Hastings

Hastings Group Holdings plc

Preliminary results announcement for the year ended 31 December 2016

2 March 2017

Hastings Group Holdings plc (the 'Group', or 'Hastings'), one of the fastest growing general insurance providers to the UK market, today announces its preliminary results for the year ended 31 December 2016.

2016 has been another record-breaking year for Hastings. The Group has maintained its strong momentum as it continues to deliver on all the promises made when it listed on the London Stock Exchange.

Highlights

- **Strong, profitable growth,** with gross written premiums up by 25% to £769.0m (2015: £614.9m) and net revenue up by 23% to £590.3m (2015: £481.0m).
- **Sustained increase in adjusted operating profit**[1] up 21% to £152.1m before the impact of the Ogden rate change[2], or 5% to £132.1m (2015: £126.1m), after allowing for the £20.0m impact of the Ogden rate change.
- **Continuing increase in customers and market share,** with live customer policies up by 15% to 2.35 million (2015: 2.04 million) and market share of UK private car insurance increased to 6.5% (2015: 5.8%).
- **Calendar year loss ratio**[3] for the year ended 31 December 2016 of 73.7%, before the impact of the Ogden rate change, or 77.7% after allowing for the impact of the Ogden rate change, within the target range of between 75% and 79% (2015: 75.4%).
- **Strong operational performance and lower financing costs** increased net income[4] by 27% to £96.9m (31 December 2015: £76.2m).
- **Significant increase in profit after tax** of £76.1m to £78.4m (2015: £2.3m).
- **Ongoing cash generation and reduction in net debt leverage multiple**[5], with retail cash generation up 21% to £98.1m (2015: £81.2m) and net debt leverage multiple reduced to 1.9x (2015: 2.1x) after the reduction in the Ogden rate.
- **Strong financial position,** with Solvency II coverage ratio of 140% (2015: 156%) after the reduction in the Ogden rate.
- **Ongoing investment for growth,** with Guidewire now handling all new claims, the Guidewire broking platform commencing roll-out and approaching 700 colleagues in Leicester providing significant capacity for further growth.
- **Strengthened Board**, with Dr Teresa Robson-Capps and Alison Burns joining in July as independent Non-Executive Directors.
- **Final dividend proposed for 2016 of 6.6 pence per share (2015: 2.2 pence per share).** Together with the interim dividend, this equates to 65.6% (2015: 56.5%) of adjusted profit after tax[6], above the target range set by the Board at IPO.

Gary Hoffman, Chief Executive Officer of Hastings Group Holdings plc, commented:

"2016 was another year of profitable growth and delivering on our IPO promises. Our straightforward proposition continues to appeal to customers as we grew our share of the UK car insurance market to 6.5%, with live policy numbers increasing 15% to over 2.3 million.

"We have continued to invest in our future, expanding our site in Leicester, welcoming 340 new colleagues this year, and rolling out our new operating platform, Guidewire. These investments will provide the bedrock for the next stage of the Company's growth, supporting our ability to deliver high standards of customer contact and service.

"Built for the way customers buy insurance, our agile, data-driven pricing approach together with our continued underwriting discipline continues to deliver profitable growth. In 2016, we grew GWP by 25%, reduced our loss ratio to 73.7%, before the impact of the Ogden rate change, and grew adjusted operating profit by 21% to £152.1m, before the impact of the Ogden rate change.

"Our consistently profitable and highly cash generative model has enabled us to further reduce our leverage to 1.9x and ensure a robust solvency position. We are pleased to announce our proposed final dividend of 6.6 pence per share.

"When we floated in 2015 we set ourselves four ambitious targets and I'm pleased to say that through the hard work, expertise, dedication and support of our 2,680 colleagues, we are on track to meet or beat each of them. As a result, we have set ourselves updated targets through to 2019 which are equally ambitious, and which emphasise the confidence we have in the further potential of the business to continue to deliver superior returns. I am very proud to be part of the team that has delivered another successful year for Hastings."

The Group will host an update call for investors and analysts at 09:00am GMT on 2 March 2017. Details are available on the Group's website www.hastingsplc.com.

About Hastings

Founded in 1996 in Bexhill-on-Sea on the Sussex coast, the Hastings Group is now one of the fastest growing general insurance providers to the UK market, with over 2.3m live customer policies and employing over 2,600 colleagues at sites in Bexhill, Newmarket, Leicester and Gibraltar.

Hastings provides refreshingly straightforward products and services to UK car, bike, van and home insurance customers with around 90% of policies directly underwritten by its Gibraltar based insurer, Advantage Insurance Company Limited.

Hastings Direct is a trading name of Hastings Insurance Services Limited, the Group's UK broker, which also trades via 'Hastings Premier', 'Hastings Essential', 'Hastings Direct SmartMiles', 'People's Choice' and 'insurePink'.

The Group operates as an integrated insurance provider with two businesses. The Group's Retail business, Hastings Insurance Services Limited, is responsible for the end customer pricing, fraud management product design, distribution and management of the underlying customer relationships. The Group's Underwriting business, Advantage Insurance Company Limited, engages in risk selection, underlying technical pricing, reserving and claims handling.

Retail is supported by, and benefits from, Underwriting's prudent approach to risk and reserving and also benefits from a panel of insurance partners who provide additional underwriting capacity. The Group's integrated model deliberately separates underlying product manufacturing from its distribution.

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 2015 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.

For more information, please contact:

Hastings Group

Richard Hoskins

Chief Financial Officer

T: +44 (0)1424 738244 ir@hastingsplc.com

Louise Underwood

Director of Investor Relations

T: +44 (0)1424 738366 ir@hastingsplc.com

Instinctif Partners

Giles Stewart \ Lewis Hill

T: +44 (0)207 457 2020 hastings@instinctif.com

Notes

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

(2) On 27 February 2017, the UK Government's Lord Chancellor announced a change to the personal injury discount rate (the 'Ogden rate') from 2.5% to minus 0.75%. The reduction in the Ogden rate will have the effect of increasing the cost of settling personal injury damages awards. The annual results for the financial year ended 31 December 2016 includes a one-off pre-tax charge of £20.0m (2015: £Nil) to reflect the impact of the Ogden rate change on the Group.

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

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

(5) Net debt leverage multiple represents the Group's net debt expressed relative to 12 months trailing adjusted operating profit.

(6) Adjusted profit after tax for the purposes of dividend payout ratio is net income adjusted to exclude the impact of share scheme costs. For the purposes of calculating the 2015 dividend payout ratio, dividend was paid out at one third of adjusted profit after tax to reflect the shorter period from the IPO to the year end.

Chairman's statement

"We continued to deliver on promises made to shareholders."

Overview and strategy

It is with great pleasure that I introduce the Annual Report for Hastings Group Holdings plc for the first complete year as a listed entity. The Group continued to deliver on its promises made to shareholders at the IPO in October 2015. Live customer policies ('LCP') grew to 2.35 million, well on our way to beat our target of 2.5 million at the end of 2017. This strong growth has meant that the Group has delivered on its strategy and increased profitability. The Board is aware that the Group is on track to either meet or beat the targets set out at the IPO last year; as a result, the Board has reviewed and approved updated targets. Further details are provided by the CEO in his update.

2016 Review

Performance

Similar to last year, the year was one of increasing premiums for the car insurance market with premium inflation ahead of claims inflation. Along with increased policy numbers, the Group's profit after tax increased to £78.4m (2015: £2.3m) and adjusted operating profit for the year increased to £132.1m (2015: £126.1m). Adjusted operating profit was £152.1m before the impact of a £20.0m one off charge due to the reduction in the personal injury discount rate (the 'Ogden rate') announced by the Lord Chancellor on 27 February 2017.

The Group's continued growth has also led to the expansion of the Group's operations. The quality and diversity of talent available in Leicester means we now employ nearly 700 colleagues in the city, which has helped to enhance the Group's operational resilience and capability. Our operational capabilities at locations in Bexhill and Gibraltar have also been further strengthened as a result of our focus on talent and development.

The Board and Governance

As explained last year, the composition of the Board was not fully compliant with the UK Corporate Governance Code 2016 (the 'Code') as at least half the Directors excluding the Chairman did not meet the independence criteria. I am pleased to report that the Board has delivered on its intention to be Code compliant with the appointment of two new independent Non-Executive Directors in July 2016. Teresa Robson-Capps and Alison Burns bring a breadth of knowledge and experience from across the financial services industry.

The Board recognises that the Company does not currently fully comply with the Code in relation to the composition of the Remuneration Committee in that not all members of this Committee are independent Non-Executive Directors. The Board continues to believe that the independence of the Remuneration Committee is not compromised as it has an independent Chairman and a majority of independent Non-Executive Directors.

The Company announced on 14 December 2016 that it was notified by its majority shareholder, Hastings Investco Limited, that along with certain individual shareholders it had reached an agreement to sell a proportion of its shareholding in the Company ('the Transaction') to Rand Merchant Investment Holdings Limited ('RMI'), a South African investment holding company, of up to 29.9% of the Company's issued share capital. The Transaction completed on 1 March. Under the terms of a Relationship Agreement between RMI and the Company, as long as RMI holds at least 15% of the Company's issued share capital RMI is entitled to appoint one Director to the Company's Board and have an observer attend, but not vote at, meetings of the Board and the Board Audit, Remuneration and Risk Committees. As a consequence of this transaction the Founder Shareholders have agreed that one of its appointees would step down as a Director of the Company once RMI's shareholding reached at least 19.9% and the Goldman Sachs Shareholders have agreed that one of its appointees would step down once that shareholding reached 29.9%. Details of these Board changes will be announced once confirmed.

Optimising shareholder value - dividends

The Board remains confident in the Group's long term prospects and is pleased to propose a final dividend of 6.6 pence per share. This dividend will be paid on 31 May 2017 to shareholders on the register on 5 May 2017 with an ex-dividend date of 4 May 2017. This is the Company's second dividend for the year having paid 3.3 pence per share in November, taking the full year dividend to 9.9 pence per share. This final dividend is subject to shareholder approval at the Annual General Meeting to be held on 25 May 2017

Mike Fairey

Chairman

1 March 2017

CEO Q&A

"It's been a year of expansion and continued investment for the benefit of our 4Cs. We've welcomed 340 more colleagues to our new site in Leicester, and made a difference to our local communities through our 'Be the Change' local education initiative. We continue to deliver on our promises and I am delighted to share updated targets for our future growth plans."

