

Hastings Insurance Services Limited

Annual Report

and Financial Statements

for the year ended 31 December 2016

Registered number: 03116518

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Directors and other information

Directors	G A Hoffman
	T van der Meer
	T J Money
	P Blanc Chairman
	S Sagayam
	S A Amies-King
	V M Dias
Secretary	A S Leppard
Auditor	KPMG LLP
	15 Canada Square
	London
	E14 5GL
Banker	Barclays Corporate
	Level 11
	1 Churchill Place
	London
	E14 5HP
Registered office	Conquest House
	Collington Avenue
	Bexhill-on-Sea
	East Sussex
	TN39 3LW
Registered number	03116518 (England and Wales)

Strategic report

Principal Activity

The principal activity of the Company is the provision of insurance broking services to the private car, van, motorbike and home markets. There have been no significant changes to the underlying activities of the Company during the year and no significant changes in the nature of the business are expected in 2017.

Performance

The Directors are pleased to report another successful year of strong profitable growth and development of the business. The Company has a unique proposition of providing 'refreshingly straightforward insurance' and together with its digital business model, agile approach and counter-fraud capabilities, continues to deliver profitable results.

Financial highlights

- **Growth in revenue** of 19% to £288.5m for the year ended 31 December 2016 (2015: £243.4m)
- **Sustained increase in adjusted operating profit**¹ up 13% to £101.2m (2015: £89.9m)
- **Significant increase in profit before tax** of 13% to £95.7m (2015: £84.8m)
- **Strong liquidity position** with cash and cash equivalents increasing 33% to £69.1m (2015: £51.8m) after dividend payments of £56.5m (2015: £48.5m)

The Company's live customer policies ('LCP') increased 15% during the year to 2.3 million driven by attracting new customers and a strong retention of existing customers. The Company's home product has also gained good momentum during the year with policy count increasing 25%, benefiting from increased price comparison website penetration. Revenue grew to £288.5m (2015: £243.4m), which represents a 19% increase, as a result of the LCP growth. The increase in revenue resulted in adjusted operating profit growing by 13% to £101.2m (2015: £89.9m) and profit before tax increasing by 13% to £95.7m (2015: £84.8m).

The Company strengthened its balance sheet in the year, increasing net assets to £82.5m (2015: £61.2m). Cash and cash equivalents increased by 33% to £69.1m (2015: £51.8m) demonstrating a strong liquidity position after dividend payments of £56.5m during the year (2015: £48.5m).

Non-financial highlights

- **Continued growth of LCP** to 2.3 million as at 31 December 2016, a 15% year on year increase (2.0 million as at 31 December 2015).
- **168,000 home LCP**, a 25% increase on 2015
- **5 star rating from Defaqto** for Car, Bike and Home for sixth consecutive year
- **Leicester site expansion** with nearly 700 Colleagues in place
- **Local education initiative 'Be the Change'** continues in Bexhill and launched in Leicester
- **Claims platform Guidewire ClaimCenter** handling all new claims
- **Rollout of Guidewire for broking and billing underway** and live with four comparison websites

The Company continued to invest in the business, and additions to intangible assets of £19.4m primarily relate to the development of Guidewire, the Company's next generation claims and broking platform (2015: £24.0m). Guidewire is a state of the art, integrated end to end platform for claims, broking and billing. It will further enhance the customer experience through 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 the Company, including reducing the claims lifecycle through improved workflow and activity management and more informed pricing, supporting the future growth plans. After the rollout of the claims platform in 2015, the Company commenced the rollout of the broking platform in 2016.

The Company also continued to invest in people, with nearly 700 employees now based in the Leicester office. The Leicester site opened in May 2015 to support the Company's growth strategy and completed phase two of the expansion during the year. The third phase of expansion is underway, which will give a total capacity for up to 1,200 colleagues. This will allow the Company to continue to attract and invest in the best talent in two locations which will support the growing customer base.

¹ 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.

Investment in Colleagues remains a key focus area and the Company is committed to identifying and nurturing talent with the graduate training programme which mirrors the Company's in house leadership, values and development training. The Company is committed to developing the skills and careers of its colleagues and continually invests in training and development programmes. The Company provides classroom and live academy training for customer serving colleagues, who are regularly upskilled, and all colleagues have opportunities to improve skills to support their careers. In 2017 the Company will be expanding its approach and will invest in high level apprenticeships so as to retain and attract critical skills needed to grow the business.

The Company undertakes a proactive role in helping local charities, making financial, professional and physical support available to the local community. This year the Company has made various donations to support local causes. In 2016, the Company, together with the team from social enterprise, Humanutopia and local recruiters, LoveLocal Jobs, launched 'Be the Change' programme in Leicester and has continued to support this initiative in Bexhill for the second consecutive year. This programme raises the aspirations of local thirteen and fourteen year old students, helping them to remove barriers that make them disengaged at school and in life by providing them with life skills to help shape their future. It is a detailed and sustainable programme of activity designed to bring young people and business volunteers together over the course of the school year.

