

# 2016 Half Year Results Presentation



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## Our track record of profitable growth continues

- Strong policy growth and premium increases
- Increasing profitability whilst maintaining strong underwriting discipline
- Delivering on our IPO promises

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## Strong HY 2016 results

- Live customer policies up 17% to 2.2m
- Gross written premiums up 28% to £360.6m
- Group operating profit up 20% to £70.8m
- Underpinned by a strong financial position
- An interim dividend of 3.3 pence per share

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## Investing in our future

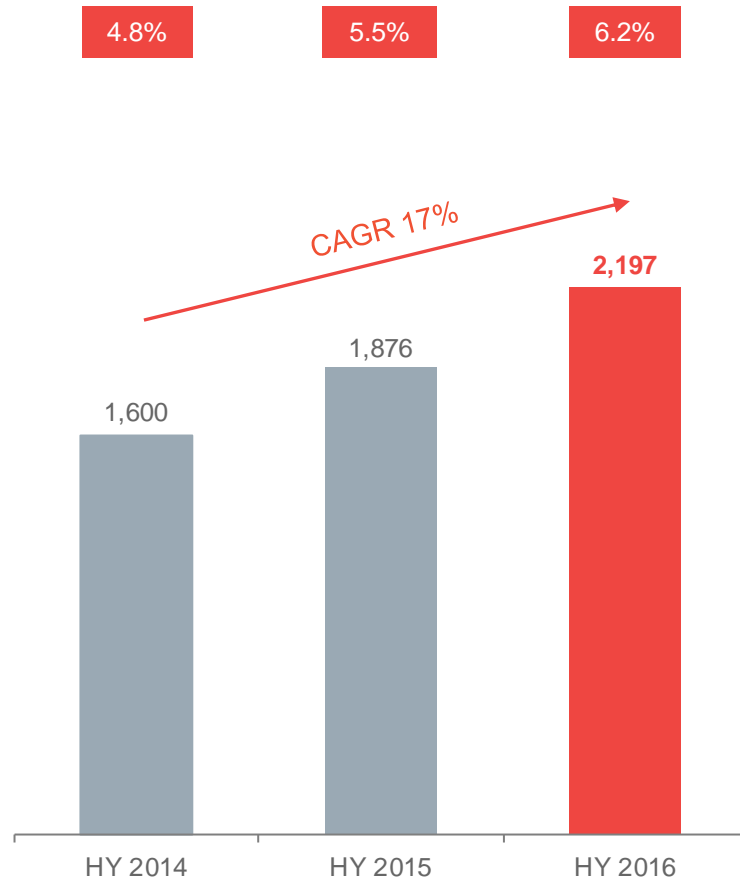
- Guidewire claims module rolled out and embedded
- Commenced phased roll out of Guidewire broking and digital platforms
- Expansion of our site at Leicester

# Delivering on our commitments

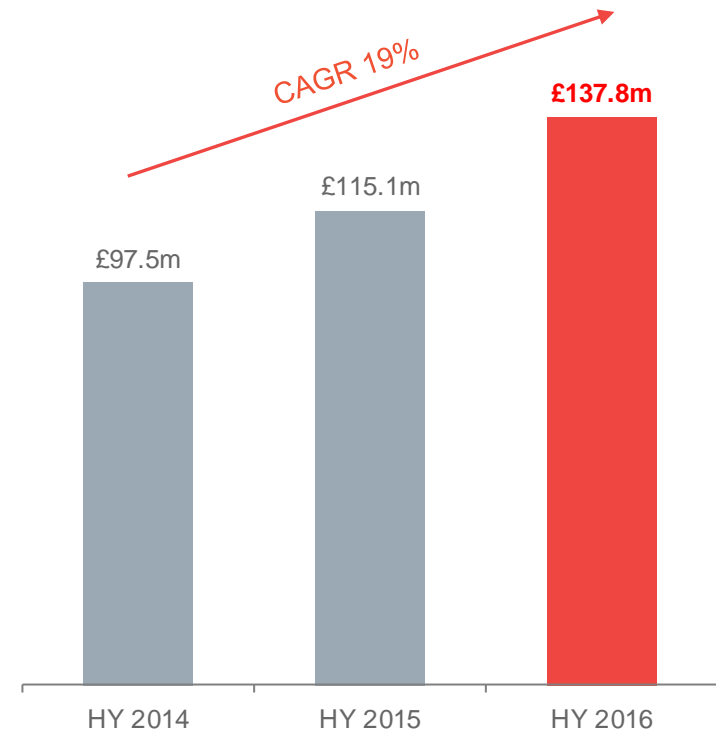
	HY 2016	FY 2015
Calendar year loss ratio of 75% - 79%	74.0%	75.4%
Over 2.5m customers by the end of 2017, but not at the expense of profitability	2.2m	2.0m
Net debt leverage multiple of around 1.5x by the end of 2017	1.9x	2.1x
Dividend pay out ratio of 50% - 60%	✓	56.5%

# Continued profitable growth

Market share<sup>1</sup>/Total customer policies (000s)



Group operating profit (rolling 12 months)