Q. It's been over a year since IPO, looking back, what are your personal highlights?

I am very proud to be part of the team that has delivered another successful year for Hastings. We continue to deliver on the promises we set out at the time of the IPO and I am delighted to be sharing updated targets with you following our strong performance to date. We have delivered profitable growth for shareholders, increased live customer policies by 15% to over 2.3 million and our share of the UK private car market has increased to 6.5% driving growth across all key metrics. Gross Written Premiums continued to rise, up 25% to £769 million, driving revenues of £590 million. It's important to note that our profitable growth has been achieved whilst maintaining our disciplined approach to underwriting with a pre-Ogden calendar year loss ratio of 73.7%, below our stated target of between 75% and 79%. We also continue to make significant investment in our colleagues and infrastructure through the rollout of Guidewire, the state of the art, integrated end to end platform for claims, broking and billing, and through the expansion of our third UK site in Leicester which has seen 340 colleagues join us in 2016. As you would expect, the recruitment of such a large number of new colleagues and the size and scale of the Guidewire implementation have not been without their challenges. It is our agility and the hard work, expertise, dedication and support of my 2,680 colleagues that have ensured that we continue to deliver for our colleagues, customers and the Company, and we are as focused on the long term as we are on our annual performance.

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

Our planned growth will come from two key areas. Firstly, growth of our core motor book with continued momentum from an increasing share of price comparison new business sales, a profitable maturing book and the launch of a new multicar proposition in 2017. Secondly, via expansion into home where we are seeing more customers using price comparison websites ('PCW') to buy their policies instead of through the traditional mortgage lender or bank route. We are also able to apply our successful approach in motor insurance to home insurance. We now have over 168,000 customers and we plan to start underwriting home insurance as lead insurer in 2017.

We've continued to make steady progress in executing our growth strategy with a 15% increase in policy numbers throughout 2016.

Delivering on our promises: Updated targets	Original target	Updated target
Calendar year loss ratio	75-79%	75-79%
Customer numbers but not at the expense of profitability	2.5m *by end of 2017*	3.0m *during 2019*
Net debt leverage multiple	1.5x *by end of 2017*	1.0x *during 2019*
Dividend payout ratio	50-60% *of adjusted profit after tax*	50-60% *of adjusted profit after tax*

What factors do you think have powered the business' successes in 2016?

As I've always said, our achievements reflect the refreshingly straightforward business model we've built. The way in which customers buy insurance has changed. The world is now digitally led and we've created a model that is built to take advantage of this shift throughout the entire customer journey, whether that's through the PCW distribution of our products (which account for around 90% of our new business sales), our innovative use of data or through our advanced risk selection and fraud detection capabilities. Every element of our business is optimised for a digital world. Secondly we've remained agile as we've grown in size and our model, in particular our innovative use of data, enables us to respond quickly to changing market conditions, averaging 35 changes to pricing per month, giving us a significant advantage over our competitors. Finally we underpin everything with our culture built around the principles of the 4Cs; Colleagues, Customers, Company and Community. This defines 'how' we do things and ensures we remain entrepreneurial with a can do attitude that reflects itself throughout every level of the business on a daily basis.

Q. What is the impact of Brexit on Hastings?

Hastings is a general insurance provider writing only UK business so it's very much business as usual for us. Whilst commentators expect some slowing of the UK economy, motor insurance is a compulsory purchase for motorists and it's not cyclical. We may just see more customers shopping around. Our business model is well positioned to take advantage of this so we just need to continue to provide refreshingly straightforward products that are competitively priced. We also find that when economic growth slows, miles driven also decreases which is a positive for our claims experience. Furthermore Hastings is not exposed to undue risk, either in terms of the constitution or size of its investment portfolio.

Q. Will there be any change to your strategic focus following RMI's acquisition of up to 29.9% in the company?

I can confirm there will be no change. We will continue to grow the core motor book and plan to grow our home and telematics propositions. We believe RMI's breadth of experience and capabilities could provide opportunities over time to help us further deliver our growth strategy.

Can you tell me more about Guidewire and its implementation?

Guidewire is a state of the art, integrated end to end platform for claims, broking and billing. It will greatly enhance our customer experience, including improved communications via a 24/7 online self-service portal and the development of mobile apps. It will also deliver significant benefits to our colleagues and Company, including reducing the claims lifecycle through improved workflow and activity management and more informed pricing, and supporting our future growth plans. We have also built our own digital and mobile components to add to the core platform provided by Guidewire.

The claims module was delivered in November 2015 and is already handling all of our new claims and around 80% of our overall claims. During 2016 we started to roll Guidewire out to broking and billing, and we went live with four price comparison websites by the end of the year.

We have invested significant capital expenditure in the implementation of Guidewire and expect to see the platform deliver operating cost efficiencies from 2018 onwards to support our continued growth.

Q. Tell us more about your local corporate social responsibility strategy and why it's important to you?

We have a very local approach to CSR so rather than sponsor or fundraise for large (and you can say equally deserving) global initiatives we have decided to focus on the communities where we work and live so we can see the difference we make, first hand. Last year, working with the team from social enterprise, Humanutopia and local recruiters, LoveLocal Jobs, we launched a new local education three year programme called 'Be the Change' in Bexhill and Leicester. The aim of the programme is to help disengaged students, aged 13-14 years, remove barriers that stop them getting on at school and to provide them with life skills to shape their future. The programme is delivered through workshops, one to one sessions and workplace visits. It has been a humbling and hugely gratifying experience for me and a number of my colleagues who have been involved as business mentors and I'm delighted that the schools are already beginning to see a difference through the reduction of truancy and bullying reported. I really enjoy talking to investors and the media about our strong performance, profit and what makes Hastings different. How we conduct ourselves in our financial and local communities are equally important to me. I am very proud of 'Be the Change' and the difference we can make to younger members of our local communities.

Q. You've been at Hastings for over four years now, what's next?

I've been asked that question quite a lot recently! To be clear, I have no ambition to be a CEO anywhere else. Hastings is a great place to work and still retains its family feel which is testament to our 4Cs culture. I'm proud to be part of this successful company that has grown profitably and in size. Colleague and customer numbers have doubled since I joined in 2012 and our stretching targets show that there is more growth planned. We do things differently at Hastings. We're an agile, data and digitally focused business that is built for the way customers buy insurance and we have a strong and dedicated team that deliver on their promises. I am proud to lead a great team of colleagues.

CFO statement

“2016 has been another record breaking year for Hastings. We continue to deliver on all our promises and look set to meet or beat every target set when we listed on the London Stock Exchange.”

Introduction

I am pleased to present another strong set of results. Our continued momentum means another record year of customer numbers and premiums, whilst we continue to deliver on all of the promises made when we listed on the London Stock Exchange. LCP increased by 15% to 2.35 million through continued strong retention rates and by attracting new customers with our refreshingly straightforward approach. This increase in policies combined with sustained rate increases has driven gross written premiums up 25% to £769.0m. The earn through of higher average premiums combined with a rigorous focus on underwriting discipline has maintained our calendar year loss ratio[1] within the target range of between 75% and 79% set at IPO, after strengthening reserves following the reduction in the discount rate for personal injury damages awards (the ‘Ogden rate’).

The Group’s sustained growth continues to be profitable and cash generative, with adjusted operating profit[2] up 21% to £152.1m before the reduction in the Ogden rate, or, 5% to £132.1m after the reduction in the Ogden rate, and cash generated from operations of £172.5m. This has enabled us to reduce our net debt leverage multiple[3], strengthen the balance sheet and pay healthy dividends. The Board has proposed a final dividend of 6.6 pence per share, in addition to the interim dividend of 3.3 pence per share that was paid in November. Overall, this means the total return to shareholders in respect of the year ended 31 December 2016 will be £65.1m, a payout ratio of 65.6% of adjusted profit after tax[4].

We’ve continued to invest in the future, with around 700 Colleagues now based in Leicester, and have begun the phased roll out of our Guidewire broking platform, which will provide end to end capability to service customers. These investments will allow Hastings to continue to grow profitably through improving the customer experience, providing scale and delivering new home and motor products. The Group’s underwriter, Advantage Insurance Company Limited (‘AICL’), has made a smooth transition to the new Solvency II regime (‘SII’), which came into effect on 1 January 2016, and remains well capitalised with a SII coverage ratio of 140% after the impact of the Ogden rate change.

Overall, I am proud of Hastings’ achievements as we continue to meet or beat the promises made, strengthen our financial position and propose a final dividend of 6.6 pence per share. Recognising the Group’s momentum, the Board has released an updated set of targets as we continue to focus on further growth from expanding our core motor book, building our home underwriting capabilities and scaling up our multicar offering.

Richard Hoskins

Chief Financial Officer

1 March 2017

Summary Consolidated Statement of Profit or Loss

	Year ended					
	31 December 2016			31 December 2015		
	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	769.0	-	769.0	614.9	-	614.9
Net earned premiums	334.8	-	334.8	255.9	-	255.9
Other revenue	248.3	-	248.3	219.8	-	219.8
Investment and interest income	7.2	-	7.2	5.3	-	5.3
Net revenue	590.3	-	590.3	481.0	-	481.0
Net claims incurred	(260.1)	-	(260.1)	(192.9)	-	(192.9)
Acquisition costs	(51.9)	-	(51.9)	(44.3)	-	(44.3)
Other expenses	(146.2)	-	(146.2)	(117.7)	(2.4)	(120.1)
Adjusted operating profit	132.1			126.1		
Impact of change in Ogden rate	20.0			-		
Adjusted operating profit before impact of Ogden rate change	152.1			126.1		
Amortisation and depreciation	(5.6)	(22.0)	(27.6)	(4.6)	(23.0)	(27.6)
Finance costs	(9.6)	(0.6)	(10.2)	(30.2)	(60.9)	(91.1)
Taxation	(20.0)	4.1	(15.9)	(15.1)	12.4	(2.7)
Profit after tax	96.9	(18.5)	78.4	76.2	(73.9)	2.3

Strong operational performance and significantly lower finance costs as a result of refinancing in 2015, have increased profit after tax by £76.1m for the year ended 31 December 2016 to £78.4m (2015: £2.3m).