Key performance indicators

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

	31 December 2016 £'000	31 December 2015 £'000
Revenue	288,499	243,372
Adjusted operating profit	101,212	89,894
Profit before tax	95,676	84,836
Live customer policies as at 31 December ('million)	2.3	2.0

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

Principal risks and uncertainties

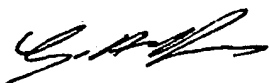
The Directors' Report details the key financial risks the Directors look to manage. These risks are also viewed as principal risks and uncertainties that the Company faces as part of its ongoing strategy as many of these risks are related to key business decisions that the Directors review and discuss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

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

Going concern

After a full review of the Company's financial position, cash flows and forecasts for the next 12 months, and after making appropriate enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

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



G A Hoffman

Director

30 March 2017

Registered number: 03116518

Directors report

The Directors submit their report and the audited financial statements of Hastings Insurance Services Limited for the year ended 31 December 2016.

Directors

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

-	G A Hoffman		
-	T van der Meer		
-	M D Lee		Resigned 1 January 2017
-	J Castagno	Non-executive	Resigned 30 September 2016
-	C Ryder	Non-executive	Resigned 30 June 2016
-	T J Money		
-	P Blanc	Chairman	
-	S Sagayam		
-	S A Amies-King	Non-executive	Appointed 28 July 2016
-	V M Dias	Non-executive	Appointed 1 October 2016

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

Employment policies

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

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

Environment policy

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

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

Dividends

The Directors declared and paid dividends of £56.5m during the year (2015: £48.5m).

Financial risk management

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

a) Competitive risk

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

b) Price risk

The Company is exposed to price risk due to normal inflationary increases in the purchase price of goods and services it purchases in the UK.

c) Credit risk

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

d) Liquidity risk

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

e) Legislative and Regulatory risk

The Company actively monitors its compliance with the regulatory requirements of the Financial Conduct Authority ('FCA') and is proactive in establishing robust policies and procedures to ensure effective compliance. This includes ensuring that there is sufficient capital to meet regulatory capital requirements, for which there is a threshold in excess of the FCA requirements.

f) Fraud

The Company employs a number of sophisticated identification and validation methodologies and databases to help prevent potentially fraudulent activity at various points in the application, sale and claims process.

Provision of information to auditor

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

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

Auditor

KPMG LLP have confirmed they are willing to be re-appointed as auditor for the financial year ending 31 December 2017. In accordance with section 487 of the Companies Act 2006, the auditor was re-appointed and KPMG LLP will therefore continue in office.

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

G A Hoffman 

Director

Date: 30 March 2017

Registered number: 03116518

Statement of Directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRS as adopted by the EU and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

We have audited the financial statements of Hastings Insurance Services Limited for the year ended 31 December 2016 set out on pages 11 to 34. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



Salim Tharani (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

Date 31 March 2017

Statement of Profit or Loss
for the year ended 31 December 2016

		Year ended	
		31 December 2016	31 December 2015
	Note	£'000	£'000
Revenue	4	288,499	243,372
Other expenses	5	(187,524)	(154,218)
Finance income	7	237	193
Add back: Restructuring and transaction costs	5	-	547
Adjusted operating profit¹		101,212	89,894
Amortisation and depreciation	5	(5,536)	(4,511)
Profit before tax		95,676	84,836
Taxation expense	8	(19,537)	(17,144)
Total profit for the year		76,139	67,692

All results arose from continuing operations.

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

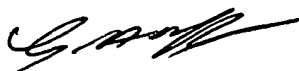
¹ Adjusted operating profit represents profit before taxation expense, finance costs, amortisation and depreciation and non-trading costs. This is a non-IFRS measure used by management to measure the underlying trading of the business and is provided for information.

Balance Sheet
as at 31 December 2016

	Note	31 December 2016 £'000	31 December 2015 £'000
Non-current assets			
Intangible assets	9	48,615	32,170
Tangible assets	10	7,121	8,096
Deferred income tax asset	11	1,243	799
Total non-current assets		56,979	41,065
Current assets			
Trade and other receivables	12, 14	264,514	213,314
Prepayments		3,537	2,055
Cash and cash equivalents	13, 14	69,139	51,803
Total current assets		337,190	267,172
TOTAL ASSETS		394,169	308,237
Equity			
Share capital	15	8,043	8,043
Capital contribution from Parent	16	1,827	272
Retained earnings		72,664	52,919
Total equity		82,534	61,234
TOTAL EQUITY		82,534	61,234
Non-current liabilities			
Deferred income	18	3,076	2,535
Provisions	19	-	200
Total non-current liabilities		3,076	2,735
Current liabilities			
Trade and other payables	14, 17	286,915	230,118
Deferred income	18	14,148	12,367
Provisions	19	200	53
Current tax liabilities		7,296	1,730
Total current liabilities		308,559	244,268
TOTAL LIABILITIES		311,635	247,003
TOTAL EQUITY AND LIABILITIES		394,169	308,237

