



Annual Report  
& Accounts  
2013

2013

Together we will be the most trusted and ethical specialist financial services group, giving £50m to charity over three years.

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# SECTION

# 1

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## Section 1/Introduction

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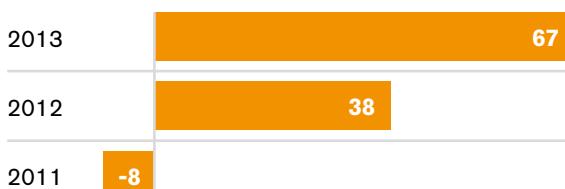


Ecclesiastical is a specialist insurance, risk advisory and asset management group with a distinctive ethical positioning and a reputation for delivering excellent service.

# 2013 Highlights

## Finances

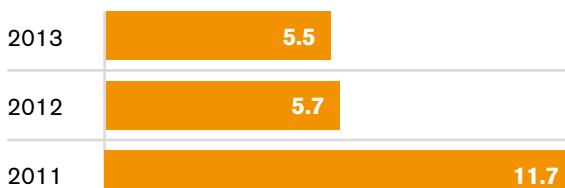
Profit/(Loss) before Tax £m



Shareholders' Funds £m



Donations £m



## Industry recognition



*the definitive mark of achievement*



## Professionalism



## Community



## Top 10 UK Company Donor

**DIRECTORY OF SOCIAL CHANGE**  
INFORMATION AND TRAINING FOR THE VOLUNTARY SECTOR

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# Who We Are

We are a specialist financial services group with a distinctive ethical positioning and a reputation for delivering excellent service.

We were established by Anglican churchmen in 1887 to provide protection to church properties. Over the last 126 years we have developed into a specialist financial services provider, offering a range of products and services to customers in selected markets.

Allchurches Trust Limited, a registered charity, owns us and the grants we pay to them ultimately go to charitable causes.

We are the eighth largest corporate donor to charity in the UK.\*

## Financially secure

We maintain a strong capital base at all times, with regulatory capital cover at 2.6 times the required level at the end of 2013.

## Professional

In the UK we are one of the select few CII Chartered Insurers whose entire UK operations have been accredited with chartered status.

## Strong expertise in specialist markets

We insure 97% of Anglican churches within the UK. We also insure one in five UK charities and some of the most iconic and precious buildings, castles, rural estates and treasure houses in the UK and abroad, including more Grade I and II listed buildings than any other insurer.

## Ethics at the heart

We were one of the first providers to establish a range of ethical investment funds; today, our funds have been regularly recognised by numerous ethical fund awards.

\* UK Guide to Company Giving 2013/2014, published by the Directory of Social Change

# What We Do

We are a specialist insurance, risk management, investment management and advisory group. We sell our products and services to businesses, organisations and individuals directly and through intermediaries. Our organisation is split into three divisions which primarily operate from the UK:

## Group strategic divisions

Specialist Insurance	Investment Management	Broking and Advisory
		
<p><b>Ecclesiastical UK</b> <b>Ansvar UK</b> <b>Ecclesiastical Ireland</b> <b>Ecclesiastical Canada</b> <b>Ansvar Australia</b></p> <p>Our insurance businesses provide a range of commercial insurance products, and risk management support for the education, faith, charity, heritage, fine art and property investors markets.</p> <p>Our key areas of expertise lie in valuing and protecting old and unusual properties, particularly those which are Grade I and II listed.</p> <p>We also provide household insurance to members of the clergy and fine art insurance to the high net worth market.</p>	<p><b>Ecclesiastical Investment Management (EIM)</b></p> <p>Our multi-award winning investment management team provides ethically screened and non-screened investment products to retail and institutional customers. Our institutional funds are aimed at the charity and faith markets.</p> <p>EIM also manages the majority of the Group's financial investments.</p>	<p><b>South Essex Insurance Brokers (SEIB)</b> <b>Lycetts*</b> <b>Ecclesiastical Financial Advisory Services (EFAS)</b></p> <p>SEIB and Lycetts provide tailored insurance solutions to customers in the heritage, equine, high net worth, and specialist motor insurance sectors among others.</p> <p>Lycetts also provides financial advice.</p> <p>EFAS offers independent financial advice to the clergy as part of our service offering for the Anglican community in the UK, and also markets and administers prepayment funeral plans under the Perfect Choice brand.</p>

# Chairman's Statement



I am pleased to report that Ecclesiastical has had another profitable year, delivering a profit before tax of £67m (2012: £38m). Ecclesiastical has delivered above benchmark investment performance over many years, and 2013 was no exception. Profitability in 2013 was again driven by a strong investment return of £74m.

## Results

This profit was partially offset by an underwriting loss of £8m (2012: £25m loss). Whilst underwriting losses have reduced to around a third of what they were last year, results are not where I would like them to be, and the Group remains sharply focused on restoring underwriting profitability.

Liability claims frequency and severity continues to impact both our UK and Irish operations. In the UK, losses from liability were more than offset by profits from our core property portfolio which delivered an exceptional Combined Operating Ratio (COR) of 78% in 2013,

despite the weather events in the last weeks of the year. Ireland also reported a good underwriting profit from its property book, but they could not offset the scale of losses on liability, which included prior year deterioration and, as in the UK, a further strengthening of reserves for physical and sexual abuse claims.