Impact of Ogden rate change

On 7 December 2016, the Lord Chancellor announced a review into the discount rate for personal injury damages awards (the 'Ogden rate'), which is used by UK courts in the calculation of personal injury lump sum settlements. On 27 February 2017, it was announced that there will be a reduction in the Ogden rate from 2.5% to minus 0.75% with effect from 20 March 2017. The Group has therefore adopted a discount rate of minus 0.75% in estimating claims liabilities in existence at 31 December 2016, which has reduced adjusted operating profit by £20.0m for the year.

The reduction in the Ogden rate is not expected to have a material impact on the Group's financial outlook for 2017.

Gross written premiums

	Year ended	
	31 December 2016	31 December 2015
Gross written premiums by product	£m	£m
Private car	733.9	587.4
Bike	12.8	11.3
Van	17.9	13.1
Home	4.4	3.1
Total gross written premiums	769.0	614.9
Total gross earned premiums	691.8	543.3

Gross written premiums have increased by 25% due to LCP growth and increases in average premiums.

Continued year on year market wide premium rate increases contributed to the growth in customers using PCW to buy insurance. Hastings' digitally focused business model positions the Group to benefit from increased PCW usage which, combined with a strong retention rate, has led to a 15% increase in LCP.

Through Hastings' agile pricing and data enrichment, the Group has continued to make targeted rate increases during the year resulting in average written premiums increasing by 9% whilst increasing market share in motor to 6.5%.

The Group continues to expand into home and telematics, with both benefitting from continued PCW market penetration. As at 31 December 2016, home LCP were 168,000 and telematics LCP were 45,000, a 25% and 45% increase from 31 December 2015 respectively.

Net revenue

	Year ended	
Net revenue by type	31 December 2016 £m	31 December 2015 £m
Net earned premiums	334.8	255.9
Fees and commission	88.5	73.5
Ancillary product income	48.4	45.0
Premium finance interest	78.2	61.3
Reinsurance commissions	16.4	28.6
Other income	16.8	11.4
Other revenue	248.3	219.8
Investment and interest income	7.2	5.3
Net revenue	590.3	481.0

The Group benefits from a wide range of risk and non-risk based revenue streams and overall, net revenue increased by 23% to £590.3m for the year (2015: £481.0m).

Net earned premiums increased by 31% to £334.8m over the prior period due to growth in LCP and earn through of higher average written premiums (2015: £255.9m).

Fees and commission on the sale of insurance contracts and ancillary product income increased due to growth in policies sold. Premium finance interest income benefitted from the premium rate increases applied by the business and an increase in the number of customers paying in monthly instalments.

Reinsurance commission volume increases were offset by the reduction in profit commission earned as a result of lower prior year releases than in the previous year and the impact of strengthening reserves for the reduction in the Ogden rate.

Loss ratio

	31 December 2016	31 December 2015[2]
Accident year loss ratio before the impact of change in Ogden rate	74.1%	78.4%
Prior year development before the impact of change in Ogden rate	(0.4%)	(3.0%)
Calendar year loss ratio before the impact of change in Ogden rate	73.7%	75.4%
Impact of change in Ogden rate	4.0%	-
Calendar year loss ratio	77.7%	75.4%

The accident year loss ratio before the impact of the reduction in the Ogden rate improved compared to prior period due to the earning through of premium rate increases applied over the last 12 months outweighing claims inflation for the year. Average earned premiums have increased 11% year on year compared to claims inflation of 6% before the impact of the Ogden rate change, reducing the Group's calendar year loss ratio to 73.7% before the impact of the reduction in the Ogden rate. After adjusting for the change in the Ogden rate, the calendar year loss ratio increased to 77.7%, within the Group's target range of between 75% and 79%.

Combined operating ratio and expense ratio

	Year ended	
	31 December 2016	31 December 2015
Expense ratio	13.6%	15.9%
Calendar year loss ratio	77.7%	75.4%
Combined operating ratio	91.3%	91.3%

The Group has maintained a combined operating ratio of 91.3% (2015: 91.3%), as the increase in the loss ratio following the reduction in the Ogden rate has been offset by the fall in the expense ratio.

The expense ratio for the period reduced due to premiums increasing at a faster rate than underwriting expenses.

Adjusted operating profit and profit after tax

	Year ended	
	31 December 2016 £m	31 December 2015 £m
Underwriting adjusted operating profit before impact of Ogden rate change	50.3	37.9
Retail adjusted operating profit	101.2	89.9
Net impact of corporate and consolidation adjustments	0.6	(1.7)
Adjusted operating profit before impact of Ogden rate change	152.1	126.1
Impact of Ogden rate change	(20.0)	-
Adjusted operating profit	132.1	126.1
Underlying amortisation and depreciation	(5.6)	(4.6)
Underlying finance costs	(9.6)	(30.2)
Tax on underlying trading	(20.0)	(15.1)
Net income[6]	96.9	76.2
Non-trading expenses, net of tax	(18.5)	(73.9)
Profit after tax	78.4	2.3

The 21% increase in adjusted operating profit to £152.1m, before the impact of the reduction in the Ogden rate, primarily reflects the growth in LCP and the earning through of higher average premiums over the past year. Allowing for the £20.0m impact of the Ogden rate reduction, adjusted operating profit has grown by 5% to £132.1m (2015: £126.1m). The adjusted operating profit margin of 22.4% (2015: 26.2%) has declined due to the impact of strengthening reserves for the reduction in the Ogden rate and the investments made by the Group in the Guidewire system, the Leicester office and the wider business as Hastings positions itself to continue the strong growth achieved since IPO.

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

Taxation

The tax charge for the year was £15.9m (2015: £2.7m), an increase on the prior year relating primarily to the growth in taxable profits and the reduction in finance costs. The Group's effective tax rate ('ETR') of 16.9% (2015: 54.0%) has reduced from prior year due to non-deductible Preference Share dividends included in the year ended 31 December 2015. The Group's ETR reflects the mix between Underwriting and Retail profits arising from the difference in the enacted tax rates in Gibraltar and the UK respectively. It is anticipated that the mix of the Group's profits will remain stable over the medium term, resulting in a slight reduction in the Group's ETR as the UK corporation tax rate will reduce to 19% from April 2017 and further to 17% from April 2020.

Dividends

Dividend payout ratio	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Net income	96.9	76.2
Share based payment expense (including social security charges)	2.8	0.5
Tax on share based payment expense	(0.5)	(0.1)
Adjusted profit after tax[4]	99.2	76.6
Interim dividend paid	21.7	-
Final dividend proposed	43.4	14.5
Total dividends in respect of financial year	65.1	14.5
Dividend payout ratio[4]	65.6%	56.5%

The proposed final dividend for the year ended 31 December 2016 is £43.4m (2015: £14.5m), a payout of 6.6 pence per share (2015: 2.2 pence per share). This, combined with the interim dividend of 3.3 pence per share paid in November 2016, will bring total dividends to £65.1m for the year ended 31 December 2016 (2015: £14.5m). The final dividend has not been reduced for the impact of the reduction in the Ogden rate, which means that the dividend payout ratio of 65.6% is above the target of between 50% and 60% of adjusted profit after tax. Dividends in subsequent periods are expected to be within the target range and the interim and final dividends are intended to represent approximately one third and two thirds of the total annual dividend respectively. This reflects the strong trading results for the year and the Board's confidence in the ongoing cash generative nature of the business.

Summary consolidated balance sheet

	As at	
	31 December 2016 £m	31 December 2015 £m
ASSETS		
Goodwill	470.0	470.0
Intangible assets	97.2	102.8
Property and equipment	12.7	13.7
Reinsurance assets	822.0	547.5
Deferred acquisition costs	24.2	19.9
Insurance and other receivables	365.0	267.2
Financial assets at fair value	403.6	316.5
Cash and cash equivalents	168.0	152.2
Total assets	2,362.7	1,889.8
LIABILITIES		
Loans and borrowings	286.6	295.7
Insurance contract liabilities	1,299.5	912.1
Insurance and other payables	204.5	158.2
Deferred income tax liabilities	18.5	20.6
Total liabilities	1,809.1	1,386.6
Net assets	553.6	503.2

Net assets and working capital

The Group's net asset position has further strengthened, increasing from £503.2m as at 31 December 2015 to £553.6m as at 31 December 2016. This has been driven by the increase in profits retained within the business, after dividend payments of £36.1m.

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

Return on capital employed

	Year ended	
	31 December 2016 £m	31 December 2015 £m
Average AICL deployed capital[7]	208.5	149.8
Average HISL deployed capital[7]	31.5	30.2
Average corporate free cash[8]	8.1	15.9
Average capital employed	248.1	195.9
Net income	96.9	76.2
Return on capital employed	39.1%	38.9%

The Group's return on capital employed increased reflecting the 27% growth in net income. Capital employed in the Underwriting business increased as capital generated from the profitable growth in LCP was retained in the business, thereby maintaining its strong solvency position.

Cash and net debt leverage

	As at	
	31 December 2016 £m	31 December 2015 £m
Term loan	(286.6)	(295.7)
Less acquisition costs	(3.4)	(4.3)
Gross debt	(290.0)	(300.0)
Retail free cash[8]	29.3	17.7
Corporate free cash[8]	5.0	11.2
Net debt	(255.7)	(271.1)
Adjusted operating profit before the change in Ogden rate	152.1	126.1
Impact of change in Ogden rate	(20.0)	-
Adjusted operating profit	132.1	126.1
Net debt leverage multiple before the change in Ogden rate	1.7x	2.1x
Net debt leverage multiple	1.9x	2.1x

Adjusted operating profit growth, combined with the Group's strong cash generation has resulted in a fall in the net debt leverage multiple to 1.9x, compared with a multiple of 2.1x for 2015. Before the £20.0m impact of the reduction in the Ogden rate, the Group's net debt leverage multiple was 1.7x.