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

These Financial Statements were approved by the Board of Directors on 30 March 2017 and were signed on its behalf by:



Gary Hoffman

Director

Company Number: 03116518

Statement of Changes in Equity
for the year ended 31 December 2016

		Share capital	Capital contribution from Parent	Retained earnings	Total equity
	Note	£'000	£'000	£'000	£'000
As at 1 January 2015		8,043	-	33,727	41,770
Total profit for the year		-	-	67,692	67,692
Capital contribution from Parent	16	-	272	-	272
Dividends paid	23	-	-	(48,500)	(48,500)
As at 31 December 2015 and 1 January 2016		8,043	272	52,919	61,234
Total profit for the year		-	-	76,139	76,139
Capital contribution from Parent	16	-	1,555	-	1,555
Tax on share based payments		-	-	106	106
Dividends paid	23	-	-	(56,500)	(56,500)
As at 31 December 2016		8,043	1,827	72,664	82,534

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

Statement of Cash Flows
for the year ended 31 December 2016

		31 December 2016	31 December 2015
	Note	£000	£000
Profit after tax		76,139	67,692
<i>Adjustments for:</i>			
Finance Income	7	(237)	(193)
Taxation expense	8	19,537	17,144
Amortisation of intangible assets	5, 9	2,919	2,328
Depreciation of tangible assets	5, 10	2,617	2,183
Loss on disposal of tangible assets		-	40
Share based payment charge	16	1,555	272
Change in trade and other receivables		(51,200)	(46,956)
Change in trade and other payables		55,179	55,469
Change in prepayments		(1,482)	(963)
Change in provisions	19	(53)	(92)
Taxation paid		(10,900)	(5,199)
Net cash flows from operating activities		94,074	91,725
Acquisition of tangible assets		(1,504)	(5,016)
Acquisition of intangible assets		(18,971)	(24,985)
Interest received	7	237	193
Net cash flows from investing activities		(20,238)	(29,808)
Dividends paid	23	(56,500)	(48,500)
Net cash flows from financing activities		(56,500)	(48,500)
Net increase in cash and cash equivalents		17,336	13,417
Cash and cash equivalents at beginning of year		51,803	38,386
Cash and cash equivalents inflow for the year		17,336	13,417
Cash and cash equivalents at end of year	13	69,139	51,803

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

Notes to the Financial Statements

1. Basis of preparation

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

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

The Financial Statements comprise the results of the Company for the year ended 31 December 2016 and comparative figures for the year ended 31 December 2015.

The Company has prepared its Financial Statements under International Financial Reporting Standards as adopted by the European Union that are in effect as at 31 December 2016 ('IFRS'). IFRS comprise standards and interpretations approved by the International Accounting Standards Board ('IASB') and the International Financial Reporting Interpretations Committee.

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

a) Going concern

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

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

b) Basis of measurement

The functional currency is sterling and the financial statements are presented in sterling. Amounts are rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

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

The financial statements are prepared on the historical cost basis.

c) Adoption of new IFRS

On 1 January 2016, the Company adopted the amendments to IFRS which were issued and endorsed by the European Union ('EU') and effective for annual periods beginning on or after 1 January 2016:

IFRS	Detail
IFRS 10, IFRS 12 and IAS 28	Amendment: Investment Entities - Applying the Consolidation Exception
IAS 27	Amendment: Equity Method in Separate Financial Statements
IAS 1	Amendment: Disclosure initiative
IAS 16 and 38	Amendment: Clarification of acceptable methods of depreciation and amortisation
IAS 16 and 41	Amendment: Bearer Plants
Annual improvements to IFRS	2012-2014 cycle (issued on 25 September 2014)
IFRS 11	Amendment: Accounting for Acquisitions of Interests in Joint Operations

Notes to the Financial Statements (continued)

There was no material impact on the results reported within the Financial Statements on adoption of these amended IFRS. Adjusted operating profit is a non-IFRS measure used by management to assess performance of the business. This measure was previously referred to as 'Operating profit' but was renamed to 'adjusted operating profit' following the amendments to IAS 1 in order to provide greater clarity to the users of the accounts. There has been no change to the underlying definition of the measure.

