed to reinsurers	109.8	97.5
Reinsurers' share of salvage and subrogation recoveries	23.2	26.3
Insurance premium tax	26.1	27.8
Accrued expenses	52.5	50.3
Deferred income	16.1	12.6
Lease liabilities	10.7	9.8
Other payables	19.3	19.1
Total insurance and other payables	257.7	243.4
Current	248.3	233.0
Non-current	9.4	10.4
Total insurance and other payables	257.7	243.4

22. Dividends

A final dividend in respect of the year ended 31 December 2018 amounting to £59.5m or 9.0p per share was paid on 31 May 2019 (2018: £55.9m).

On 7 August 2019, the Board declared an interim dividend in respect of the year ended 31 December 2019 of 4.5p per share, or £29.8m which was paid on 8 November 2019.

On 26 February 2020, the Board proposed a final dividend in respect of the year ended 31 December 2019 of 5.5p per share, amounting to £36.4m, which equates to a payout ratio of 88.0% (31 December 2018: 58.9%). The final dividend is payable subject to shareholder approval at the following Annual General Meeting.

23. Contingent liabilities

The Group's legal entities are subject to review and enquiries by tax authorities in the UK and Gibraltar. The Group commenced discussion with HMRC in December 2016 regarding aspects of its business model and the allocation of certain elements of its profit between the Group's operating subsidiaries, HISL in the UK and AICL in Gibraltar. During the year, management has engaged in correspondence and meetings with HMRC. Management has reviewed current and previous tax filings, and considered the nature of the ongoing enquiries, and does 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 into consideration 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. In the event that the tax authorities do not ultimately accept the filed tax position, it is possible that the Group will have an additional tax liability. However, the ongoing nature of the enquiries means that it is inherently difficult to predict a range of potential outcomes with certainty. Based on the information received from HMRC to date, management does not believe that it is probable that any additional amounts will ultimately become payable. Further information in respect of the enquiries has therefore not been provided in accordance with IAS 37 on the grounds it is not practicable to do so.

KPIs and Reconciliations

Combined operating ratio reconciliation

The following tables reconcile the Group's acquisition costs and other expenses to the combined costs and operating expenses 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 2019 £m	**31 December 2018 £m**
Reconciliation of Acquisition costs and Other expenses to the Group's share of underwriting operating expenses.		
Acquisition costs	76.4	74.6
Other expenses	192.5	160.6
Less: Retail and other operating expenses	(133.3)	(108.0)
Less: Reinsurers' share of underwriting operating expenses	(67.8)	(63.6)
Group's share of underwriting operating expenses	67.8	63.6
Calculation of loss ratio, expense ratio and combined operating ratio:		
Loss ratio		
Net claims incurred	362.7	330.6
Net earned premiums	439.3	440.7
Loss ratio (%)	82.6%	75.0%
Expense ratio		
Group's share of underwriting operating expenses	67.8	63.6
Net earned premiums	439.3	440.7
Expense ratio (%)	15.4%	14.4%
Combined operating ratio		
Net claims incurred	362.7	330.6
Group's share of underwriting operating expenses	67.8	63.6
Combined claims costs and operating expenses	430.5	394.2
Net earned premiums	439.3	440.7
Combined operating ratio (%)	98.0%	89.4%

Retail and other operating expenses are those costs incurred by the Retail business and Corporate in the provision of broking and administration 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.

Reinsurers' share of underwriting operating expenses represents costs borne by reinsurance partners through commission, direct cost contributions or other profit share arrangements.

Financial information

KPIs and Reconciliations

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 Financial Review, and the increase in cash and cash equivalents to the Retail cash generated during the year ended 31 December 2019.

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

	As at	
Free cash reconciliation	**31 December 2019 £m**	**31 December 2018 £m**
Total cash and cash equivalents	160.9	146.0
Deduct restricted cash:		
Underwriting cash and cash equivalents	114.7	86.7
HISL cash held as agent on behalf of AICL and third party insurers	23.7	34.9
HISL regulatory cash requirement	4.9	5.3
Restricted cash held in regulated entities or on behalf of third parties	143.3	126.9
Closing free cash	17.6	19.1

	Year ended	
Free cash generated reconciliation	**31 December 2019 £m**	**31 December 2018 £m**
Net increase/(decrease) in cash and cash equivalents	14.9	(8.6)
Adjust for: net (increase)/decrease in restricted cash	(16.4)	7.0
Net decrease in free cash	(1.5)	(1.6)
Add back:		
Retail and Corporate taxation paid	18.1	20.5
Capital expenditure	21.6	20.0
Dividends paid	89.1	85.5
Repayment of Revolving Credit Facility	-	275.0
Proceeds from issuance of 3% senior bonds	-	(247.8)
Interest, corporate and refinancing costs	13.7	16.1
Group free cash generated	141.0	167.7
Deduct:		
AICL dividend received	(65.0)	(40.0)
Retail free cash generated	76.0	127.7

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 Threshold Condition 2.4 (TC2.4).

Financial information

KPIs and Reconciliations

Operating profit reconciliation

	Year ended	
	31 December 2019 £m	**31 December 2018 £m**
Underwriting adjusted operating profit	31.3	71.9
Retail adjusted operating profit	94.0	124.8
Net impact of corporate and consolidation adjustments	(15.6)	(6.1)
Adjusted operating profit	109.7	190.6
Underlying amortisation and depreciation	(15.8)	(7.5)
Underlying finance costs	(9.6)	(8.5)
Tax on underlying trading	(12.8)	(26.1)
Net income	71.5	148.5
Non-trading expenses, net of tax	(1.8)	(17.9)
Profit after tax	69.7	130.6

Financial information

Shareholder information

Registered office

Conquest House

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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

16 April 2020	–	Ex-dividend date
17 April 2020	–	Final dividend record date
29 April 2020	–	First quarter trading update
06 May 2020	–	Dividend reinvestment plan election date
21 May 2020	–	Annual General Meeting
29 May 2020	–	Dividend payment date *(subject to shareholder approval of Final dividend at the AGM)*
5 August 2020	–	Interim results announcement