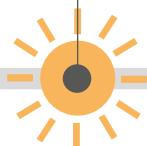
Actions have been taken to address liability performance, which has included exiting from certain markets including motor and care. These actions are discussed in more detail in the Strategic Report which starts on page 11. In Australia, results continued

to be impacted by the high cost of reinsurance. We have changed our business model for our operations in Australia and have entered into a 100% quota share arrangement for their property business, commencing from 2014, which we expect to restore underwriting profitability in this territory.

During the year, the Group paid an interim grant of £4m to its charitable owner, Allchurches Trust Limited. The Board expects to make a further grant in respect of what has been a very profitable year for the Group and will make its decision in March 2014.

## January 2013

Former CEO Michael Tripp announces his retirement.



## February 2013

Ecclesiastical gives a record number of bursaries to clergy as part of its Ministry Bursary Awards scheme in the 25th anniversary year of the awards.

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## Board

Good governance plays a critical role in ensuring that Ecclesiastical remains a successful and sustainable company. The Board remains committed to applying the highest standards of corporate governance throughout the Group and voluntarily adopted the Financial Reporting Council's (FRC) UK Corporate Governance Code (the Code) in 2010. We have continued this approach and are reporting in accordance with the new edition of the Code published by the FRC in September 2012.

During the year I have particularly focused on ensuring that the Code's principles on leadership and board effectiveness have been applied. A key element of this is ensuring that the Board has the right mix of individual Non-Executive Directors with the right mix of experience and expertise who are provided with the right information to challenge constructively and support the Executive team.

As the industry continues to evolve, I recognise the importance of having experienced insurance professionals on the Board, and I am therefore pleased to report that the Board's balance of skills and expertise has been enhanced during the year with the appointment of Tim Carroll in March 2013. Tim brings with him a wealth of general insurance industry knowledge and experience having held roles as CEO of Swiss Re's UK holding company, CEO Europe of GE Insurance Solutions, President and

CEO of GE Reinsurance Inc in the USA and Active Underwriter of Canopius Syndicate 4444 at Lloyd's.

As previously announced, Michael Tripp retired as Group Chief Executive in May 2013. After a comprehensive external and internal search, Mark Hews was appointed to succeed Michael from 1 May 2013. Mark joined the Group in April 2009 as Group Chief Financial Officer. He has more than 20 years experience in the insurance industry, previously being CEO of M&S Life and on the Board of HSBC Life. Before that he was Finance Director at Norwich Union Healthcare and a consultant at Deloitte (formerly Bacon and Woodrow).

Steve Wood, who was Managing Director of our UK business and an Executive Director, left the Group in June 2013. The Board was pleased to appoint S. Jacinta Whyte as Deputy Group Chief Executive and an Executive Director on 16 July 2013. Jacinta joined the Group in 2003 to lead the transformation of the Canadian branch, and has assumed responsibility for the Group's general insurance operations. She remains General Manager and Chief Agent of the Canadian business, but is also acting as Managing Director of our UK business following Steve's departure. Jacinta commenced her career as an underwriter for Sun Alliance in Dublin and over her 30-year career with RSA she held a number of senior executive positions in both Ireland and Canada. She brings a wealth of experience along with an

outstanding track record of building effective insurance businesses and high performing teams.

During the year we carried out performance evaluations of the Board and assessed the outcomes of the Committee evaluations which were undertaken in 2012. On pages 56 to 59 of this year's Corporate Governance Report we describe the methodology used and the outcome of the evaluations.

## Outlook

There has been a significant amount of change across the Group during the last two years, as the business has been reshaped and underperforming areas are being addressed.

I would like to thank every employee for their continued commitment, dedication and hard work during 2013. The Board appreciates the challenges and uncertainty that a period of change can bring and is grateful for everyone's focused efforts to continue moving the business forward.

Ecclesiastical's vision is to become the most trusted and ethical specialist financial services group, giving £50m to charity over three years. The Board is satisfied that the strategic approach, set out on pages 11 to 47 of this report, should deliver steady and measurable performance against this objective.

## Will Samuel Chairman

### March 2013

We report a pre-tax profit of £38m in our 2012 annual results.



### April 2013

The list of the UK's top company donors published by the Directory of Social Change ranks Ecclesiastical as the eighth biggest company donor in the UK.





Ecclesiastical's surveyors conduct thousands of surveys every year.



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## Section 2/**Strategic Report**

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# Group Chief Executive's Review



Ecclesiastical plays a unique role in the financial services industry in the UK. We are one of the only specialist financial services groups owned by a charity, an ownership which drives the Group's ethos and values and ensures that meeting our customers' needs is right at the heart of our business model. I feel honoured to have been asked to work with a talented Board and team to lead the Group forward.

My first seven months as Group Chief Executive have provided me with the opportunity to visit all of our business units, and speak with employees, customers and business partners. I was encouraged that we are already perceived by many as a Group that is determined to do right by its customers. This has reinforced my view that Ecclesiastical is ideally placed to build on its reputation and expertise as a specialist to continue to generate profits for the benefit of our charitable owner, Allchurches Trust Limited. This is the platform that I want to build on. However, two other key themes have emerged during the year as critical opportunities which we need to pursue.

## May 2013

Mark Hews appointed as Group Chief Executive Officer.