The following accounting standards have been issued by the IASB but are not yet effective in the EU:

IFRS	EU Status
IFRS 9 Financial Instruments	Endorsed by the EU on 22 November 2016 and effective from 1 January 2018
IFRS 15 Revenue from Contracts with Customers	Endorsed by the EU on 29 October 2016 and effective from 1 January 2018
IFRS 16 Leases	Not yet endorsed by the EU

IFRS 9 Financial instruments

IFRS 9 sets out comprehensive requirements relating to the classification and measurement of financial instruments. Management does not anticipate that the initial application of IFRS 9 will have a material impact upon the Financial Statements.

IFRS 15 Revenue from contracts with customers

IFRS 15 provides a five step framework for the recognition of revenue from contracts with customers and increased levels of quantitative and qualitative disclosures. Management do not expect that the adoption of IFRS 15 will have a significant impact on the Financial Statements.

IFRS 16 Leases

IFRS 16 implements a single, comprehensive lease accounting model whereby lessees will be required to recognise leases on balance sheet. Management is in the process of evaluating the impact of IFRS 16 on the Financial Statements. The undiscounted value of the Company's operating lease obligations are disclosed in Note 20.

Notes to the Financial Statements (continued)

2. Accounting policies

a) Revenue recognition

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

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

A portion of revenue is deferred where the Company retains the obligation to handle claims on policies placed.

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

Commission and fee discounts are deducted from the revenue streams to which they relate.

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

b) Employee benefits

Pension contributions

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

Share based payments

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

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

c) Finance income

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

d) Taxation

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

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

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

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

Notes to the Financial Statements (continued)

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

e) Intangible assets

Software

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

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

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

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

Expected useful economic lives and residual values are reviewed at each period end and, where necessary, changes are accounted for prospectively. The expected useful economic lives are between three and seven years for all of the Company's software.

Carrying amounts are reviewed at each period end to determine if there are indicators of impairment. Where these exist the asset's recoverable amount is estimated and compared to the carrying amount. The recoverable amount is the higher of the fair value less costs to sell and the asset's value in use. Where the asset's recoverable amount exceeds its carrying amount, the difference is recognised as an impairment loss in profit or loss.

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

Work in progress

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

f) Tangible assets

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

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

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

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

- | | |
|--------------------------|------------|
| • Leasehold improvements | 4-10 years |
| • Computer equipment | 2-5 years |
| • Fixtures and fittings | 3-5 years |

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

Carrying amounts are reviewed at each period end to determine if there are indicators of impairment. Where these exist the asset's recoverable amount is estimated and compared to the carrying amount. The recoverable amount is the higher of the fair value less costs to sell and the asset's value in use. Where the asset's recoverable amount exceeds its carrying amount, the difference is recognised as an impairment loss in profit or loss.

Notes to the Financial Statements (continued)

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

g) Leased assets

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

h) Financial assets

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

Loans and receivables

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

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

Offsetting financial assets and liabilities

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

Derecognition of financial assets

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

Impairment of financial assets

The Company assesses at each period end date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the Company about events such as:

- Significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or delinquency in payments; or
- It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation.

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

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

i) Cash and cash equivalents

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

Notes to the Financial Statements (continued)

j) Financial liabilities

The Company's financial liabilities comprise trade and other payables. Financial liabilities are initially measured at fair value less any directly attributable transaction costs, which are capitalised and reduce the initial liability recognised. Subsequently, financial liabilities are measured at amortised cost using the effective interest method.

k) Insurance intermediary assets and liabilities

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

l) Share capital

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

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

m) Dividends

Dividends are recognised directly in equity when approved and payable.

Notes to the Financial Statements (continued)

3. Critical accounting estimates and judgements in applying accounting policies

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

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

a) Tangible assets and intangible assets

Management determines the estimated useful lives and residual values of tangible assets and intangible assets. The estimated useful lives are reviewed annually and the amortisation and depreciation charge is revised prospectively where useful lives or residual values are subsequently found to be different from those previously estimated.

Where tangible assets and intangible assets are classified as work in progress as at the reporting date, management have assessed that the criteria for recognition outlined in IAS 16 Property, Plant and Equipment or IAS 38 Intangible Assets have been fulfilled.

b) Impairment of assets

Changes in the circumstances or expectations of future performance of an individual asset may be an indicator that the asset is impaired. The asset's recoverable amount, the higher of its fair value less costs to sell or value in use, is assessed and where this is significantly below its carrying amount, impairment is deemed to exist.

Estimating the recoverable amount of an asset requires a high degree of judgement, as does the assessment of what is deemed to be significant, and may to a large extent depend upon the selection of key assumptions about future events. Impairment historically relating to income not expected to be recoverable is measured in the same manner and takes into account recovery trends.

c) Revenue

Revenue is measured at the fair value of the income receivable and is recognised on completion of the associated service. The revenue recognised makes allowance for expected future refunds required in the event of cancellations of contracts by customers. Management judgement is required to estimate future refunds resulting from cancellations, based on cancellation experience.