<sup>1</sup>UK private car market share

## Core Motor business



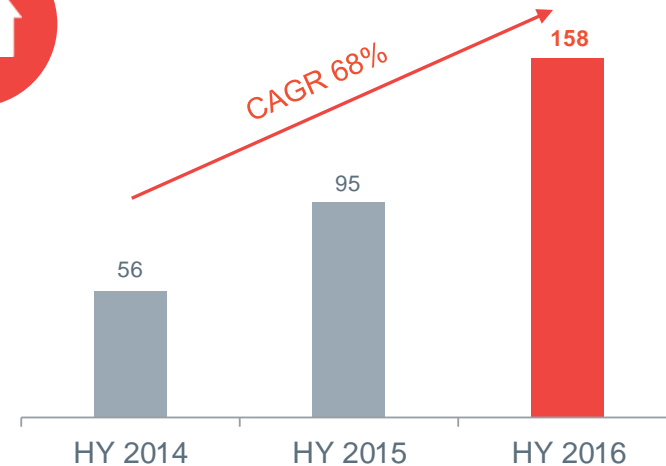
- Continued momentum from:
  - Growing share of PCW Motor new business sales
  - A profitable maturing book
- PCW penetration on Motor increased to 67% (HY 2015: 66%)
- Hastings market share increased to 6.2% (HY 2015: 5.5%)

## Telematics



- 73% increase in Telematics customer policies
- Ready for continued scaling as the market develops
- Pricing benefits across the core motor book from Telematics data enrichment


## Home - customer policies (000s)




- Strategy to grow our Home book benefitting from increased PCW penetration
- Applying our approach to Motor insurance to Home insurance, including increasing sophistication of pricing data and models
- Development progressing on new Home products which will be underwritten by Advantage

## Hastings' new platform for enhanced customer experience, digitalisation and future cost efficiency


### Digital

- 
- Digital self-serve for customers including online payments and mid term adjustments
  - 24/7 availability, mobile friendly portal
  - Enhanced data infrastructure


### Customers

- 
- Modern contact centre platform, easier for colleagues and customers
  - Improved quality of communications
  - Reduced situations in which customers need to call contact centre
  - Reduced service costs

### Product

- 
- Faster path to enhancements and new products
  - Multicar offering (35% of households have >1 car)
  - New Home product

### Claims

- 
- Workflow management for Claims
  - Over 100k claims registered on Guidewire
  - Beginning to realise indemnity benefits e.g. faster third party intervention

# Group financials

Richard Hoskins





Group operating profit:

£70.8m

Continued profitable growth with Group operating profit increasing 20%

Loss ratio:

74.0%

Calendar year loss ratio below the target range of 75% - 79%

Cash generated:

£49.1m

Strong cash generation, supporting dividends, deleveraging and investment in our business

Net debt leverage multiple:

1.9x

Reduced due to ongoing profit growth combined with strong cash generation

Solvency II:

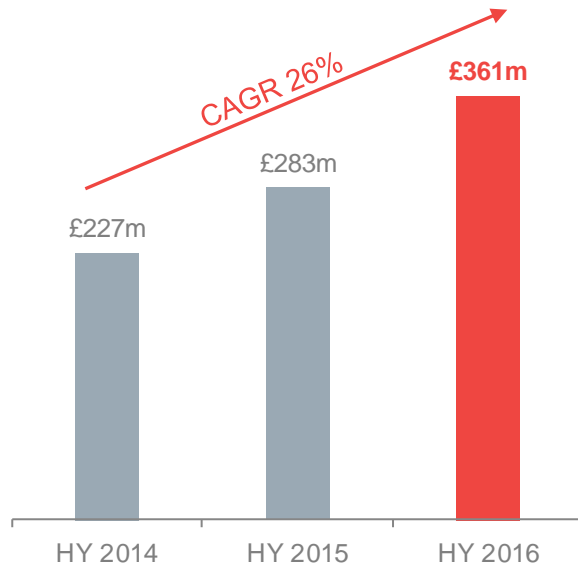
156%

Strong Solvency II coverage ratio under the standard formula

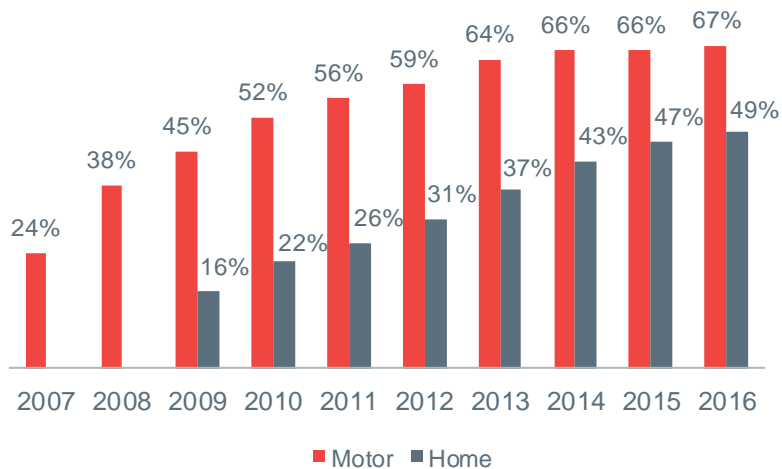
£m	HY 2016	HY 2015	
<b>Gross written premiums</b>	<b>360.6</b>	<b>282.7</b>	<b>28%</b>
<b>Net earned premiums</b>	<b>156.1</b>	<b>118.0</b>	<b>32%</b>
Retail income	112.0	89.3	
Reinsurance and investment income	14.6	15.3	
<b>Net revenue</b>	<b>282.7</b>	<b>222.6</b>	<b>27%</b>
Net insurance claims	(115.5)	(86.8)	
Acquisition costs	(25.2)	(21.0)	
Other operating expenses	(71.2)	(55.6)	
<b>Group operating profit</b>	<b>70.8</b>	<b>59.2</b>	<b>20%</b>
<b>Net income</b>	<b>51.9</b>	<b>33.5</b>	<b>55%</b>
<b>Adjusted EPS (pence)<sup>1</sup></b>	<b>7.9</b>	<b>5.1</b>	<b>55%</b>