We win the Post Magazine Claims Awards Customer Care Award.



## June 2013

We announce new Group management structure and team.

We receive the Business in the Community CommunityMark Award.



Firstly, there was a consistent theme that we needed to refocus the Group in order to deliver results. This has involved going through every part of our business, thoroughly and systematically, and taking robust, decisive action to ensure that every part of our Group contributes a suitable return to support our future charitable giving.

Secondly, there was a desire from all of our stakeholders to make a fresh start, to step up our energy and drive to take the Group forward with a strategy which gives each of our Specialist Insurance, Investment Management and Broking and Advisory divisions a clear and compelling direction.

As a result we have refocused our strategy on the areas where we can differentiate ourselves from our competitors, building on our ethos, values and past success. My ambition is captured in our new objective to be the most trusted and ethical specialist financial services group, with the aim of giving £50m to charity over the next three years.

Our business model and developed strategy can be found on the pages that follow in this Strategic Report.

### Delivering our results

Overall it has been a successful year for Ecclesiastical, with pre-tax profits of £67m (2012: £38m), resulting from strong investment returns and a mixed underwriting performance, enabling us to give an interim grant of £4m to Allchurches Trust Limited in respect of 2013 with a further grant expected to be approved by the Board in March 2014.

Our investment performance outperformed benchmarks in most asset classes, contributing to a strong return of £74m (2012: £57m).

Our underwriting result was an £8m loss (2012: £25m loss), representing a Combined Operating Ratio (COR) of 102.9% (2012: 108.5%).

In the UK we achieved an underwriting profit of £10m (2012: £12m loss), as actions taken to address profitability within our liability account have started to take effect. We also benefited from strong profits from our property account, despite the weather events at the end of the year. We reserved a total of £5.6m for flood claims in December, and still achieved a COR of 95.3% overall in the UK (2012: 105.5%). UK flood and storm losses have continued into the first quarter of 2014 and we expect to reserve a further £6.5 million to cover these losses.

We won a number of major accounts during 2013, including Longleat House, Castle Howard, the Military Museums and The Royal Institution of Great Britain, and now insure the majority of Grade I listed buildings in the UK.

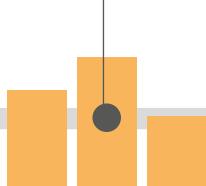
### Royal Institution of Great Britain



### July 2013

We win the British Insurance Awards Best Risk Management Initiative of the Year category and are shortlisted in the community investment category.

Jacinta Whyte appointed as Deputy Group Chief Executive and UK Managing Director.



### August 2013

We achieve CII Chartered Insurer Status.

We announce a pre-tax profit of £26.6m in our 2013 half-year results.



## Section 2/Group Chief Executive's Review

Our businesses outside of the UK faced a variety of challenges that impacted on their underwriting results. Ireland has been faced with escalating liability claims and reports an underwriting loss of £9m for the year (2012: £6m loss). We believe action taken to address this had started to take effect towards the end of 2013. Our Australian business continued to be impacted by the high cost of reinsurance, but achieved a smaller underwriting loss than 2012 of £4m (2012: £5m loss), with underwriting profits expected to return in 2014 as they will benefit significantly from new reinsurance arrangements. Our Canadian business reported an underwriting loss of £1.1m in 2013 (2012: £0.3m loss) as it was impacted by record breaking catastrophe events in the year. Losses to the Group from these events were minimised by our effective management of concentration risk and our prudent approach to reinsurance.

Our Investment Management division performed strongly yet again, with our asset management business, Ecclesiastical Investment Management (EIM) winning many awards during the year for both its investment performance and its ethical credentials. Net inflows from external customers increased to nearly £100m this year, with funds under management increasing to £2.2bn.

Our Broking and Advisory division continued to provide a stable income stream for the Group, with South Essex

Insurance Brokers (SEIB) reporting profits in line with those reported in 2012 at £2.5m.

For a more detailed analysis, please see the Financial Performance section later on in this Strategic Report starting on page 30.

### Shaping our business for the future

To support and grow these results, we are tackling the unprofitable areas of our business and shaping it for the future. We have delivered on many actions this year, and have seen our underwriting loss reduce to a third of that reported in 2012 (2013: £8m loss; 2012: £25m loss).

Following the announcement in 2012, we withdrew from the UK motor insurance market during 2013, as this did not fit with our strategy of being a specialist insurer. This has resulted in a reduction of £26m Gross Written Premiums (GWP) but has cut our exposure to a market that is typically price driven and has been loss making for the vast majority of insurers over many years.



Five Years  
Best Ethical  
Investment Provider

In July I was delighted when S. Jacinta Whyte accepted a new role as Deputy Group Chief Executive, and also assumed direct control over the UK General Insurance business. We have started the process of restructuring the UK General Insurance divisions to make it easier for customers and business partners to do business with us.

We have reshaped our management structure to create a greater focus and drive behind each of our business areas and we have strengthened our regional operations for intermediated business to enhance our service offering to customers, taking our decision-making closer to brokers. These changes will help to support our objective of being the most trusted and ethical specialist financial services group.