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

	Year ended	
	31 December 2016 £m	31 December 2015 £m
Opening free cash	28.9	38.0
Retail cash generated[8]	98.1	81.2
Tax paid	(10.9)	(5.2)
Capital expenditure	(20.6)	(27.7)
Dividends paid	(36.1)	-
Loan repayment	(10.0)	-
Interest and corporate costs	(13.0)	(33.4)
Reorganisation, refinancing and transaction costs	(2.1)	(24.0)
Closing free cash[8]	34.3	28.9
Cash held in regulated entities or on behalf of third parties	133.7	123.3
Group cash and cash equivalents	168.0	152.2

The Group's activities continue to be highly cash generative and cash net inflow from operating activities during 2016 was £172.5m, of which £98.1m was free cash from the Retail business (2015: £81.2m). This free cash was partially offset by dividend payments, interest and loan repayments and capital expenditure, principally on the development of the Guidewire system, the costs of which are expected to reduce in future periods as the system is brought online.

Investments

Cash and cash equivalents and investments by Standard and Poor's (or equivalent) credit rating	As at 31 December 2016 £m	As at 31 December 2015 £m
AAA and AA	279.6	274.1
A	162.5	98.6
BBB	119.9	88.7
Less than BBB or unrated	9.6	7.3
Total cash and cash equivalents and investments	571.6	468.7

The Group has a conservative investment strategy with a primary focus on capital preservation. As at 31 December 2016, the Group's percentage of investments rated A or equivalent and above of the total portfolio was 77% (2015: 80%). The weighted average credit rating of the investment portfolio continued to be A+ (2015: A+).

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

Cash and cash equivalents and investments by classification	As at 31 December 2016 £m	As at 31 December 2015 £m
Cash and cash equivalents		
Cash at bank and in hand	30.9	42.5
Short term deposits	17.4	5.0
Money market funds	119.7	104.7
Investments		
Debt securities	355.1	264.6
Investment funds	48.5	51.9
Total cash and cash equivalents and investments	571.6	468.7

Insurance contract liabilities

Total insurance contract liabilities as at 31 December 2016 of £1,299.5m (2015: £912.1m) comprise £397.6m (2015: £320.4m) of unearned premiums, which are deferred and recognised in the statement of profit or loss in subsequent periods, and outstanding claims liabilities of £901.9m (2015: £591.7m). Gross outstanding liabilities have increased due to the greater exposure from the increase in LCP, the impact of claims inflation and the gross impact of £160.1m of the Ogden rate reduction to minus 0.75%.

The Group manages this risk by applying a consistent reserving methodology to calculate an internal actuarial best estimate and then reserving an additional risk margin. This margin has been maintained at a consistent level year on year.

The Group's reinsurance programme, described below, protects against the more volatile movements that can typically be caused by large claims and periodical payment orders ('PPOs').

Reinsurance contracts

Reinsurance contract assets by Standard and Poor's (or equivalent) credit rating	As at 31 December 2016 £m	As at 31 December 2015 £m
AA	512.6	337.2
A	308.5	210.3
BBB	0.9	-
Total reinsurance assets	822.0	547.5

Reinsurance assets, comprising reinsurers' share of outstanding claims liabilities, increased by 50% to £822.0m as at 31 December 2016 (2015: £547.5m) due to the greater exposure from increasing policy volumes and the reduction in the Ogden rate.

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

The terms of the quota share reinsurance contracts are such that whilst the Group cedes approximately 50% of motor premiums written, in return for which the reinsurance partners contribute 50% of the claims cost for motor insurance policies that the Group incurs, the Group expects to retain the majority of profit generated on these policies through commissions receivable. The final reinsurance commissions receivable are dependent upon achieving certain performance criteria, including target loss ratios. The majority of quota share contracts are now on a rolling renewal basis, with 77% by proportion of the total 2017 programme value on two year minimum term arrangements. These contracts provide additional security and certainty regarding the availability of the Group's reinsurance arrangements.

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

Solvency

The table below presents the Underwriting business' unaudited Solvency II coverage ratio as at 31 December 2016 calculated using the results of AICL, the regulated entity, on a standard formula basis.

	As at 31 December 2016	As at 31 December 2015
Own funds (£m)	251.1	208.1
Solvency Capital Requirement (£m)	179.0	133.1
Solvency II coverage ratio	140%	156%

The Underwriting business remains well capitalised under the Solvency II capital requirements which came into effect on 1 January 2016, replacing the Solvency I regime.

The Solvency II coverage ratio has reduced against 2015, reflecting the reserves strengthening to allow for the reduction in the Ogden rate and an anticipated £4.0m dividend to the Company which is included in the forward looking Solvency II coverage ratio. The Solvency II coverage ratio before the impact of the Ogden rate change and anticipated dividend was 158%.

Notes

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

The calculations of prior year development and accident year loss ratio have been amended so that prior period adjustments to risk margin are now recorded and presented within prior year development. This change has been reflected in the comparative accident year loss ratio and prior year development figures. This change does not impact on the reported calendar year loss ratio for any period, and does not reflect a change in reserving approach.

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

Adjusted operating profit margin is defined as adjusted operating profit divided by net revenue.

3 Net debt leverage multiple represents the Group's net debt expressed relative to 12 months trailing adjusted operating profit.

4 Adjusted profit after tax for the purposes of dividend payout ratio is net income adjusted to exclude the impact of share scheme costs. For the 2015 dividend payout ratio, the dividend was calculated and paid at one third of adjusted profit after tax to reflect the shorter period from the IPO to the year end.

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, preference share dividends and the impact of accounting for business combinations.

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

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

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

Corporate free cash includes cash held in entities which are not subject to FCA or Solvency regulations.

Free cash includes both of the above and dividends to the Company approved by AICL.

Consolidated Statement of Profit or Loss

for the year ended 31 December 2016

	31 December 2016					31 December 2015		
	Underlying trading pre-Ogden rate change	Ogden rate change impact[1]	Underlying trading	Non-trading items[2]	Total	Underlying trading	Non-trading items[2]	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Gross written premiums	769.0	-	769.0	-	769.0	614.9	-	614.9
Gross earned premiums	691.8	-	691.8	-	691.8	543.3	-	543.3
Earned premiums ceded to reinsurers	(357.0)	-	(357.0)	-	(357.0)	(287.4)	-	(287.4)
Net earned premiums	334.8	-	334.8	-	334.8	255.9	-	255.9
Other revenue	254.9	(6.6)	248.3	-	248.3	219.8	-	219.8
Investment and interest income	7.2	-	7.2	-	7.2	5.3	-	5.3
Net revenue	596.9	(6.6)	590.3	-	590.3	481.0	-	481.0
Claims incurred	(551.7)	(160.1)	(711.8)	-	(711.8)	(460.1)	-	(460.1)
Reinsurers' share of claims incurred	305.0	146.7	451.7	-	451.7	267.2	-	267.2
Net claims incurred	(246.7)	(13.4)	(260.1)	-	(260.1)	(192.9)	-	(192.9)
Acquisition costs	(51.9)	-	(51.9)	-	(51.9)	(44.3)	-	(44.3)
Other expenses	(146.2)	-	(146.2)	-	(146.2)	(117.7)	(2.4)	(120.1)
Adjusted operating profit[3]	152.1	(20.0)	132.1			126.1		
Amortisation and depreciation	(5.6)	-	(5.6)	(22.0)	(27.6)	(4.6)	(23.0)	(27.6)
Finance costs	(9.6)	-	(9.6)	(0.6)	(10.2)	(30.2)	(60.9)	(91.1)
Profit before tax	136.9	(20.0)	116.9	(22.6)	94.3	91.3	(86.3)	5.0
Taxation expense	(22.0)	2.0	(20.0)	4.1	(15.9)	(15.1)	12.4	(2.7)
Total profit attributable to the equity holders of the parent	114.9	(18.0)	96.9	(18.5)	78.4	76.2	(73.9)	2.3
Earnings per share attributable to the equity holders of the parent (expressed in pence per share)								
Basic earnings per share					11.9p			0.5p
Diluted earnings per share					11.9p			0.5p

All results arose from continuing operations.

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

[2] 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, preference share dividends and the impact of accounting for business combinations.

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

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2016

	Year ended	
	31 December 2016 £m	31 December 2015 £m
Total profit attributable to the equity holders of the parent	78.4	2.3
Other comprehensive income		
Items that may be subsequently reclassified to profit or loss		
Fair value gain/(loss) on available for sale investments	5.7	(1.3)
Total items that may be subsequently reclassified to profit or loss	5.7	(1.3)
Items that may not be subsequently reclassified to profit or loss		
Revaluation of property	0.1	0.7
Deferred tax charge on revaluation of property	-	(0.1)
Total items that may not be subsequently reclassified to profit or loss	0.1	0.6
Total other comprehensive gain/(loss)	5.8	(0.7)
Total comprehensive income attributable to the equity holders of the parent	84.2	1.6

Consolidated Balance Sheet

as at 31 December 2016

	31 December 2016 £m	31 December 2015 £m
ASSETS		
Goodwill	470.0	470.0
Intangible assets	97.2	102.8
Property and equipment	12.7	13.7
Deferred income tax assets	4.5	3.4
Reinsurance assets	822.0	547.5
Deferred acquisition costs	24.2	19.9
Prepayments	4.0	2.2
Insurance and other receivables	356.5	261.6
Financial assets at fair value	403.6	316.5
Cash and cash equivalents	168.0	152.2
Total assets	2,362.7	1,889.8
LIABILITIES		
Loans and borrowings	286.6	295.7
Insurance contract liabilities	1,299.5	912.1
Insurance and other payables	198.1	156.2
Deferred income tax liabilities	18.5	20.6
Current tax liabilities	6.4	2.0
Total liabilities	1,809.1	1,386.6
EQUITY		
Share capital	13.1	13.1
Share premium	172.6	172.6
Merger reserve	(756.0)	(756.0)
Other reserves	4.9	(0.7)
Retained earnings	1,119.0	1,074.2
Total equity	553.6	503.2
Total equity and liabilities	2,362.7	1,889.8