- Increasing policy count and premium increases driving top line growth, with GWP up 28%
- NEP growth of 32% reflecting written premium increases earning through
- Strong Retail profit growth
- Operating expense increase reflects policy count growth and investment in the business
- Net income and EPS up 55%, both benefiting from strong Group operating profit growth and lower finance costs

<sup>1</sup> Non IFRS EPS, based on shares in issue as at 30 June 2016

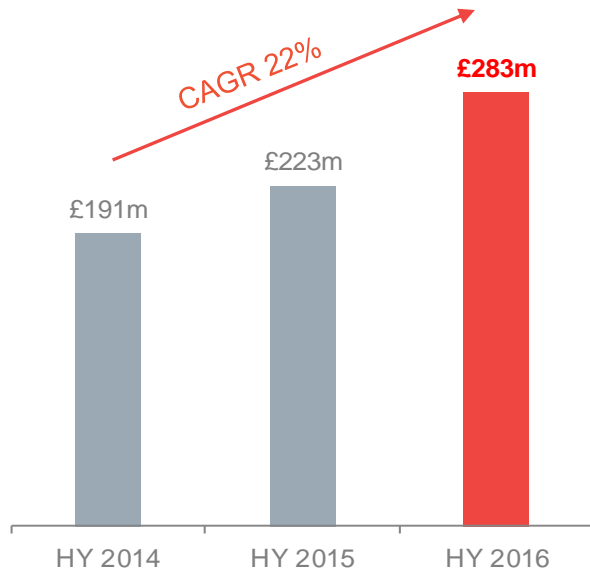


## UK market new business sales through PCWs



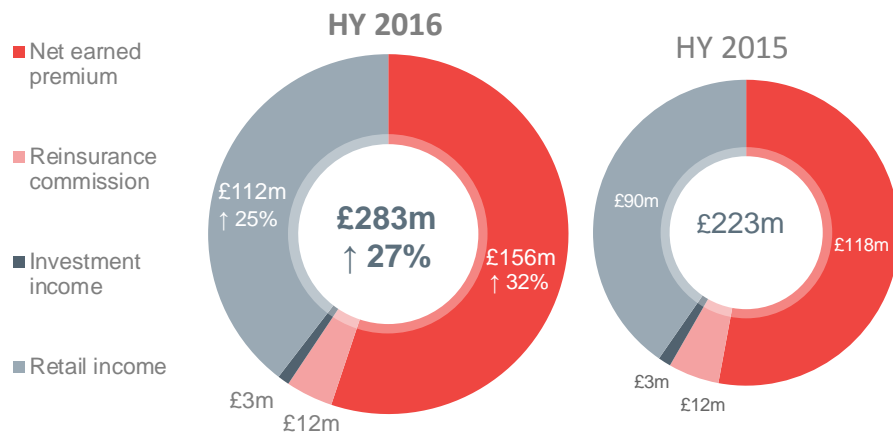
- Gross written premiums increased by 28%, attributable to:
  - Continued growth in customer numbers
  - Average Motor written premium increases of 11%
- Motor PCW market penetration increased to 67% with more customers shopping around
- Hastings share of PCW new business sales continues to increase
- Retention rates remain strong
- Private Car market share grew to 6.2% (HY 2015: 5.5%)
- Continued increases in PCW penetration in the Home market

# Net revenue

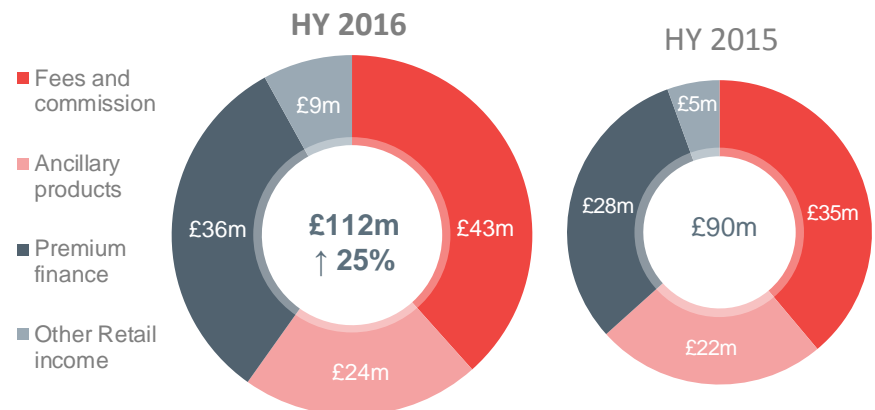


- Net revenue growth of 27%
- Net earned premiums growth of 32%, driven by increased policy count and rate increases, with average Motor earned premium up 11%
- Strong, stable and well diversified Retail revenue, growing by 25%