During July, following underwriting losses seen in 2012 and again this year, as a result of continuing increases in the frequency and severity of liability claims, we concluded a detailed strategic review of our insurance business in Ireland. The outcome of this review has resulted in exiting some liability-led business mainly within the motor and care markets, where we don't believe we can make a profit in the long-term. We are pushing through appropriate rate increases on the liability business retained. We can see good opportunities for profitable growth in Ireland but within a much tightened risk appetite focusing on property-led faith, charity and heritage business.

### October 2013

Our investment business wins Best Ethical Investment Provider Award from MoneyFacts for the fifth year running.

We are shortlisted for the CII Public Interest Awards for our anti-metal theft campaigning over the years.



### September 2013

We begin the repositioning of our UK General Insurance business.



In November we announced our exit from the non-charitable care market in the UK, a sector where liability claims have escalated over recent years, particularly in relation to abuse claims. This allows us to focus our underwriting on providing insurance to the customer segments that closely align to our ethical objectives.

In December we concluded the negotiation of new reinsurance arrangements for our business in Australia to commence in 2014. It had become clear that the existing business model for Australia was unsustainable. Reinsurance costs rose substantially following the catastrophe events in Australia during 2011, which made it difficult for smaller operations to be profitable. By moving to a 100% quota share arrangement in 2014 for the property business we expect to return underwriting back to profitability.

In the same month, Andrew Moon, Chief Executive of Ansvar Australia, announced his retirement. Andrew has led our business in Australia through one of the most challenging periods in its history, and I would like to thank him for leaving it well on track to achieve its vision to be the leading insurer in its specialist segments. We recently announced the appointment of Warren Hutcheon as the new Chief Executive of Ansvar Australia. Warren is currently Chief Executive of the Victorian Managed Insurance Authority, and will take up his new position with us in early May 2014.

### Summary and outlook

We have achieved a lot in 2013 through the hard work and commitment of our employees, working together in what have often been very challenging circumstances. Whilst there is much to do in the years ahead, I believe we have made strong initial progress and I have been impressed at how so many colleagues have risen to the challenge. I would like to thank everyone for the contribution they have made this year.

Our capital strength has been maintained throughout the challenges of the last few years, and our net assets have ended the year at a record high of £494m (2012: £456m). I believe that we have much to look forward to in 2014 and beyond, but there is no doubt that we will continue to face challenges from the competitive environment in which we operate.

Equity markets have performed strongly over the last two years, but that level of return cannot be guaranteed in the future. Our underwriting results have started to reflect the decisive actions that we have taken to return the Group to stable underwriting profits, but the frequency and severity of liability claims, including those relating to physical and sexual abuse could remain a challenge for us. We also need to ensure that we continue to communicate effectively with our broker partners and customers as we make the changes necessary to reshape our business for the future.

We make a real difference to the lives of people in the markets and communities in which we operate, and I believe that our financial strength and committed ethical approach give our business strong foundations upon which we can build our charitable giving. We have high aspirations, to give £50m to charity over the next three years, and there is so much goodwill and energy drawing us together to achieve this.

I thank all existing supporters of the Group for their contribution in helping us achieve our objectives. It is only with this support that we can give so much to good causes. I would also like to take the opportunity to welcome others, whether prospective customers, business partners or employees, to consider joining us.

I feel confident that with everyone's ongoing support and commitment to deliver the changes required we will continue to build a Group that always seeks to stand by its customers, a Group that gives so much to charitable causes and a Group of which we can all be proud.

**Mark Hews**  
**Group Chief Executive**

### November 2013



We win the Financial Services Forum Award for Marketing Effectiveness with our Hands Off Our Church Roofs campaign.

### December 2013



Our annual Christmas Carol Service at Gloucester Cathedral raises more than £3,000 for Gloucestershire charities.

# Our Business Model

Ecclesiastical is a unique business in the UK financial services sector due to our charitable ownership. This ownership structure drives the ethics and culture of our business, enhancing the Group's reputation in the market as a brand that customers and business partners can trust. When combined with our excellent customer service, this trust results in high levels of customer loyalty, which in turn is a key driver of the profit we generate for our owner, Allchurches Trust Limited.

As a Group, we aim to create value by making the most of the characteristics which set us apart from our competitors:



Our ambition is to be the most trusted and ethical specialist financial services group, giving £50m to charity over three years. In order to support this ambition, our business model is designed to enable us to deliver exceptional service to our customers and business partners and also ensure our business remains stable and sustainable over the very long term.

## Our business model supports our aim of delivering long-term value.

### FOCUS ON SPECIALIST MARKETS

We focus on those markets where we can bring our experience and expertise to bear.

### ACTIVELY MANAGE RISK EXPOSURE

We maintain a disciplined approach to risk selection, portfolio management and pricing. We provide risk management advice to help our customers reduce their likelihood of losses.

### MANAGE CAPITAL AND INVEST PRUDENTLY

We hold sufficient capital and structure our reinsurance programme and investment strategy to ensure we can meet customers' needs at all times. We only invest in businesses that are meeting, or have the potential to meet, the Group's return on capital target.

### DELIVER EXCEPTIONAL CUSTOMER SERVICE

We act in a way that builds trust with our customers and seek to be recognised for fairness and providing a consistently high level of service, that anticipates and meets customer and business partner expectations.

**Deliver sustainable profit to support charitable giving**

### PEOPLE AND CULTURE

We seek to attract and retain high performing staff and invest in their development to ensure Group businesses maintain their competitive edge. We aim to be seen as a 'go to' employer for professionals looking to pursue careers in the core technical disciplines of financial services businesses.