Consolidated Statement of Changes in Equity

for the year ended 31 December 2016

Year ended 31 December 2015	Share capital £m	Share premium £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
As at 1 January 2015	7.6	749.4	(756.0)	-	(14.9)	(13.9)
Total profit attributable to the equity holders of the parent	-	-	-	-	2.3	2.3
Total other comprehensive loss	-	-	-	(0.7)	-	(0.7)
Total comprehensive profit/(loss) for the year	-	-	-	(0.7)	2.3	1.6
Transactions with equity holders of the parent						
Share based payments	-	-	-	-	0.5	0.5
Conversion of preference shares	3.4	339.6	-	-	-	343.0
Issue of shares	2.1	172.6	-	-	(2.7)	172.0
Capital reduction	-	(1,089.0)	-	-	1,089.0	-
Total transactions with equity holders of the parent	5.5	(576.8)	-	-	1,086.8	515.5
As at 31 December 2015 and 1 January 2016	13.1	172.6	(756.0)	(0.7)	1,074.2	503.2
Total profit attributable to the equity holders of the parent	-	-	-	-	78.4	78.4
Total other comprehensive income	-	-	-	5.8	-	5.8
Total comprehensive income for the period	-	-	-	5.8	78.4	84.2
Transactions with equity holders of the parent						
Share based payments	-	-	-	-	2.4	2.4
Tax on share based payments	-	-	-	-	0.1	0.1
Acquisition of own shares	-	-	-	(0.2)	-	(0.2)
Dividends paid	-	-	-	-	(36.1)	(36.1)
Total transactions with equity holders of the parent	-	-	-	(0.2)	(33.6)	(33.8)
As at 31 December 2016	13.1	172.6	(756.0)	4.9	1,119.0	553.6

Consolidated Statement of Cash Flows
for the year ended 31 December 2016

	31 December 2016 £m	31 December 2015 £m
Profit after tax	78.4	2.3
Adjustments for:		
Reorganisation and transaction costs	-	2.4
Depreciation of property and equipment	2.7	2.3
Amortisation of intangible assets	24.9	25.3
Net fair value gains on financial assets at fair value through profit or loss	(1.1)	(0.8)
Other interest income	(6.1)	(4.5)
Loss on disposal of property and equipment	-	0.1
Finance costs	10.2	91.1
Taxation expense	15.9	2.7
Share based payments	2.4	0.5
Change in insurance and other receivables and prepayments	(91.1)	(48.9)
Change in insurance and other payables	42.5	12.3
Change in reinsurance assets	(274.5)	(121.0)
Change in deferred acquisition costs	(4.3)	(4.2)
Change in insurance contract liabilities	387.4	207.4
Taxation paid	(14.8)	(11.4)
Net cash flows from operating activities	172.5	155.6
Purchase of property and equipment	(1.6)	(5.2)
Acquisition of intangible assets	(19.3)	(24.8)
Interest received	0.5	0.5
Outlays for acquisition of financial assets at fair value	(162.2)	(189.4)
Proceeds from disposal of financial assets at fair value	81.9	100.1
Net cash flows from investing activities	(100.7)	(118.8)
Purchase of own shares	(0.2)	-
Proceeds from issue of ordinary share capital	-	182.2
Proceeds from new loans and borrowings	-	300.0
Repayment of loans and borrowings	(10.0)	(416.5)
Interest paid on loans and borrowings	(9.7)	(32.4)
Other interest paid	-	(1.0)
Non-trading costs paid	-	(40.3)
Dividends paid	(36.1)	-
Net cash flows from financing activities	(56.0)	(8.0)
Net increase in cash and cash equivalents	15.8	28.8
Cash and cash equivalents at beginning of year	152.2	123.4
Cash and cash equivalents inflow for the year	15.8	28.8
Cash and cash equivalents at end of year	168.0	152.2

Notes to the Consolidated Financial Statements

1. Basis of preparation

Hastings Group Holdings plc (the 'Company', 'Hastings', 'HGH') was incorporated on 11 June 2015. The Company's registered office and principal place of business is at Conquest House, Collington Avenue, Bexhill on Sea, TN39 3LW, United Kingdom. The Company's registered number is 09635183.

The 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 (together referred to as the 'Group') for the year ended 31 December 2016 and comparative figures for the year ended 31 December 2015.

The Consolidated Financial Statements have been prepared and approved by the Directors in accordance with IFRS as adopted by the EU ('IFRS') that are in effect at 31 December 2016. IFRS comprise standards and interpretations approved by the International Accounting Standards Board ('IASB') and the International Financial Reporting Interpretations Committee.

a) Reorganisation

On 12 August 2015, the Company acquired the entire issued share capital of Hastings Insurance Group (Holdings) plc ('HIG(H)'), the ultimate parent company of Advantage Insurance Company Limited ('AICL') and Hastings Insurance Services Limited ('HISL'), in a series of transactions referred to as the 'reorganisation'. Both the Company and HIG(H) were under common control before and after the reorganisation and, as a consequence, the Consolidated Financial Statements have been prepared under the principles of predecessor accounting. No acquirer was therefore required to be identified and all entities are included in the Consolidated Financial Statements at their pre-combination carrying amounts and including their pre-acquisition results within the comparatives. Differences on consolidation arising between consideration paid and the book value of the underlying net assets acquired was included within equity as a merger reserve.

b) Going concern

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

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

c) Basis of measurement

The Consolidated Financial Statements are presented in Pounds Sterling. Amounts are rounded to the nearest million with one decimal place (ie £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 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.

d) 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 2016 and 31 December 2015.

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.

2. Accounting policies

a) Revenue recognition

Insurance premiums, reinsurance and profit commission

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

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

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

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

Revenue from insurance broking activities

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

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

Premium finance interest

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

Investment and interest income

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

Discounts

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

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

b) Insurance contracts and reinsurance assets

Claims liabilities

Gross outstanding claims liabilities are recognised at the value of expected future payments relating to claims incurred at the reporting date. The expected future payments include those in relation to claims reported but not yet paid or not yet paid in full and claims incurred but not reported ('IBNR'). The liabilities are not discounted to present value, except periodic payment orders ('PPOs'), as described below.

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

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

From time to time, periodical payment orders (‘PPOs’) are awarded as a result of claims made under insurance contracts. Such awards are generally for a fixed instalment over an indeterminate time period. Claims settled, or expected to be settled, by means of a PPO are recognised at the present value of expected future cash flows of the award granted over the expected term of the PPO, and are recognised immediately when the award is considered probable. Discounting is implicit within these reserving calculations at each period end for each expected PPO.

Reinsurance 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, as well as longer-term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts, recognised as reinsurance assets.

Reinsurance 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 agreement is signed, on the basis that the reinsurer is discharged from all obligations relating to the contract. Any gain or loss is recognised in profit or loss in the same period.

Co-insurance contracts

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

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

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

Unearned premiums reserve

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

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

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

Salvage and subrogation recoveries

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

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

Deferred acquisition costs

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

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

c) Non-trading items and material items

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

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

d) Finance costs

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

e) Financial assets

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

Financial assets at fair value through profit or loss

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

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

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

Available for sale financial assets

Financial assets are classified as available for sale when they are not classified as loans and receivables, are acquired with neither the intention to sell in the near term, nor with the intention to hold until maturity, and the Group does not make purchase and sale decisions based on fair value.

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

3. Critical accounting estimates and judgements in applying accounting policies

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

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

a) Claims liabilities

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

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

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

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

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

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

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

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

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

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

Where a claim has been settled through a PPO or it is expected that a PPO will be awarded, the liability is calculated using discounted cash flows. Where management assess that a claim will be settled through a lump sum payment, the liability is calculated with reference to the Ogden discount rate which is used by the courts when calculating lump sum settlements. The rate, as announced by the Lord Chancellor on 27 February 2017 and with effect from 20 March 2017, is minus 0.75%, which has been used to calculate the Group's claims liabilities which are likely to be settled at the revised rate.

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

Given the uncertainty in establishing the outstanding claims liabilities, it is likely that the final outcome will be different from the original liability established.

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

	31 December 2011	31 December 2012	31 December 2013	31 December 2014	31 December 2015	31 December 2016	Total
Impact of 1% change (£m)	2.1	2.8	3.2	3.7	4.7	6.0	22.5

b) Reinsurance assets

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

Further judgement is required in respect of the recoverability of such assets, particularly the longer term assets arising from larger claims and PPOs. Management review the recoverability of reinsurance assets on a regular basis to determine whether any provision is required.

When recognising a reinsurance asset, the Group reviews the level of coverage provided by the reinsurer to ensure that the recognition is appropriate as well as the credit rating of the counterparty.

4. Insurance contracts risk management

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

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

Risk management objectives and policies for mitigating insurance risk

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

Acceptance of risk

The Board of Directors of the Group's underwriting subsidiary, Advantage Insurance Company Limited ('AICL') approves the underwriting and pricing policy, and reviews and monitors the underwriting and pricing standards and strategies. The Group's underwriting strategy is focused on a sophisticated data-driven approach to pricing and underwriting through:

- Collating and analysing comprehensive data from customers;
- Tight control over the pricing guidelines in order to target profitable business lines; and
- Fast and flexible responsiveness to market trends.

The underwriting of large numbers of uncorrelated individual risks reduces the variability in overall claims experience. Management information systems are maintained that provide up-to-date, reliable data on the risks to which the business is exposed at any point in time. Efforts are made, including the use of plain language policy terms, to ensure there is no misalignment between what customers perceive will be paid when a policy is initially entered and what is actually paid when a claim is made.

Pricing

Statistical models are used which combine historical and projected data to calculate premiums and monitor claims patterns. The data used includes historical pricing and claims analysis as well as current 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 perform detailed reviews of expected PPOs throughout the claims process to identify the expected ultimate value of such claims as early as possible and reserve appropriately.

Reinsurance contracts

Reinsurance contracts are used both to limit exposure to claims pervasively across the business, and specifically to limit exposure to large single claims and the accumulation of claims that arise from the same event or the accumulation of similar events.

The Group uses excess of loss reinsurance arrangements and the effect of such arrangements is that the Group should not suffer 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.

Additionally, the Group has a 50% quota share arrangement in place, applicable on all new motor insurance policies incepted by AICL since 1 January 2011.

The Group also uses excess of loss reinsurance arrangements for home insurance policies, the effect of which is that the Group does not suffer total net home insurance losses of more than £0.5m on any individual event as of 1 January 2016 (2015: £0.3m), capped at £9.3m liability per event (2015: £15.0m).

The use of reinsurance contracts does not discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim, the Group remains liable for the payment to the policyholder. As part of reinsurance contract risk management, the creditworthiness of reinsurers to control exposure to reinsurance counterparty default is considered on a quarterly basis by reviewing their financial strength. In addition, management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. The recent payment history of reinsurers is also used to update the reinsurance purchasing strategy.