## Net revenue breakdown

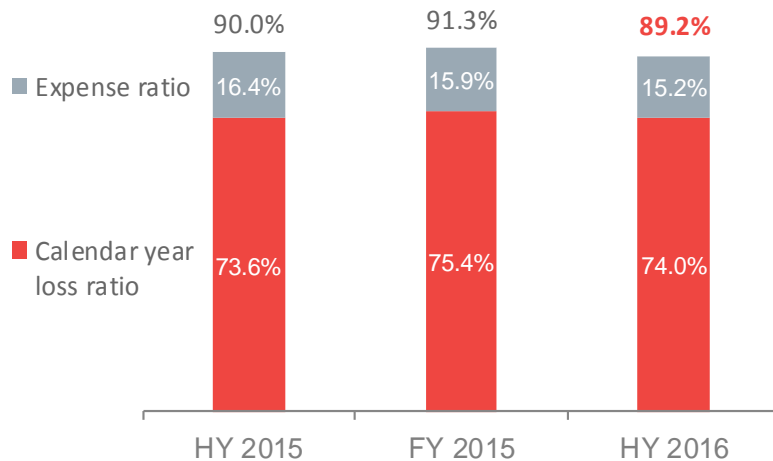


## Retail revenue breakdown



# Combined operating ratio

## Combined operating ratio



## Calendar year loss ratio

	HY 2015	FY 2015	HY 2016
Accident year loss ratio <sup>1</sup>	79.9%	78.4%	74.3%
Prior year development <sup>1</sup>	(6.3%)	(3.0%)	(0.3%)
Calendar year loss ratio	73.6%	75.4%	74.0%

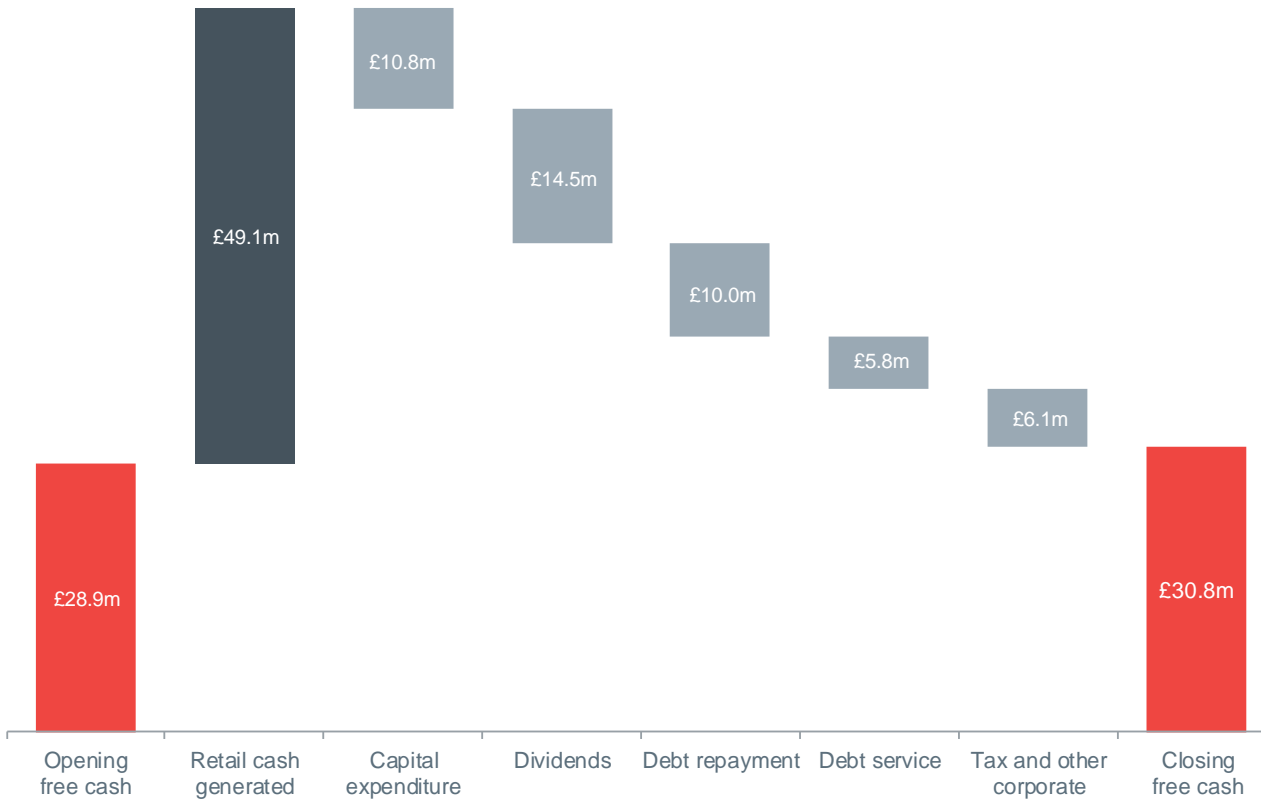
## Premium & claims inflation

	HY 2016	FY 2015
Written premium inflation	11%	10%
Earned premium inflation	11%	4%
Claims inflation	5%	5%