A portion of revenue received for the arrangement of insurance contracts is deferred where the Company retains the obligation to handle claims on policies placed. The amount of revenue deferred is based on the forecast associated costs of claims handling at the reporting date plus the expected profit on those services.

Notes to the Financial Statements (continued)

4. Revenue

	Year ended	
	31 December 2016 £'000	31 December 2015 £'000
Brokerage and fees	208,367	181,067
Premium finance interest	78,224	61,337
Other income	1,908	988
Total revenue	288,499	243,372

5. Expenses

	Year ended	
	31 December 2016 £'000	31 December 2015 £'000
<i>Profit before taxation is stated after charging</i>		
Buildings operating lease rentals	1,137	841
Equipment operating lease rentals	224	322
Auditor's remuneration		
Fees for audit services in respect of these financial statements	83	62
Fees for audit services for other group companies	19	19
Employee benefits	71,092	54,195
Restructuring and transaction costs	-	547
Administration and distribution costs	114,969	98,232
Other expenses	187,524	154,218
Amortisation of intangible assets (Note 9)	2,919	2,328
Depreciation of property and equipment (Note 10)	2,617	2,183
Amortisation and depreciation	5,536	4,511

6. Employee benefits

Included in other operating expenses were the following employee benefits:

	Year ended	
	31 December 2016 £'000	31 December 2015 £'000
Salaries	62,282	48,377
Social security charges	5,981	4,503
Defined contribution pension plan costs	1,274	1,043
Share based payment charge	1,555	272
Total employee benefits	71,092	54,195

Notes to the Financial Statements (continued)

Staff numbers (including Directors)

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

	Year ended	
	31 December 2016	31 December 2015
Operational staff	2,177	1,747
Support staff	162	140
Total staff	2,339	1,887

For the year ended 31 December 2016, key management personnel short term employee benefits and pension contributions amounted to £2.2m and £0.1m respectively (2015: £1.5m and £0.2m respectively). The share based payment charges for key management personnel amounted to £1.0m in the current year (2015: £0.2m).

Directors' emoluments

During the year, the compensation of the highest paid Director was £0.4m (2015: £0.5m) and related pension scheme contributions paid by the Company amounted to £0.1m (2015: £0.1m).

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

	Year ended	
	31 December 2016 £'000	31 December 2015 £'000
Short term employee benefits	1,188	1,723
Post employment benefits	67	73
Share based payments	650	106
Total directors compensation	1,905	1,902

7. Finance income

	Year ended	
	31 December 2016 £'000	31 December 2015 £'000
Interest on cash and cash equivalents	237	193
Total finance income	237	193

Notes to the Financial Statements (continued)

8. Taxation expense

	Year ended	
	31 December 2016	31 December 2015
	£'000	£'000
<i>Current tax</i>		
Corporation tax on profits for the year	19,613	17,248
Adjustments for prior years	262	(87)
Current taxation expense	19,875	17,161
<i>Deferred tax</i>		
Deferred taxation movement relating to temporary differences	(376)	37
Impact of change in the UK Corporation tax rate	24	42
Adjustments for prior years	14	(96)
Deferred taxation expense	(338)	(17)
Total taxation expense	19,537	17,144

Tax reconciliation:

	Year ended	
	31 December 2016	31 December 2015
	£'000	£'000
Profit before tax	95,676	84,836
Applicable tax charge at the statutory tax rate 20.00% (2015: 20.25%):	19,135	17,179
Expenses and provisions not deductible for tax purposes	102	106
Impact of change in the UK Corporation tax rate	24	42
Adjustments to tax charge for prior years - current tax	262	(87)
Adjustments to tax charge for prior years - deferred tax	14	(96)
Total taxation expense	19,537	17,144

The UK Corporation tax rate applicable to the Company was 20.00% for the year ended 31 December 2016 (2015: 20.25%).

Factors that may impact future tax charges

The UK Corporation tax rate will reduce to 19% from 1 April 2017 and to 17% from 1 April 2020. The Company is subject to routine review and enquiries by tax authorities in the UK and provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities. The final amounts paid may differ from the amounts provided depending on the ultimate resolution of such matters.