Investment management

Assets and liabilities are managed so as to effectively match the expected pattern of claims payments with the assets that are held to back outstanding claims liabilities. The mix of investment between cash and cash equivalents and marketable securities is managed to ensure that the Group has the ability to meet expected and unexpected requirements for cash.

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

a) 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 1 January 2015, AICL has also underwritten UK home policies under a co-insurance arrangement. Conquest House Limited owns property which is utilised by the Group.

Retail

The principal activity of the Retail segment is the provision of insurance broking services to the private car, van, bike and home markets in the UK through the UK trading subsidiary HISL, much of which is underwritten by the Underwriting segment. Broking services are also provided on behalf of a panel of external third-party insurers.

Corporate

The Corporate segment comprises the consolidated results of the Group's head office companies, whose primary activities are as holding and finance companies.

Consolidation adjustments

Consolidation adjustments comprise the adjustments required to consolidate the Group's results under IFRS, including the elimination of intercompany balances, revenue between operating segments and investments in subsidiaries. Transactions between the Group's two reportable segments 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, non-trading costs and the effects of accounting for business combinations.

b) Segment performance

The tables below present the Group's results by reportable segment.

Year ended 31 December 2016	Underwriting £m	Retail £m	Corporate £m	Consolidation adjustments £m	Group £m
Net earned premiums	359.6	-	-	(24.8)	334.8
Other revenue	16.8	288.5	-	(57.0)	248.3
Investment and interest income	7.0	0.2	-	-	7.2
Net revenue	383.4	288.7	-	(81.8)	590.3
Net claims incurred	(260.1)	-	-	-	(260.1)
Other expenses	(93.0)	(187.5)	(5.0)	87.4	(198.1)
Adjusted operating profit	30.3	101.2	(5.0)	5.6	132.1
Amortisation and depreciation					(27.6)
Finance costs					(10.2)
Profit before tax					94.3

The adjusted operating profit for the Underwriting segment was £50.3m before allowing for the £20.0m impact of reducing the Ogden rate to minus 0.75%.

Included within other revenue recognised by the Retail segment is £86.7m arising from transactions with the Underwriting segment. Other revenue recognised by the Underwriting segment includes £0.4m arising from transactions with the Retail segment.

Year ended 31 December 2015	Underwriting £m	Retail £m	Corporate £m	Consolidation adjustments £m	Group £m
Net earned premiums	273.6	-	-	(17.7)	255.9
Other revenue	29.0	243.4	-	(52.6)	219.8
Investment and interest income	5.0	0.2	0.1	-	5.3
Net revenue	307.6	243.6	0.1	(70.3)	481.0
Net claims incurred	(192.9)	-	-	-	(192.9)
Other expenses	(76.8)	(153.7)	(2.2)	70.7	(162.0)
Adjusted operating profit	37.9	89.9	(2.1)	0.4	126.1
Reorganisation and transaction costs					(2.4)
Amortisation and depreciation					(27.6)
Finance costs					(91.1)
Profit before tax					5.0

Included within other revenue recognised by the Retail segment is £75.9m arising from transactions with the Underwriting segment. Other revenue recognised by the Underwriting segment includes £0.4m arising from transactions with the Retail segment.

c) Segment assets and liabilities

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

As at 31 December 2016	Underwriting £m	Retail £m	Corporate £m	Consolidation adjustments £m	Group £m
Goodwill	-	1.9	-	468.1	470.0
Intangible assets	-	48.7	-	48.5	97.2
Investments in subsidiaries	-	-	1,271.0	(1,271.0)	-
Investments	4.2	-	-	(4.2)	-
Property and equipment	1.8	7.1	-	3.8	12.7
Deferred income tax assets	-	1.2	0.3	3.0	4.5
Reinsurance assets	822.3	-	-	(0.3)	822.0
Deferred acquisition costs	28.8	-	-	(4.6)	24.2
Prepayments	0.4	3.5	-	0.1	4.0
Insurance and other receivables	336.7	264.5	23.5	(268.2)	356.5
Financial assets at fair value	403.6	-	-	-	403.6
Cash and cash equivalents	93.8	69.2	5.0	-	168.0
Total assets	1,691.6	396.1	1,299.8	(1,024.8)	2,362.7
Loans and borrowings	-	-	286.6	-	286.6
Insurance contract liabilities	1,316.6	-	-	(17.1)	1,299.5
Insurance and other payables	150.4	325.0	0.5	(277.8)	198.1
Deferred income tax liabilities	0.1	-	-	18.4	18.5
Current tax liabilities	(0.9)	7.3	-	-	6.4
Total liabilities	1,466.2	332.3	287.1	(276.5)	1,809.1
Total equity	225.4	63.8	1,012.7	(748.3)	553.6

As at 31 December 2015	Underwriting £m	Retail £m	Corporate £m	Consolidation adjustments £m	Group £m
Goodwill	-	1.9	-	468.1	470.0
Intangible assets	-	32.2	-	70.6	102.8
Investments in subsidiaries	-	-	1,269.3	(1,269.3)	-
Investments	4.2	-	-	(4.2)	-
Property and equipment	1.7	8.1	-	3.9	13.7
Deferred income tax assets	-	0.8	-	2.6	3.4
Reinsurance assets	547.8	-	-	(0.3)	547.5
Deferred acquisition costs	23.6	-	-	(3.7)	19.9
Prepayments	0.2	2.0	-	-	2.2
Insurance and other receivables	246.3	213.0	21.2	(218.9)	261.6
Financial assets at fair value	316.5	-	-	-	316.5
Cash and cash equivalents	89.2	51.8	11.2	-	152.2
Total assets	1,229.5	309.8	1,301.7	(951.2)	1,889.8

Loans and borrowings	-	-	295.7	-	295.7
Insurance contract liabilities	926.4	-	-	(14.3)	912.1
Insurance and other payables	111.0	265.8	4.9	(225.5)	156.2
Deferred income tax liabilities	0.1	-	-	20.5	20.6
Current tax liabilities	0.4	1.7	(0.1)	-	2.0
Total liabilities	1,037.9	267.5	300.5	(219.3)	1,386.6
Total equity	191.6	42.3	1,001.2	(731.9)	503.2

Underwriting's investments comprises a property, Conquest House, which is leased to another Group company. This is classified as property and equipment on a Group basis.

6. Insurance premiums

	Year ended 31 December 2016			Year ended 31 December 2015		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	£m	£m	£m	£m	£m	£m
Written premiums	769.0	(394.5)	374.5	614.9	(320.9)	294.0
Unearned premiums reserve brought forward at start of the year	320.4	(166.8)	153.6	248.8	(133.3)	115.5
Unearned premiums reserve carried forward at end of the year	(397.6)	204.3	(193.3)	(320.4)	166.8	(153.6)
Total earned premiums	691.8	(357.0)	334.8	543.3	(287.4)	255.9

7. Other revenue

	Year ended	
	31 December 2016	31 December 2015
	£m	£m
Fees and commission	88.5	73.5
Ancillary product income	48.4	45.0
Premium finance interest	78.2	61.3
Reinsurance commissions	16.4	28.6
Other retail income	16.8	11.4
Total other revenue	248.3	219.8

8. Investment and interest income

	Year ended	
	31 December 2016	31 December 2015
	£m	£m
Net fair value gains on financial assets at fair value	1.1	0.8
Other interest income	6.1	4.5
Total investment and interest income	7.2	5.3

9. Claims incurred

	Year ended 31 December 2016			Year ended 31 December 2015		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	£m	£m	£m	£m	£m	£m
Current period	(644.8)	388.4	(256.4)	(451.6)	251.1	(200.5)
Prior periods	(67.0)	63.3	(3.7)	(8.5)	16.1	7.6
Total claims incurred	(711.8)	451.7	(260.1)	(460.1)	267.2	(192.9)

Current period claims relate to claim events that occurred in the current year. Prior period claims primarily relate to the reassessment of claim events that occurred in previous years and the related recoveries.

10. Expenses

	Year ended	
	31 December 2016	31 December 2015
	£m	£m
Profit before taxation is stated after charging:		
Buildings operating lease rentals	0.8	0.5
Employee benefits	76.7	56.3
Reorganisation and transaction costs	-	2.4
Other administration and distribution costs	68.7	60.9
Other expenses	146.2	120.1
Amortisation of intangible assets	24.9	25.3
Depreciation of property and equipment	2.7	2.3
Amortisation and depreciation	27.6	27.6

11. 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 on 7 December 2016, the Ministry of Justice announced that it was undertaking a review of the Ogden rate. The review concluded on 27 February 2017 with the announcement that the Ogden rate will reduce from 2.5% to minus 0.75% with effect from 20 March 2017. This will increase the value of lump sum settlements awarded. The Group has reflected the rate change to minus 0.75% in estimating the claims liabilities at 31 December 2016, and the full impact of this change on the Consolidated Statement of Profit or Loss, which is considered to warrant separate disclosure given its significance, is shown in the table below:

	31 December 2016				
	Underlying trading pre-Ogden rate change	Ogden discount rate impact	Underlying trading	Non-trading items	Total
	£m	£m	£m	£m	£m
Net earned premiums	334.8	-	334.8	-	334.8
Other revenue	254.9	(6.6)	248.3	-	248.3
Investment and interest income	7.2	-	7.2	-	7.2
Net revenue	596.9	(6.6)	590.3	-	590.3
Claims incurred	(551.7)	(160.1)	(711.8)	-	(711.8)
Reinsurers' share of claims incurred	305.0	146.7	451.7	-	451.7
Net claims incurred	(246.7)	(13.4)	(260.1)	-	(260.1)
Acquisition costs	(51.9)	-	(51.9)	-	(51.9)
Other expenses	(146.2)	-	(146.2)	-	(146.2)
Adjusted operating profit	152.1	(20.0)	132.1		
Amortisation and depreciation	(5.6)	-	(5.6)	(22.0)	(27.6)
Finance costs	(9.6)	-	(9.6)	(0.6)	(10.2)
Profit before tax	136.9	(20.0)	116.9	(22.6)	94.3
Taxation expense	(22.0)	2.0	(20.0)	4.1	(15.9)
Total profit attributable to the equity holders of the parent	114.9	(18.0)	96.9	(18.5)	78.4

Estimating the claims liabilities required at 31 December 2016 using an Ogden rate of minus 0.75%, announced on 27 February 2017, increased claims incurred by £160.1m as a result of the anticipated increase in the value of expected settlements of large personal injury claims. Of the gross amount, £146.7m 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 £13.4m and this subsequently reduced profit commission by £6.6m, resulting in a net reduction in adjusted operating profit and profit before tax of £20.0m.