- Combined operating ratio improved to 89.2%
- Accident year loss ratio reduced to 74.3% (2015: 79.9%) due to average premium increasing at a faster rate than claims inflation
- Prior year development impacted by strengthening of large loss reserves
- Expense ratio reduced to 15.2% benefitting from premiums growing at a faster rate than expenses

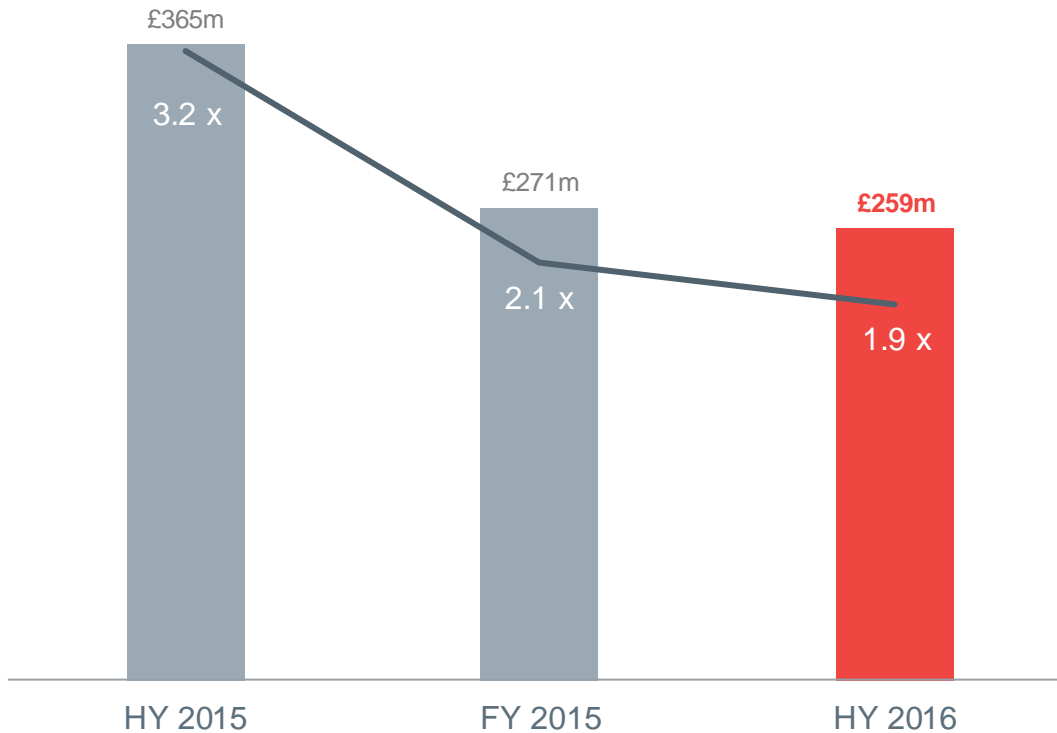
<sup>1</sup> The accident year loss ratio and prior year development have been calculated as detailed in the interim financial statements

# Group cash flow generation



- Strong Retail cash generation up 29%, enabling investment in our business
- Capex reflecting Guidewire investment
- £14.5m final 2015 dividend paid
- Advanced repayment of £10m debt principal
- Lower debt service costs reflecting 2015 refinancing

## Net debt and leverage multiple

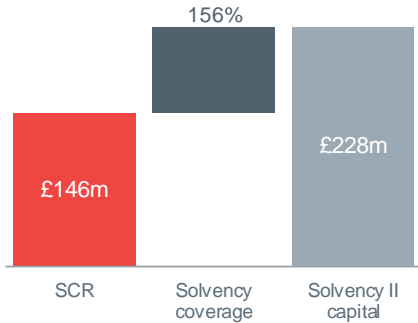


- Strong Group operating profit and cash generation driving reduced net debt leverage multiple
- The Company paid a £14.5m dividend during H1 2016
- Repaid £10m of term loan during H1 2016