Harrow School

**“Together  
we will be the  
most  
trusted  
and  
ethical  
specialist  
financial services  
group, giving  
£50m  
to charity over the  
next three years.”**



# Our Strategy

Our ambition is to be:

**The Most Trusted Specialist Insurer**

**The Most Trusted Specialist Adviser**

**The Best Ethical Investment Provider**

We will achieve this by delivering a range of initiatives that build on and strengthen our sources of competitive advantage:

The expertise and experience that the Group has in each of its business divisions

The strength of relationship the business has with the Church of England

Our charitable ownership, which acts as a differentiator in certain areas of the market

A trusted brand and reputation, which enables the Group to build a strong relationship and position with customers where ethics and trust are a significant part of their culture

# Most Trusted Specialist Insurer

We aim to be the most trusted specialist insurer, offering unrivalled expertise and knowledge in our core sectors, excellent claims service and the best products in the market meeting all our customers' needs.

## How we are planning to achieve this:

- Continue to ensure that our customers' interests are at the heart of how we do business.
- Increase our knowledge and understanding of our customers' needs through a comprehensive research programme, and ensure that this knowledge is translated into market-leading products and propositions.
- Enhance our approach to broker management, building stronger relationships with key strategic partners.
- Continue to invest in strengthening our risk management, underwriting and claims management skills and capabilities.
- Complete the transformation of our Australian, Irish and UK operations, exiting non-core and unprofitable business lines and reshaping the business model so it meets the needs of today's competitive environment.



Photograph by Oskar Proctor

## ►► STRATEGY IN ACTION:

**In 2013 we won a number of important and prestigious new accounts including The Royal Institution of Great Britain, Castle Howard and Longleat House. These demonstrate that the Group's expertise in its core sectors is valued by both customers and brokers.**

**In the UK we commenced the transformation of our UK General Insurance business. In 2014 we will continue to simplify our processes to make it easier for brokers to deal with us and strengthen our regional presence in order to enhance our service to customers and brokers.**

**We took corrective actions to address profitability issues in the UK and Irish care markets, including exiting segments and reviewing pricing.**

**In Australia, we negotiated a new reinsurance arrangement which became effective from 2014 onwards, which we believe will transform the profitability of our property business in that market.**

## Case study Strengthening our position in heritage

In January 2013 the Group secured both the property and fine art insurance of Castle Howard in Yorkshire. The castle is one of England's grandest stately homes and is part of the Treasure Houses of England heritage group.

Bringing Castle Howard onto the company's books was a result of our expert teams of surveyors and underwriters working closely with the broker and the customer, demonstrating the value our long-standing heritage and fine art expertise would bring to everyone involved.

The Castle was the first of many prestigious heritage properties signed onto our books in 2013, thus successfully helping us grow our heritage property portfolio.

# 97%

of Anglican Churches insured with Ecclesiastical.

MORE  
GRADE I  
AND  
GRADE II

listed properties are insured by Ecclesiastical than any other insurer.



We insure one in five of the UK's top 3,000 charities in some way.



We were voted the Best Provider of insurance for charity, education and heritage by brokers due to our experience in the market and comprehensive cover (Broker tracking survey 2013).

# Most Trusted Specialist Adviser

We aim to be the most trusted specialist adviser in the markets we operate in by providing our customers with the best independent and impartial financial advice meeting their needs.

## How we are planning to achieve this:

- Continue to enhance the service proposition so that it meets and exceeds the expectations of our customers.
- Grow and strengthen the teams in our Broking businesses to ensure they continue to be seen as market leaders in their target segments.
- Identify new market segments in which to grow either organically or through acquisition.
- Pursue CII Chartered Status for the Broking businesses.



## ►► STRATEGY IN ACTION:

**A number of new products and existing product enhancements were developed by SEIB in 2013, which are now ready to be rolled out in 2014.**

**In 2013 SEIB introduced a new system of monitoring customer satisfaction for all transactions to ensure customers are treated fairly and efficiently.**

**Ecclesiastical Financial Advisory Services (EFAS) has many years experience of working with the clergy and church community. Our advisory team is fully independent and qualified to meet the Retail Distribution Review requirements.**

## Case study

### Customer care at the heart

SEIB's customer care has attracted industry attention and recognition for a number of years already and that's not a surprise with their latest customer feedback showing that 97% of SEIB's customers are very satisfied with their service and over 99% would recommend the broker. In 2013 SEIB was shortlisted for the annual UK Broker Awards in the customer care category based on their excellent customer feedback.



In 2013 SEIB was listed among the UK's Top 100 brokers in the Insurance Age annual Top 100 UK Brokers survey and also recognised as one of the eight 'high climbers' in the listing.



The EFAS customer satisfaction survey\* showed that all the customers questioned were extremely or very satisfied with the service received from their Ecclesiastical Financial Adviser and agree they were treated fairly.

# 100%

The EFAS customer satisfaction survey\* showed that 100% of the customers questioned were extremely or very satisfied with the arrangement of their financial review, their adviser's knowledge, the advice and information provided to them, ensuring the product met their needs and circumstances, and with the accuracy and clarity of documentation they received.