Notes to the Financial Statements (continued)

9. Intangible assets

	Computer Software £'000	Work in progress £'000	Total £'000
<i>Cost</i>			
As at 1 January 2015	10,729	6,607	17,336
Additions	438	23,571	24,009
Transfers	9,818	(9,818)	-
Disposals	(587)	-	(587)
As at 31 December 2015	20,398	20,360	40,758
<i>Accumulated amortisation</i>			
As at 1 January 2015	6,847	-	6,847
Amortisation for the year	2,328	-	2,328
Disposals	(587)	-	(587)
As at 31 December 2015	8,588	-	8,588
Net book value as at 31 December 2015	11,810	20,360	32,170
<i>Cost</i>			
As at 1 January 2016	20,398	20,360	40,758
Additions	57	19,307	19,364
Transfers	210	(210)	-
As at 31 December 2016	20,665	39,457	60,122
<i>Accumulated amortisation</i>			
As at 1 January 2016	8,588	-	8,588
Amortisation for the year	2,919	-	2,919
As at 31 December 2016	11,507	-	11,507
Net book value as at 31 December 2016	9,158	39,457	48,615

Work in progress consists of costs of development for software that is being produced for a specific purpose but has not yet reached a state where it is ready for its intended use.

Software held as at 31 December 2016 includes internally generated software carried at £8.9m (31 December 2015: £10.9m).

Software held as at 31 December 2016 has a remaining amortisation period of up to 7 years (31 December 2015: up to 7 years).

Notes to the Financial Statements (continued)

10. Property and equipment

	Leasehold improvements	Computer equipment	Fixtures, fittings and equipment	Work in progress	Total
	£m	£m	£m	£m	£m
<i>Cost</i>					
As at 1 January 2015	3,234	9,076	1,469	47	13,826
Additions	559	706	521	3,230	5,016
Transfers	746	2,276	228	(3,250)	-
Disposals	4	(81)	(63)	-	(140)
As at 31 December 2015	4,543	11,977	2,155	27	18,702
<i>Accumulated depreciation</i>					
As at 1 January 2015	1,323	6,344	856	-	8,523
Charge for the year	321	1,557	305	-	2,183
Disposals	4	(51)	(53)	-	(100)
As at 31 December 2015	1,648	7,850	1,108	-	10,606
Net book value as at 31 December 2015	2,895	4,127	1,047	27	8,096
<i>Cost</i>					
As at 1 January 2016	4,543	11,977	2,155	27	18,702
Additions	646	627	257	112	1,642
Transfers	-	50	-	(50)	-
As at 31 December 2016	5,189	12,654	2,412	89	20,344
<i>Accumulated depreciation</i>					
As at 1 January 2016	1,648	7,850	1,108	-	10,606
Charge for the year	552	1,699	366	-	2,617
As at 31 December 2016	2,200	9,549	1,474	-	13,223
Net book value as at 31 December 2016	2,989	3,105	938	89	7,121

Work in progress includes assets in production which have not yet reached the state where they are ready for their intended use. As such no depreciation has yet been charged on these assets.

11. Deferred income tax asset

	As at	
	31 December 2016	31 December 2015
	£'000	£'000
Brought forward at start of year	799	782
Movement in year	444	17
Carried forward at end of year	1,243	799
Depreciation in excess of capital allowances	793	741
Share based payments	450	58
Deferred income tax asset at end of year	1,243	799

Notes to the Financial Statements (continued)

12. Trade and other receivables

	As at	
	31 December 2016	31 December 2015
	£'000	£'000
Trade receivables	262,762	211,363
Receivable from related entity	-	969
Other receivables	1,752	982
Total trade and other receivables	264,514	213,314

The table below analyses trade and other receivables between current and overdue as well as an analysis of any provisions held. The current portion comprises balances that are 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.

	Trade receivables	Provision for impairment	Net trade receivables
	£'000	£'000	£'000
As at 31 December 2016			
Current	263,462	(810)	262,652
Overdue	5,140	(5,030)	110
Total	268,602	(5,840)	262,762
As at 31 December 2015			
Current	212,177	(926)	211,251
Overdue	3,548	(3,436)	112
Total	215,725	(4,362)	211,363

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

	As at	
	31 December 2016	31 December 2015
	£'000	£'000
Provision for impairment brought forward at start of year	4,362	3,680
Utilised during the year	(2,741)	(2,380)
Impairments recognised during the year	4,219	3,062
Total provision for impairment carried forward at end of year	5,840	4,362

13. Cash and cash equivalents

	As at	
	31 December 2016	31 December 2015
	£'000	£'000
Cash at bank and in hand	19,139	14,803
Money market funds	42,500	37,000
Short term deposits	7,500	-
Total cash and cash equivalents	69,139	51,803

Notes to the Financial Statements (continued)

Cash and cash equivalents include balances of £35.7 million (31 December 2015: £30.5 million) relating to cash and cash equivalents held on an agency basis on behalf of insurers.