12. Non-trading items

	Year ended	
	31 December 2016 £m	31 December 2015 £m
Reorganisation and transaction expenses	-	2.4
Non-trading other expenses	-	2.4
Non-operational amortisation of intangibles recognised on acquisition	22.0	23.0
Non-trading amortisation	22.0	23.0
Senior Secured Notes early repayment and transaction costs	-	36.5
Preference share dividends	-	23.7
Non-cash unwind of fair value adjustments arising on business combination	0.6	0.7
Non-trading finance costs	0.6	60.9
Tax effect of the above non-trading items	(4.1)	(12.4)
Total non-trading items	18.5	73.9

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.

The reorganisation and transaction expenses of £2.4m in 2015 are those costs incurred on listing on the London Stock Exchange in October 2015.

The Goldman Sachs transaction and associated reorganisation was accounted for as a business combination, requiring assets and liabilities to be fair valued. The amortisation of intangibles recognised of £22.0m (2015: £23.0m) and unwind of discounting in finance costs of £0.6m (2015: £0.7m) are the result of these fair value adjustments.

The early repayment charges of £36.5m in 2015 are the early redemption charges, and write off of applicable discounts and directly attributable transaction costs, on redeeming the Senior Secured Notes. These were repaid in full in 2015 as part of a Group refinancing.

Preference Share dividends of £23.7m in 2015 were accrued on Preference Shares issued as part of a Group restructure on 8 January 2014. On 12 August 2015 all Preference Shares, including dividends and interest accrued thereon were converted into Ordinary Shares.

13. Finance costs

	Year ended	
	31 December 2016 £m	31 December 2015 £m
Interest on Senior Secured Notes	-	27.1
Interest on Term Loan	8.6	1.1
Non-cash amortisation of loans and borrowings	0.9	1.8
Preference share dividends	-	23.7
Other interest expense	0.7	0.9
Total interest expense	10.2	54.6
Refinancing costs	-	36.5
Total finance costs	10.2	91.1

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

Refinancing costs incurred in the year ended 31 December 2015 related to the early redemption of the Senior Secured Notes in 2015, which were settled in full in November 2015.

On 12 August 2015, as part of the reorganisation, the preference shares and accrued dividends thereon were converted into Ordinary Shares.

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, preference share dividends and 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.

	Year ended	
	31 December 2016	31 December 2015
Profit attributable to the equity holders of the parent (£m)	78.4	2.3
Basic weighted average number of Ordinary Shares in issue (m)	657.2	468.1
Basic earnings per share	11.9p	0.5p

	Year ended	
	31 December 2016	31 December 2015
Profit attributable to the equity holders of the parent (£m)	78.4	2.3
Adjusted for (£m):		
Non-trading items	22.6	86.3
Tax effect of non-trading items	(4.1)	(12.4)
Net income (£m)	96.9	76.2
Basic weighted average number of Ordinary Shares in issue (million)	657.2	468.1
Adjusted earnings per share	14.7p	16.3p

Diluted earnings per share and adjusted diluted earnings per share are calculated respectively by dividing the profit attributable to the owners 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 share based payment arrangements.

	Year ended	
	31 December 2016	31 December 2015
Profit attributable to the equity holders of the parent (£m)	78.4	2.3
Net income (£m)	96.9	76.2
Basic weighted average number of Ordinary Shares in issue (m)	657.2	468.1
Potential ordinary shares and contingently issuable shares (m)	1.8	0.9
Weighted average number of shares adjusted for dilutive potential Ordinary shares	659.0	469.0
Diluted earnings per share	11.9p	0.5p
Adjusted diluted earnings per share	14.7p	16.2p

15. Reinsurance assets and insurance contract liabilities

	As at 31 December 2016			As at 31 December 2015		
	Gross £m	Reinsurers' share £m	Net £m	Gross £m	Reinsurers' share £m	Net £m
Claims reported and adjustments to claims reported	587.2	(360.0)	227.2	430.6	(254.9)	175.7
Claims incurred but not reported	314.7	(257.7)	57.0	161.1	(125.8)	35.3
Outstanding claims liabilities	901.9	(617.7)	284.2	591.7	(380.7)	211.0
Unearned premiums reserve	397.6	(204.3)	193.3	320.4	(166.8)	153.6
Total insurance contract liabilities	1,299.5	(822.0)	477.5	912.1	(547.5)	364.6

	As at 31 December 2016			As at 31 December 2015		
	Gross £m	Reinsurers' share £m	Net £m	Gross £m	Reinsurers' share £m	Net £m
Outstanding claims liabilities brought forward at start of year	591.7	(380.7)	211.0	455.9	(293.2)	162.7
Claims paid	(445.1)	226.9	(218.2)	(336.1)	177.8	(158.3)
Movement in liabilities	755.3	(463.9)	291.4	471.9	(265.3)	206.6
Outstanding claims liabilities carried forward	901.9	(617.7)	284.2	591.7	(380.7)	211.0
Unearned premiums reserve brought forward at start of year	320.4	(166.8)	153.6	248.8	(133.3)	115.5
Deferral in period	769.0	(394.5)	374.5	614.9	(320.9)	294.0
Release in period	(691.8)	357.0	(334.8)	(543.3)	287.4	(255.9)
Unearned premiums reserve carried forward	397.6	(204.3)	193.3	320.4	(166.8)	153.6
Total insurance contracts liabilities	1,299.5	(822.0)	477.5	912.1	(547.5)	364.6

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

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

Claims development

The following table shows the development of the originally estimated gross ultimate claims liabilities relative to the current estimates of gross ultimate claims liabilities, both net of salvage and subrogation recoveries. Claims development refers to the financial adjustment in the current accounting period relating to claims incurred in previous accounting periods because of new and more up to date information that has become available and to reflect changes in inflation.

The development is presented for each of the most recent six accident periods and all historic periods prior to these from incorporation of the Group's underwriter in 2002 (ie including accident periods prior to the creation of the Group), as estimated at each reporting date. The development for the years ended 31 December 2015 and earlier has been restated to include the effect of rebates receivable on the net claim cost to align to Solvency II disclosures. The table also shows a reconciliation of the gross outstanding claims liabilities, net of salvage and subrogation recoveries, to the gross outstanding claims liabilities on the Consolidated Balance Sheet as at 31 December 2016.

The information is presented on an accident period basis. The fair value acquisition adjustment relates to business combination accounting as a result of the Goldman Sachs investment.

The reduction in the Ogden rate has had a £160.1m impact on gross claims liabilities and a £13.4m impact on net claims liabilities at the end of the current year.

	Year ended							
	Prior periods	31 December 2011	31 December 2012	31 December 2013	31 December 2014	31 December 2015	31 December 2016	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Development								
At end of current period	761.8	163.0	252.6	326.4	384.3	491.1	644.8	3,024.0
One period earlier	765.2	170.6	243.2	312.0	369.4	451.7	-	2,312.1
Two periods earlier	762.8	168.5	247.6	304.5	368.5	-	-	1,851.9
Three periods earlier	753.4	177.1	254.0	306.4	-	-	-	1,490.9
Four periods earlier	750.6	174.4	240.4	-	-	-	-	1,165.4
Five periods earlier	740.3	167.2	-	-	-	-	-	907.5
Payments to date	(731.0)	(156.5)	(209.5)	(249.5)	(290.3)	(307.5)	(222.0)	(2,166.3)
Gross outstanding claims liabilities, net of salvage and subrogation recoveries	30.8	6.5	43.1	76.9	94.0	183.6	422.8	857.7
Reconciliation to gross outstanding claims liabilities								
Anticipated salvage and subrogation recoveries								46.7
Fair value acquisition adjustment								(2.5)
Gross outstanding claims liabilities								901.9

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 gross outstanding claims liabilities on the Consolidated Balance Sheet as at 31 December 2016.

	Year ended							
	Prior periods	31 December 2011	31 December 2012	31 December 2013	31 December 2014	31 December 2015	31 December 2016	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Development								
At end of current period	638.7	93.5	105.4	125.3	169.1	203.4	256.4	1,591.8
One period earlier	641.1	94.4	104.9	125.2	165.5	200.6	-	1,331.7
Two periods earlier	640.9	95.0	108.8	130.8	163.4	-	-	1,138.9
Three periods earlier	637.8	97.4	114.6	136.4	-	-	-	986.2
Four periods earlier	642.3	98.4	117.1	-	-	-	-	857.8
Five periods earlier	644.4	97.4	-	-	-	-	-	741.8
Payments to date	(634.8)	(92.0)	(99.8)	(110.7)	(139.3)	(149.1)	(104.6)	(1,330.3)
Net outstanding claims liabilities, net of salvage and subrogation recoveries	3.9	1.5	5.6	14.6	29.8	54.3	151.8	261.5
Reconciliation to net outstanding claims liabilities								
Anticipated salvage and subrogation recoveries								46.7
Reinsurers' share of salvage and subrogation recoveries								(23.0)
Fair value acquisition adjustment								(1.0)
Net outstanding claims liabilities								284.2
Reinsurers' share of outstanding claims liabilities								617.7
Gross outstanding claims liabilities								901.9

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 may not necessarily be derived from the information presented in the tables above.

16. Insurance and other receivables

	As at	
	31 December 2016 £m	31 December 2015 £m
Insurance receivables	255.7	206.6
Salvage and subrogation recoveries	46.7	21.1
Reinsurance receivables	29.7	11.1
Interest receivable	5.8	4.6
Other receivables	18.6	18.2
Total insurance and other receivables	356.5	261.6

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

	Insurance and other receivables £m	Provision for impairment £m	Net insurance and other receivables £m
As at 31 December 2016			
Current	357.2	(0.8)	356.4
Overdue	5.1	(5.0)	0.1
Total	362.3	(5.8)	356.5
As at 31 December 2015			
Current	262.5	(0.9)	261.6
Overdue	3.5	(3.5)	-
Total	266.0	(4.4)	261.6

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

	As at	
	31 December 2016 £m	31 December 2015 £m
Provision for impairment brought forward at start of year	4.4	3.7
Utilised during the year	(2.6)	(2.4)
Impairments recognised during the year	4.0	3.1
Total provision for impairment carried forward at end of year	5.8	4.4

17. Cash and cash equivalents

	As at	
	31 December 2016 £m	31 December 2015 £m
Cash at bank and in hand	30.9	42.5
Money market funds	119.7	104.7
Short term deposits	17.4	5.0
Total cash and cash equivalents	168.0	152.2

Cash and cash equivalents include balances of £9.2m (2015: £6.8m) relating to cash and cash equivalents held on an agency basis on behalf of other insurers.