\* EFAS Customer Satisfaction Survey 2014 (qualitative research, Ecclesiastical electronic survey)

# Best Ethical Investment Provider

We aim to be the best ethical investment provider and thought leader in socially responsible investment by further enhancing our own ethical credentials and proposition and by leading the debate on ethical investment issues that matter to our customers.

## How we are planning to achieve this:

- Strengthen the ethical position of our funds and continue to build the industry-leading reputation of our socially responsible investment funds.
- Maintain our strong and above average long-term investment performance on all our funds.
- Develop and strengthen our institutional fund offering and grow our presence in the charity funds market.
- Further develop the IT systems put in place during 2013 to help improve our customer service and enable the business to meet the changing needs of the regulator.



## ►► STRATEGY IN ACTION:

**In 2013 we grew our pooled funds assets under management to almost £900m, the highest ever level, which is treble the amount we had in 2008.**

**Growth of our pooled funds was achieved through long-term outperformance across the majority of our funds and an increasing profile as the leader in the socially responsible investment market.**

**As our assets under management have grown, so has our client base, with our geographical reach of independent financial advisers and wealth managers extending throughout the UK.**

**Equally, our charity funds saw further investment and growth from both the charity and church communities.**

**We invested £2m into our special charity investment vehicle during 2013.**

## Case study

### Performance, longevity, stability

The Amity UK Fund was the Group's first retail fund and one of the UK's first socially responsible retail funds. It seeks to invest in a portfolio of companies which make a positive contribution to society and the environment through sustainable and socially responsible practices. The fund aims to achieve long-term capital appreciation and a reasonable level of income by investing principally in UK companies. It has been managed by Sue Round since it was launched in 1988, so in 2013 she celebrated her 25th anniversary managing the fund. For 2014 we believe the fund is well positioned for the continuing recovery in the economy, focusing on companies offering robust balance sheets, solid cash flows, growing dividends and strong market positioning.

Our investment team has over 25 years' experience in the socially responsible investment market.



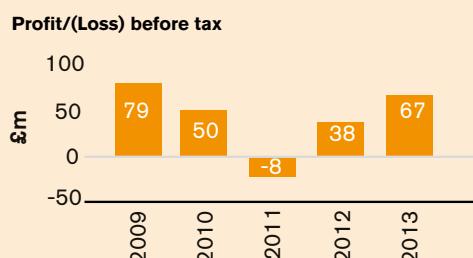
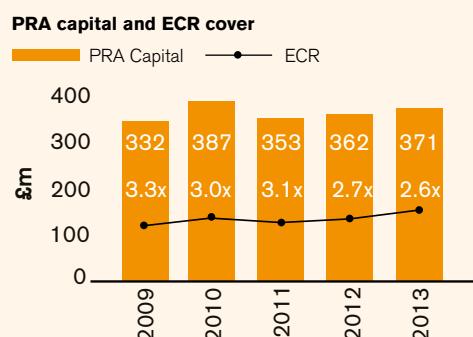
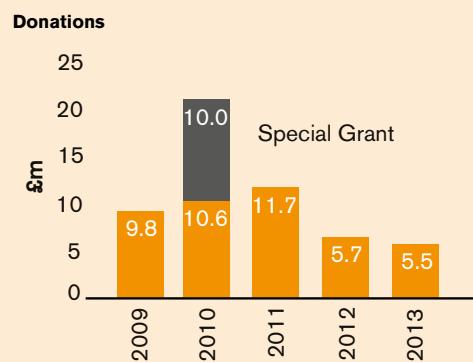
In addition to our strength in socially responsible investing, our funds and fund managers received more than 10 industry awards and accolades during 2013, most notably the Best Ethical Investment Provider of the Year award from MoneyFacts for the fifth year running.



# Key Performance Indicators

## Financial

MEASURE	PERFORMANCE
<b>DONATIONS</b>  The amount donated by Ecclesiastical to charities and our charitable owner each year. This is the main measure of our ambition, which is to give £50m to charity over three years.	<p>The ordinary grant to Allchurches Trust Limited was reduced in 2012 to reflect challenging underwriting performance. An interim grant of £4m was paid to Allchurches Trust Limited during 2013, with the remaining £1.5m of donations going to other charitable causes. The Board expects to approve a further grant in respect of 2013, which will be paid during 2014.</p>
<b>PRA CAPITAL AND ECR COVER*</b>  The capital resources available to meet the Prudential Regulation Authority's (PRA) regulatory requirements.  The Enhanced Capital Requirement (ECR) is a risk-based statistical calculation based on the business written and assets held.  ECR coverage is the ratio of PRA capital available to meet this requirement.  Our target is to exceed regulatory capital requirements at all times.	<p>PRA capital has increased during the year due to an increase in retained earnings following the profit achieved during the year. Our ECR coverage reduced due to an increase in our capital requirement. This was mainly due to our net PRA equity exposure increasing as a result of reducing the amount of hedging we had in place at the end of the year.</p> <p>Ecclesiastical remains financially very strong, despite the last few years of economic uncertainty and volatility for the insurance industry.</p>
<b>PROFIT/(LOSS) BEFORE TAX*</b>  The Group's profit or loss (excluding discontinued operations) before deduction of tax.  Our target is to generate sufficient profit to enable us to give £50m to charity over three years.	<p>The Group returned to profit in 2012 despite worsening underwriting performance. This was due to strong investment returns for the year.</p> <p>We achieved a further increase in profit for 2013, which was supported by reduced underwriting losses when compared to 2012 and also another good year of strong investment returns.</p> <p>More information on underwriting performance is given below.</p> <p><i>See the Financial Performance report on page 30 for more details.</i></p>