14. Financial instruments, capital management and related disclosures

a) Financial assets and liabilities

At amortised cost

The table below analyses financial instruments carried at amortised cost:

	As at	
	31 December 2016 £,000	31 December 2015 £,000
<i>Financial assets</i>		
Trade receivables	262,762	211,363
Receivable from related entity	-	969
Other receivables	1,752	982
Total financial assets at amortised cost	264,514	213,314
<i>Financial liabilities</i>		
Trade and other payables to related entities	246,592	195,479
Other trade payables	19,717	17,919
Other payables	20,606	16,720
Total financial liabilities at amortised cost	286,915	230,118

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.

b) Objectives, policies and procedures for managing financial risks

The Company is exposed to financial risk through its financial assets and liabilities. The key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from liabilities as they fall due. The most important components of financial risk for the Company are credit risk and liquidity risk.

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The main areas where the Company is exposed to credit risk are brokerage not yet received, loans and receivables and cash and cash equivalent holdings.

The Company manages its exposure to credit risk on high liquidity investments by pursuing a strategy whereby all investments in money market funds have credit ratings of AA or above. The credit ratings of the Company's banks are monitored on a regular basis and where there is adverse movement appropriate action would be determined by the Board's Risk Committee.

Notes to the Financial Statements (continued)

The Standard & Poor's or equivalent credit rating of the banks with which the Company has significant credit risk, in relation to its investments in cash and cash equivalents were as follows:

	Rating	As at	
		31 December 2016	31 December 2015
		£'000	£'000
Money market funds	AAA	42,500	37,000
Cash at bank and in hand	A	19,139	14,803
Short term deposits	A	7,500	-
Total cash and cash equivalents		69,139	51,803

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

The Company's maximum exposure to credit risk at 31 December 2016 is £333.7m (2015: £265.1m), being the carrying value of trade and other receivables and cash and cash equivalents. Trade and other receivables are monitored closely with a view to minimising the collection period of those items. Bad debt expense exposure relating to policyholder debt charged to the income statement and the value of past due financial assets are disclosed in Note 12.

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

Liquidity risk

Liquidity risk is the risk that cash may not be available to meet obligations when they fall due. The Company maintains significant holdings in liquid funds to mitigate this risk. The Company makes use of regular forecasts and budgets to monitor and control its cash flow and working capital requirements.

Financial liabilities are settled in line with agreed payment terms and managed in accordance with cash availability and inflow expectations. All financial liabilities are due within 12 months. In addition, the Company holds significant liquid assets and consequently, liquidity risk is not considered to be significant.

c) Objectives, policies and procedures for managing capital

The Company's capital is made up of equity.

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

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

Notes to the Financial Statements (continued)

15. Share capital

Share capital

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

	As at	
	31 December 2016	31 December 2015
	£'000	£'000
<i>Authorised, issued and fully paid up ordinary share capital</i>		
22,980,000 Ordinary Shares of 35p (31 December 2015: 22,908,000)	8,043	8,043

All shares in issue at 31 December 2016 are of a single class with common rights in relation to distribution, return of capital and voting.

Capital contributions from parent

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

16. Share based payments

A share based payment expense of £1.6m was recognised in the year with a corresponding credit to retained earnings (2015: £0.3m).

a) Admission awards

On 28 September 2015, HGH, the Company's ultimate parent company, granted certain management personnel of the Company share awards conditional upon HGH listing on the London Stock Exchange. HGH listed on the London Stock Exchange on 15 October 2015. The awards are for a fixed value of £3.4m, payable in HGH Ordinary Shares in two tranches, at, or shortly before, 31 December 2017 and 31 December 2018. The awards are subject to a service condition that the members remain in employment by the HGH Group until vesting date.

The awards are classified as equity settled share based payments and had a fair value of £2.8m at grant date and as at 31 December 2016, no awards had vested.

b) Long term incentive plan ('LTIP')

On 19 April 2016 and 5 September 2016, certain management personnel were granted share options under the Hastings LTIP allowing them to acquire shares in HGH with an exercise price of £nil. Vesting is subject to a three year service period and the achievement of certain performance conditions in respect of total shareholder return and adjusted earnings per share over a three year period.

Notes to the Financial Statements (continued)

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

	Year ended
	31 December 2016
Share price at grant date:	
April tranche	172p
September tranche	220p
Exercise price	0p
Volatility per annum	28%
Average comparator volatility per annum	27%
Risk free rate per annum	1%
Expected life	3 years

The expected life is the contractual life of the option adjusted to reflect management's best estimate of holder behaviour. Volatility was determined with reference to insurance companies within the FTSE 350 for the 2.7 years to 19 April 2016, being the performance period and grant date respectively.