18. 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 table below analyses financial instruments carried at amortised cost, by balance sheet classification.

	As at 31 December 2016 £m	As at 31 December 2015 £m
Financial assets		
Insurance and other receivables (excluding salvage and subrogation assets)	309.8	240.5
Total financial assets at amortised cost	309.8	240.5
Financial liabilities		
Term Loan	286.6	295.7
Insurance and other payables (excluding salvage and subrogation payables and deferred income)	165.5	137.2
Total financial liabilities at amortised cost	452.1	432.9

The carrying value of all financial instruments carried at amortised cost at 31 December 2016 and 31 December 2015 is considered to be an approximation of fair value.

At fair value

The table below analyses financial assets carried at fair value by level within the fair value hierarchy. Debt securities 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. Investment funds relate to investments in a portfolio of assets that are valued in line with the valuation policies of the fund manager. These comprise both level 1 and level 2 financial assets, and are therefore classified at level 2.

	As at 31 December 2016			As at 31 December 2015		
	Level 1 £m	Level 2 £m	Total £m	Level 1 £m	Level 2 £m	Total £m
Fair value through profit or loss						
Investment funds	-	48.5	48.5	-	51.9	51.9
Total financial assets at fair value through profit or loss	-	48.5	48.5	-	51.9	51.9
Available for sale						
Debt securities	-	355.1	355.1	-	264.6	264.6
Total available for sale financial assets	-	355.1	355.1	-	264.6	264.6
Total financial assets at fair value	-	403.6	403.6	-	316.5	316.5

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

Year ended 31 December 2016	Investment funds £m	Debt securities £m	Total £m
As at 1 January 2016	51.9	264.6	316.5
Net increases to the fair value of assets held recognised in profit or loss	0.9	0.2	1.1
Net decreases to the fair value of assets held recognised in other comprehensive income	-	5.7	5.7
Net (disposals)/additions to assets held	(4.3)	84.6	80.3
As at 31 December 2016	48.5	355.1	403.6
Year ended 31 December 2015			
As at 1 January 2015	63.0	161.9	224.9
Net increases/(decreases) to the fair value of assets held recognised in profit or loss	1.0	(0.2)	0.8
Net decreases to the fair value of assets held recognised in other comprehensive income	-	(1.3)	(1.3)
Net (disposals)/additions to assets held	(12.1)	104.2	92.1
As at 31 December 2015	51.9	264.6	316.5

Investment funds comprise funds with investments in debt securities, equities, derivatives and cash and cash equivalents. The Group's investment in available for sale financial assets is mainly comprised of fixed income debt securities.

The Standard & Poor's or equivalent credit rating of the investment managers and banks with which the Group has significant credit risk, in relation to its investments in cash and cash equivalents and financial assets at fair value, were as follows:

As at 31 December 2016	Debt securities £m	Investment funds £m	Cash and cash equivalents £m	Total £m
AAA	69.0	6.0	119.9	194.9
AA	75.8	8.9	-	84.7
A	106.2	19.1	37.2	162.5
BBB	104.1	4.9	10.9	119.9
Less than BBB or unrated	-	9.6	-	9.6
Total	355.1	48.5	168.0	571.6
As at 31 December 2015				
AAA	64.1	4.1	104.7	172.9
AA	68.3	8.6	24.3	101.2
A	42.3	33.1	23.2	98.6
BBB	89.9	(1.2)	-	88.7
Less than BBB or unrated	-	7.3	-	7.3
Total	264.6	51.9	152.2	468.7

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

	As at	
	31 December 2016 £m	31 December 2015 £m
AA	512.6	337.2
A	308.5	210.3
BBB	0.9	-
Total reinsurance assets	822.0	547.5

b) Objectives, policies and procedures for managing capital

The Group's capital is primarily made up of total equity and loans and borrowings.

The Group's subsidiary AICL, as an insurance company, is subject to the provisions of the solvency regulations set by the European Insurance and Occupational Pensions Authority and implemented by the Financial Services Commission in Gibraltar. From 1 January 2016, the previous solvency framework, Solvency I was replaced by Solvency II ('SII'), which introduced new capital and reporting requirements. AICL has exceeded the minimum capital requirements under SII at all times throughout the year.

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

19. Loans and borrowings

	As at	
	31 December 2016 £m	31 December 2015 £m
Term Loan	286.6	295.7
Total loans and borrowings	286.6	295.7
Current	8.9	9.1
Non-current	277.7	286.6
Total loans and borrowings	286.6	295.7

The Term Loan is repayable in full in five years from 15 October 2015, with instalment repayments due up to the amount of any dividend paid limited to £10.0m per annum. The Term Loan is unsecured and the Group is subject to certain financial covenants.

20. Insurance and other payables

	As at	
	31 December 2016 £m	31 December 2015 £m
Amounts owed to reinsurers	89.3	72.2
Reinsurers' share of salvage and subrogation recoveries	23.0	10.3
Insurance premium tax	20.5	13.8
Accrued interest	-	1.1
Accrued expenses	38.4	31.4
Deferred income	9.6	8.7
Other payables	17.3	18.7
Total insurance and other payables	198.1	156.2
Current	196.5	148.1
Non-current	1.6	8.1
Total insurance and other payables	198.1	156.2

21. Dividends

Dividends amounting to £36.1m or 5.5 pence per share, were paid during the year ended 31 December 2016 (2015: £nil). This consisted of two separate dividends made during the year:

- On 14 March 2016, the Board recommended the payment of a final dividend in respect of the year ended 31 December 2015 of 2.2 pence per share, totalling £14.5m which was approved at the AGM on 25 May 2016 and paid on 31 May 2016.
- On 10 August 2016, the Board declared an interim dividend in respect of the year ended 31 December 2016 of 3.3 pence per share, totalling £21.7m, which was paid on 4 November 2016.

The Board recommends the payment of a final dividend in respect of the year ended 31 December 2016 of 6.6 pence per share, totalling £43.4m, subject to shareholder approval at the AGM on 25 May 2017.

Reconciliations

Loss ratio reconciliation

The following tables reconcile the Group's profit before tax to the net underwriting margin used to calculate the combined operating ratio, and its two component measures: expense ratio and loss ratio. The combined operating ratio is the primary indicator used to measure overall performance of the Underwriting businesses 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 2016 £m	**31 December 2015 £m**
Reconciliation of profit after tax to net underwriting margin, net claims incurred and net underwriting expenses:		
Profit before tax	94.3	5.0
Add: Finance costs	10.2	91.1
Retail and other operating expenses	115.9	97.0
Retail and Group amortisation and depreciation	25.4	24.5
Less: Retail, investment and other income	(216.6)	(195.3)
Net underwriting margin	29.2	22.3
Less: Net earned premiums	(334.8)	(255.9)
Add: Net claims incurred	260.1	192.9
Net underwriting expenses	(45.5)	(40.7)
Calculation of combined operating ratio, expense ratio and loss ratio		
Combined operating ratio		
Net earned premiums	334.8	255.9
Less: Net underwriting margin	(29.2)	(22.3)
Net underwriting claims costs and expenses	305.6	233.6
Net earned premiums	334.8	255.9
Combined operating ratio (%)	91.3%	91.3%
Expense ratio		
Net underwriting expenses	45.5	40.7
Net earned premiums	334.8	255.9
Expense ratio (%)	13.6%	15.9%
Loss ratio		
Net claims incurred	260.1	192.9
Net earned premiums	334.8	255.9
Loss ratio (%)	77.7%	75.4%

Retail, investment and other income are net revenues and income excluding net earned premiums and expense contributions receivable from reinsurance partners.

Retail operating expenses are those costs incurred by the Retail business in provision of broking services, and therefore do not include acquisition costs incurred in the sale of insurance contracts or claims handling and insurer service costs which are recharged to the Underwriting business.

Retail amortisation and depreciation is the share of the Group charge incurred by the retail business.

Retail cash generated reconciliation

The following tables reconcile the Group's cash and cash equivalents per the statutory financial statements to the free cash reported in the Strategic Report, and statutory increase in cash and cash equivalents to Retail cash generated during the year ended 31 December 2016.

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. The Retail cash generated is presented as it is the most accurate representation of the cash inflows available for unrestricted use.

	Year ended	
	31 December 2016	**31 December 2015**
Reconciliation of cash held in regulated entities or on behalf of third parties	**£m**	**£m**
Underwriting statutory cash balance	93.8	89.2
Cash held by HISL on behalf of AICL and third party insurers	35.7	30.6
Mortgage and insurance prudential standard ('MIPRU')	4.2	3.5
Restricted cash	133.7	123.3
Statutory cash and cash equivalents	168.0	152.2
Closing free cash	34.3	28.9

	Year ended	
	31 December 2016	**31 December 2015**
Reconciliation of statutory cash to Retail cash generated	**£m**	**£m**
Net increase in cash and cash equivalents	15.8	28.8
Movement in cash held in regulated entities	(10.4)	(37.9)
Movement in free cash	5.4	(9.1)
Add back adjustments:		
Tax paid	10.9	5.2
Capital expenditure	20.6	27.7
Dividends paid	36.1	-
Loan repayment	10.0	-
Interest and corporate costs	13.0	33.4
Reorganisation, refinancing and transaction costs	2.1	24.0
Retail cash generated	98.1	81.2

MIPRU represents cash held by HISL for the purposes of meeting FCA regulations.

Statutory information

The financial information set out above does not constitute the Company's statutory accounts for the year ended 31 December 2016 and 31 December 2015 but is derived from the statutory accounts for the year ended 31 December 2016. Statutory accounts for 2016 will be delivered in due course to the registrar of companies. 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.

Statutory accounts for the year ended 31 December 2015 are available on the Company website.