## Group operating profit (rolling 12 months):

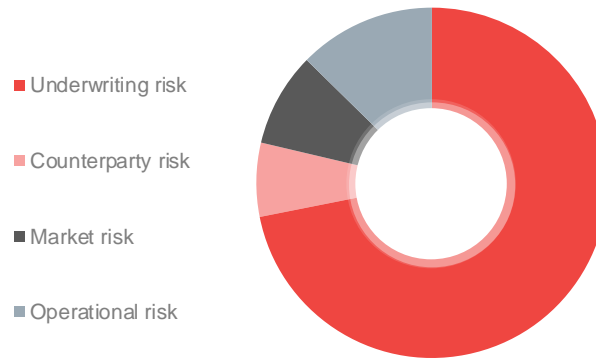
£115.1m      £126.1m      £137.8m

## Solvency II coverage<sup>1</sup>



<sup>1</sup>As at 30 June 2016, unaudited

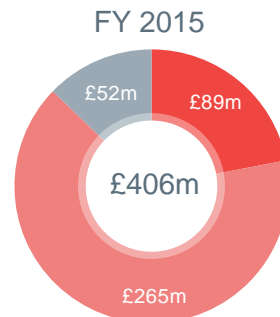
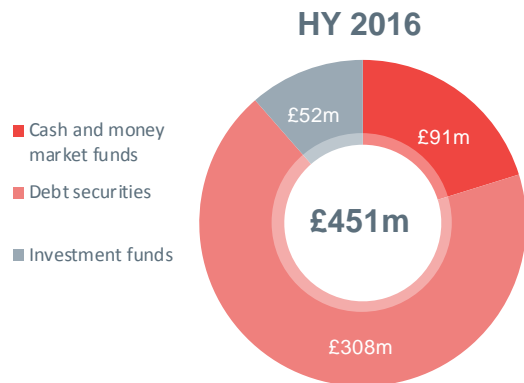
## Split of capital requirement by risk type<sup>2</sup>



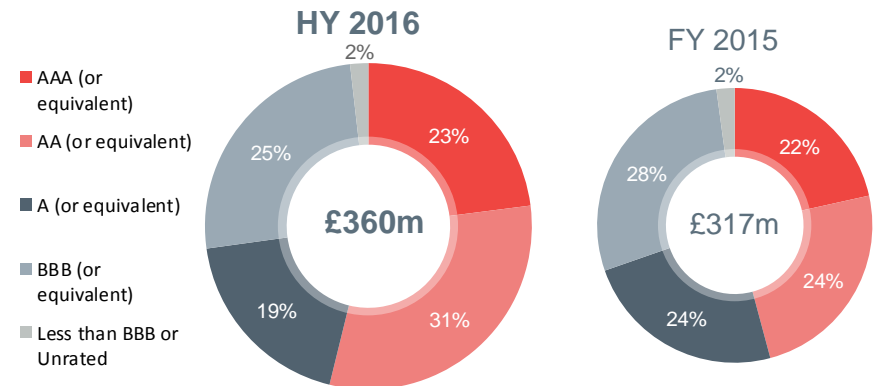
<sup>2</sup>Excluding diversification benefit and loss absorbing capacity of deferred tax

- Solvency II coverage ratio stable at 156% using a standard formula approach
- All own funds comprise Tier 1 capital, with no transitional measures required
- Solvency II coverage ratio is relatively insensitive to changes in assumptions

## Advantage Investment Portfolio



## Advantage debt securities and investment fund ratings





# Summary and outlook

Gary Hoffman



# Our focus for 2016

## Our focus areas



Continued focus on profitable growth benefiting from rate increases applied during 2015

## Progress for HY

Strong half year growth with operating profit increasing 20% and rate increases continuing



Continued expansion of our Home and Telematics business

Grown Home customer policies by 67% and Telematics 73%



Maintaining our underwriting discipline and delivering on our loss ratio target

Strong underwriting discipline delivering a calendar year loss ratio of 74% which is below our target



Enhancing customer service and operational efficiency including through the delivery of Guidewire

Guidewire claims module embedded and broking platform live with a phased roll out during 2016



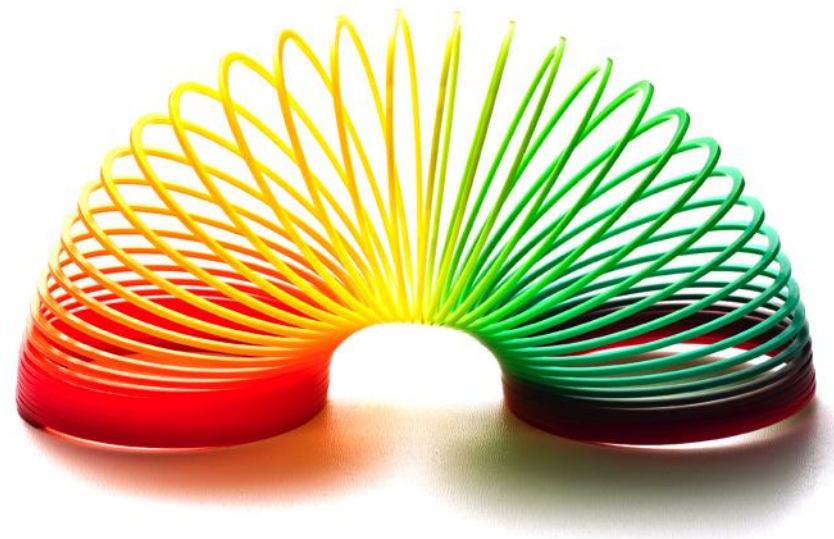
Continued focus on cash generation, de-leveraging and delivering on our IPO targets