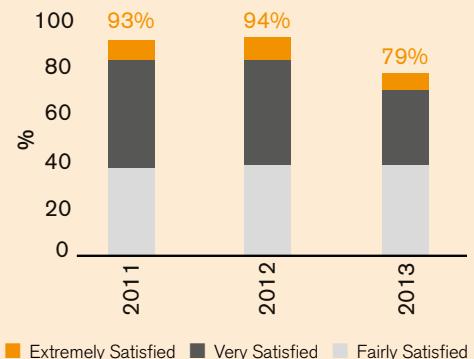
MEASURE	PERFORMANCE
<b>COMBINED OPERATING RATIO*</b>  The sum of Ecclesiastical's general insurance incurred losses and expenses divided by earned premiums for each financial year.  The Group target for the COR has been set at 95%.	<p>Our COR improved compared to 2012 as the actions we have taken to restore underwriting profitability started to take effect. The ratio remains below our longer term target, primarily driven by liability claims experience in the UK and Ireland.</p> <p><i>See the Financial Performance report on page 30 for more details.</i></p>
<b>GROSS WRITTEN PREMIUM*</b>  The total value of general insurance and life insurance policies that have been written during the year.  We do not have a specific growth target, but our aim is to achieve moderate growth of around 5% in our selected markets over the long term, with our focus on the quality of the business we write.	<p>As expected, GWP fell in 2013 following our withdrawal from motor and selected other markets as we look to focus on business where we can leverage our underwriting expertise.</p> <p>We expect a further modest fall in GWP for 2014 following our decision to exit the non-charitable care sector in the UK.</p> <p><i>See the Financial Performance report on page 30 for more details.</i></p>
<b>NET EXPENSE RATIO*</b>  Total expenses as a proportion of the net premium earned in the year. These expenses include acquisition costs, administration costs, the movement in deferred acquisition costs and commission paid less commission received.  Our aim is to make year-on-year improvements in the Net Expense Ratio.	<p>Our Net Expense Ratio decreased in 2013 to 36%, with the fall in earned premiums offset by net expenses decreasing as the benefits of efficiency programmes and improved commission agreements took effect.</p> <p>The restructuring of the UK General Insurance and Australian businesses led to one-off expenses but should, together with further efficiency programmes, help mitigate the impact of lower premiums in the near future.</p>

## Section 2/Key Performance Indicators

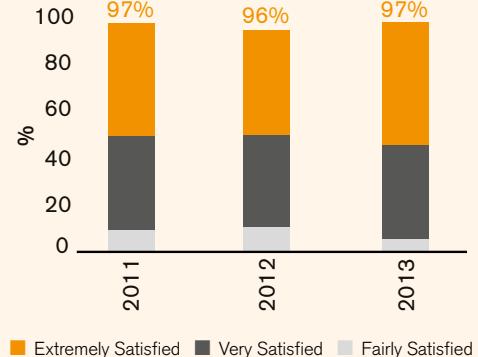
### Non-Financial

MEASURE	PERFORMANCE
<p><b>BROKER SATISFACTION</b></p> <p>Results from broker opinion surveys carried out each year by our Internal Insight team. Brokers are asked to rate their experience, on a six-point scale: 1 – extremely dissatisfied to 6 – extremely satisfied. We measure the level of positive satisfaction, particularly extremely and very satisfied. Our aim is to achieve over 90% satisfaction.</p>	<p>Ecclesiastical's broker service results have been good over the last three years, with particularly good ratings being received in 2012. For 2013, 79% of our brokers were satisfied with the service we provided, 43% of these were very or extremely satisfied. As explained earlier in this report, during the year we have exited areas of business where we do not believe we can make a sustainable profit, for example motor, and an announcement has been made to say that we are also exiting the non-charitable care market in the UK. Brokers most affected have expressed dissatisfaction with these decisions, and this, we believe, has led to the reduced level of overall satisfaction recorded in 2013.</p>
<p><b>DIRECT CUSTOMER SATISFACTION</b></p> <p>Results from internal customer satisfaction surveys carried out each year, relating to how well customers felt their claims were handled. The results of this survey include settled and partially settled property claims. Customers are asked to rate their experience on a six-point scale: 1 – extremely dissatisfied to 6 – extremely satisfied. We measure the level of positive satisfaction, particularly extremely and very satisfied. Our target is to achieve at least 90% satisfaction.</p>	<p>Ecclesiastical prides itself on maintaining very high levels of satisfaction, particularly in relation to claims when customers need us most. In 2013, 92% of customers were either extremely or very satisfied with the way their claim was handled and a further 5% were fairly satisfied. This is well above our target for 90% satisfaction. Similar results were also seen for surveys on general satisfaction levels, in particular, 100% of our home and commercial customers were satisfied with their new business experience with us.</p>

**Broker Satisfaction Survey**



**Claims Satisfaction Survey – Direct**



In 2013, 92% of customers  
were either extremely or  
very satisfied with the way  
their claim was handled.