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

	31 December 2016
	Number of share awards
	million
At 1 January	-
Granted during the year	2.3
Exercised during the year	-
Forfeited during the year	-
At 31 December	2.3
Exercisable at 31 December	2.3

c) Share Incentive Plan ('SIP')

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

In the year to 31 December 2016, 103,801 matching shares (2015: £nil) were granted to employees, with an estimated fair value of £0.2m (2015: £nil). The average unexpired life of SIP awards is 2.6 years.

Notes to the Financial Statements (continued)

17. Trade and other payables

	As at	
	31 December 2016	31 December 2015
	£m	£m
Trade and other payables to related entities	246,392	195,479
Other trade payables	19,717	17,919
Other payables	20,606	16,720
Total trade and other payables	286,715	230,118

18. Deferred income

	As at	
	31 December 2016	31 December 2015
	£'000	£'000
Due within one year	14,143	12,367
Due in more than one year	3,073	2,535
Total deferred income	17,216	14,902

In May 2015 the Company received a £1.0 million grant from Leicester City Council, as part of the Regional Growth Fund and European Regional Development Fund initiatives, to support the new office and resulting jobs that were created in the city by the Company. This grant is being recognised over the qualifying period as the conditional associated salary costs are incurred, of which £0.9 million was recognised during the year ended 31 December 2016 (31 December 2015: £nil) and at 31 December 2016 £0.1 million was recognised as deferred income (31 December 2015: £1.0 million).

19. Provisions

	Lease commitments	Dilapidations	Total provisions
	£'000	£'000	£'000
As at 1 January 2015	279.0	66.0	345.0
Recognised in the year	-	250.0	250.0
Written off in the year	(279.0)	(63.0)	(342.0)
As at 1 January 2016	-	253.0	253.0
Written off in the year	-	(53.0)	(53.0)
As at 31 December 2016	-	200.0	200.0

Notes to the Financial Statements (continued)

20. Financial commitments

The Company is committed to making the following payments in future years for land and buildings under operating leases:

	As at	
	31 December 2016 £'000	31 December 2015 £'000
Within one year	2,240	1,118
Within two to five years	7,090	4,214
Over five years	4,693	3,748
Total operating lease commitments	14,135	9,080

Operating lease payments largely represent rentals payable by the Company for its office properties.

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

	As at	
	31 December 2016 £'000	31 December 2015 £'000
<i>IT transaction and support costs</i>		
Within one year	5,709	7,396
Within two to five years	7,620	6,161
<i>IT software development costs</i>		
Within one year	-	1,778
Total other financial commitments	13,329	15,335

21. Ultimate controlling party

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

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

Notes to the Financial Statements (continued)

22. Related party transactions

The Company's subsidiaries are as follows:

Subsidiary	Country of incorporation	Class of shares held	% Ownership	Principal activity
Renew Insurance Services Limited	England and Wales	Ordinary	100%	Dormant
1066 Direct Limited	England and Wales	Ordinary	100%	Dormant
Advantage Insurance Services Limited	England and Wales	Ordinary	100%	Dormant
Hastings Direct Limited	England and Wales	Ordinary	100%	Dormant
Hastings Direct Accident Management Limited	England and Wales	Ordinary	100%	Dormant
People's Choice (Europe) Limited	England and Wales	Ordinary	100%	Dormant

During the year ended 31 December 2016 the Company had the following related party transactions, all with entities within the HGH Group:

- Commission earned by the Company in the year in respect of policies sold that were underwritten by Advantage Insurance Company Limited ('AICL') was £88.5m (year ended 31 December 2015: £75.6m). Amounts owed to related companies include a balance relating to premiums on policies sold due to AICL of £238.8m (31 December 2015: £194.2m) relating to the net of premiums and IPT payable and commissions receivable on policies sold due to AICL and an intercompany payable balance of £4.6m (31 December 2015: £1.0m).
- Rent payable by the Company to Conquest House Limited during the year amounted to £0.4m (year ended 31 December 2015: £0.4m).
- At 31 December 2016 the Company has a balance payable to Hastings (Holdings) Limited of £0.1m (31 December 2015: £0.3m).
- At 31 December 2016 the Company had an intercompany balance payable to Hastings Group Holdings plc of £0.7m (31 December 2015: receivable of £1.0m).
- At 31 December 2016 the Company had an intercompany balance payable to Hastings Insurance Group plc of £0.1m (31 December 2015: £nil).
- At 31 December 2016 the Company had an intercompany balance payable to Hastings Insurance Group (Finance) plc of £2.1m (31 December 2015: £nil).
- At 31 December 2016 the Company had an intercompany balance payable to Hastings Insurance Group (Investment) plc of £0.2m (31 December 2015: £nil).

23. Dividends

Dividends amounting to £56.5m were paid during the year (2015: £48.5m), equivalent to £2.46 per share (2015: £2.12 per share).