All targets remain on track to be delivered

# Q&A



# Appendix



# Group operating profit to profit after tax

£m	HY 2016	HY 2015
<b>Group operating profit</b>	<b>70.8</b>	<b>59.2</b>
Operational amortisation and depreciation	(2.9)	(2.4)
Finance costs	(5.2)	(16.6)
<b>Profit before tax<sup>1</sup></b>	<b>62.7</b>	<b>40.2</b>
Taxation expense	(10.8)	(6.7)
<b>Net income</b>	<b>51.9</b>	<b>33.5</b>
Non-trading costs <sup>2</sup>	(0.1)	(0.3)
Preference share dividends <sup>3</sup>	-	(19.1)
Non-operational amortisation and other fair value adjustments <sup>4</sup>	(11.2)	(11.5)
Tax effect of the above adjusting items	2.1	2.2
<b>Profit after tax</b>	<b>42.7</b>	<b>4.8</b>

<sup>1</sup> Underlying trading basis

<sup>2</sup> IPO and refinancing costs

<sup>3</sup> The preference shares were all converted to equity during 2015

<sup>4</sup> Amortisation of fair value adjustments on intangible assets and claims reserves and recoveries

# Segmental results

## Retail results

£m	HY 2016	HY 2015
Retail Policy Income	142.2	114.9
Investment Income	0.1	0.1
<b>Total Income</b>	<b>142.3</b>	<b>115.0</b>
Salaries & Other Staff Expenses	(33.1)	(25.5)
Acquisition costs	(27.9)	(23.7)
Other Expenses	(29.1)	(25.2)
<b>Total Expenses</b>	<b>(90.1)</b>	<b>(74.4)</b>
<b>Retail Operating Profit</b>	<b>52.2</b>	<b>40.6</b>

## Underwriting results

£m	HY 2016	HY 2015
<b>Net earned premium</b>	<b>167.6</b>	<b>125.7</b>
Other revenue	11.8	12.4
Investment Income	2.8	2.9
Net claims incurred	(115.5)	(86.8)
Other expenses	(49.2)	(37.2)
<b>Underwriting Operating Profit</b>	<b>17.5</b>	<b>17.0</b>

# Segmental reconciliation

£m, HY 2016	Underwriting	Retail	Corporate costs	Earn through Discounts	Eliminate intercompany income	Other	Group
Net earned premiums	167.6	–	–	(11.5)	–	–	156.1
Other revenue	11.8	142.2	–	13.6	(46.6)	2.7	123.7
Investment and interest income	2.8	0.1	–	–	–	–	2.9
<b>Net revenue</b>	<b>182.2</b>	<b>142.3</b>	<b>-</b>	<b>2.1</b>	<b>(46.6)</b>	<b>2.7</b>	<b>282.7</b>
Net claims incurred	(115.5)	–	–	–	–	–	(115.5)
Operating expenses	(49.2)	(90.1)	(2.6)	–	46.6	(1.1)	(96.4)
<b>Operating profit/(loss)</b>	<b>17.5</b>	<b>52.2</b>	<b>(2.6)</b>	<b>2.1</b>	<b>-</b>	<b>1.6</b>	<b>70.8</b>

# Combined operating ratio

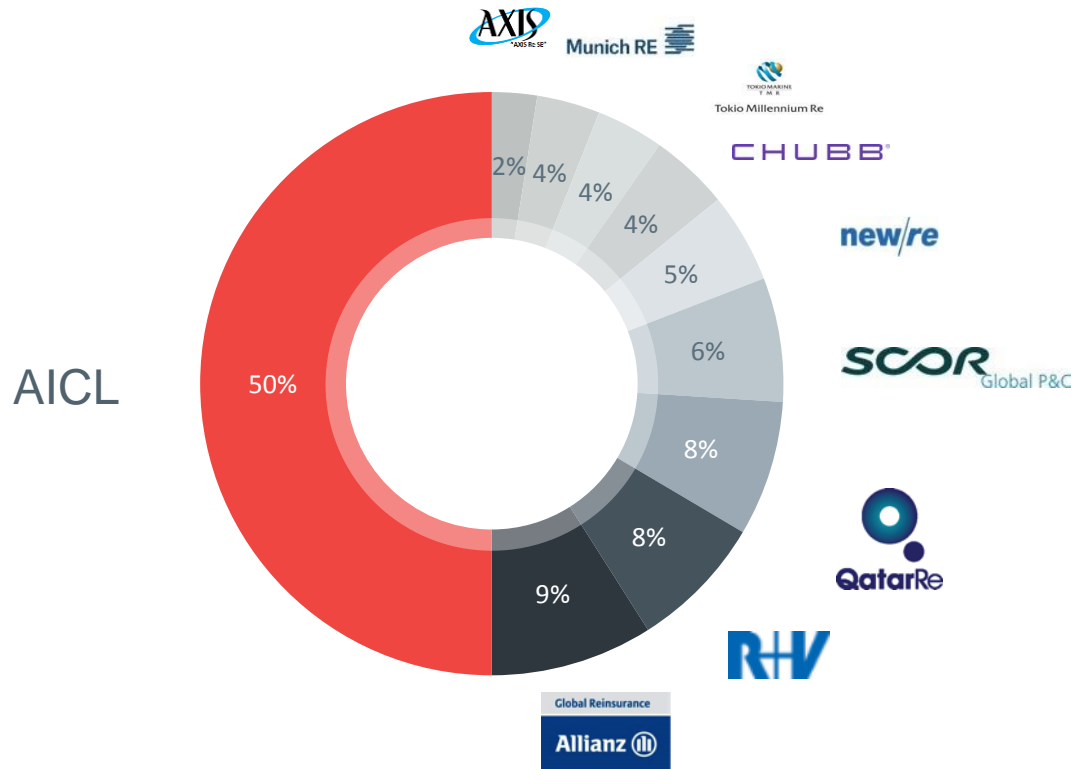
£m	HY 2016	HY 2015	FY 2015
<b>Group net earned premiums</b>	<b>156.1</b>	<b>118.0</b>	<b>255.9</b>
Claims costs	(116.0)	(94.3)	(200.5)
<b>Accident year loss ratio (%)</b>	<b>74.3%</b>	<b>79.9%</b>	<b>78.4%</b>
Prior year development (%)	0.3%	6.3%	3.0%
<b>Calendar year loss ratio (%)</b>	<b>74.0%</b>	<b>73.6%</b>	<b>75.4%</b>
Acquisition costs	(13.0)	(11.6)	(23.2)
Net underwriting expenses	(10.7)	(7.8)	(17.6)
<b>Total expenses</b>	<b>(23.7)</b>	<b>(19.4)</b>	<b>(40.8)</b>
<b>Expense ratio (%)</b>	<b>15.2%</b>	<b>16.4%</b>	<b>15.9%</b>
<b>Group combined ratio (%)</b>	<b>89.2%</b>	<b>90.0%</b>	<b>91.3%</b>



# Group balance sheet

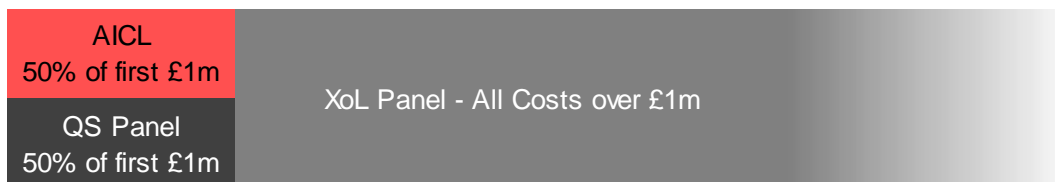
£m	Jun-16	Dec-15
<b>Assets</b>		
Goodwill	470.0	470.0
Intangible assets	99.9	102.8
Property and equipment	13.0	13.7
Deferred income tax asset	4.0	3.4
Reinsurance assets	610.9	547.5
Deferred acquisition costs	22.7	19.9
Prepayments	14.3	2.2
Insurance and other receivables	312.9	261.6
Financial assets at fair value	359.9	316.5
Cash and cash equivalents	140.1	152.2
<b>Total assets</b>	<b>2,047.7</b>	<b>1,889.8</b>
<b>Liabilities</b>		
Loans and borrowings	286.1	295.7
Insurance contract liabilities	1,023.8	912.1
Insurance and other payables	172.9	155.9
Provisions	-	0.3
Deferred income tax liability	19.7	20.6
Current tax liabilities	8.6	2.0
<b>Total liabilities</b>	<b>1,511.1</b>	<b>1,386.6</b>
<b>Equity</b>		
<b>Total equity</b>	<b>536.6</b>	<b>503.2</b>

## Quota share (QS) reinsurance programme (2016)



- 2016 Motor QS contracts were placed on favourable terms, including:
  - More than 70% by value on rolling multi-year deals
  - More than 60% by value on a minimum 2 year term
  - Reduced reinsurer margins on QS contracts
  - Improved risk transfer and loss protection
  - Well diversified reinsurance panel, all rated A or above

## Excess of Loss (XoL) reinsurance programme (2016)



- Unlimited XoL cover on a traditional programme basis
- Maintained at 2015 levels covering losses exceeding £1m per event

# Return on capital employed

£m	HY 2016	HY 2015
Advantage deployed capital <sup>1</sup>	205.8	115.3
Retail deployed capital <sup>2</sup>	31.9	26.4
Corporate free cash balance <sup>3</sup>	7.2	21.9
Capital employed	244.9	163.6
Net income	51.9	33.5
<b>Return on capital employed<sup>4</sup></b>	<b>42.4%</b>	<b>41.0%</b>

<sup>1</sup> Advantage deployed capital represents the average of Advantage Insurance Company Limited's net assets during each period

<sup>2</sup> Retail deployed capital represents the average of Hastings Insurance Services Limited's total capital resources as per FCA regulations during each period

<sup>3</sup> Corporate free cash balance represents the average cash held during the period in the Group's unregulated corporate entities

<sup>4</sup> ROCE has been multiplied by two in order to present on an annualised basis

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