# Financial Performance

In 2013 we achieved a pre-tax profit of £66.9m (2012: £37.8m). Our investment performance remained strong and our broker business, SEIB continued to report stable profits. This was partially offset by a loss from our general insurance business.

### General Insurance

2013 saw a number of changes for our general insurance operations as we began to refocus the business. Our underwriting performance for the year was a loss of £8.2m (2012: £24.6m loss), resulting in a Group COR of 102.9% (2012: 108.5%).

### United Kingdom

Our insurance businesses in the UK reported an underwriting profit of £9.8m (2012: £12.3m loss).

The UK business has been repositioned as a specialist insurer. We have withdrawn from the motor insurance market and from the non-charitable care sector to focus on our core business where we can leverage our underwriting expertise. The new regional structure will enable us to be an underwriting-led specialist insurer operating closer to the communities in which we serve.

Towards the end of 2013, the St Jude storm coupled with the December storms and floods impacted our property account. Prior to these storms and floods 2013 was a relatively benign year for weather events, enabling us to deliver a profit on our property account ahead of expectations.

We continued to focus on our liability business, ensuring that our preferred risks were priced appropriately. However, claims experience has led to a strengthening of our liability abuse and asbestos reserves. Despite the remedial action taken in 2012 to mitigate the losses, particularly in the care sector, we have taken the decision to exit the non-charitable care sector during the year.

The repositioning and refocusing of the business has resulted in GWP decreasing by 13% in the year to £291.3m (2012: £336.6m).

### Ireland

An underwriting loss of £9.1m (2012: £6.2m loss) was reported by our general insurance operation in Ireland, driven by losses across the liability portfolio. Remedial underwriting actions undertaken during 2012 and 2013 will take time to fully impact the underwriting result, although the second half of 2013 saw a marked improvement in the underlying performance of the liability account. The property account returned a healthy profit.

Despite achieving rate increases, the refocusing of the business has led to a higher than expected lapse rate. A 3% fall in GWP to £13.6m (2012: £14.0m) is reported.

### Australia

Australia reported an underwriting loss of £4.2m (2012: £5.2m loss). We have continued the transformation of our Australian business, and in 2013 the underwriting performance of the underlying portfolio has been strong with a gross COR of 71%. However, despite all the actions taken, the cost of reinsurance has remained uneconomically high following the catastrophe events in Australia that took place in 2011, which has significantly impacted the net results with a net COR of 114.8%.

We recognised that the cost of the existing business model for Australia was unsustainable in the longer term and have therefore moved to a 100% quota share arrangement for property business which became effective from 1 January 2014. As a result of the new quota share arrangement, the £6.5m unexpired risk reserve that we were holding at the end of 2012 was released, which has more than halved the reported underwriting loss. The liability business has continued to perform well during 2013.

The 30% fall in GWP to £45.7m (2012: £65.1m) is a result of the transformation work carried out in Australia to reduce our exposure to catastrophe risk. This has included exiting personal lines



## Section 2/Financial Performance

business during 2011 and 2012 and reducing our exposure to property risks in high catastrophe risk areas.

### Canada

Our Canadian branch reported an underwriting loss of £1.1m (2012: £0.3m loss), having been impacted by catastrophe weather events during the year. Canada experienced its largest insured natural catastrophe event in history when flooding hit Calgary on 21 June 2013. The careful management of our exposure and effective reinsurance programme contained both the gross cost (£6.7m) and net cost (£1.2m) for the branch. This was closely followed by the Toronto rainstorm on 8 July 2013, which was the third worst natural catastrophe in Canadian history; again this was contained at a £0.9m net loss for the branch. The resulting losses on the property account, however, offset the strong profits generated by the liability account.

Canada continued its track record of strong year-on-year growth in GWP, which increased by 11% to £41.2m (2012: £37.0m) with good retention rates of 94%.

### Central operations

Profits from internal reinsurance arrangements and positive movements on claims expenses for run-off operations in this segment were offset by corporate underwriting costs and a strengthening of reserves in respect of adverse development reinsurance cover sold to ACS (NZ) Limited in 2012, resulting in an overall loss of £3.7m (2012: £0.6m loss). We entered into a contract with ACS to provide additional reinsurance cover in respect of the February 2011 Christchurch earthquake. Under the terms of this contract, the Group must meet the cost of any claims from this event that are in excess of the

value of other reinsurance contracts already in place up to an agreed maximum of approximately NZ\$24m (£12m). At the end of 2013 we held a reserve of NZ\$18.7m (£9.3m) in respect of this contract..

### Investments

Global economic expansion was restrained by three main forces in 2013; a recession in the Eurozone, fiscal consolidation in the United States and a structural slowdown in many emerging markets. Despite this, equity markets across developed economies delivered strong returns, outperforming emerging market assets and global bond indices.

The UK economy outperformed the majority of its European counterparts in 2013. Whilst the decline in real wages continued, domestic consumer spending grew, which was supported by improving credit conditions, low interest rates, solid employment growth and a resurgent housing market. The Bank of England, however emphasised that interest rates would not be increased until the UK economy demonstrated a more established recovery.

Over the course of 2013, the FTSE All Share Index produced a total return of 20.8% compared with 18.7% posted by the FTSE 100. Our UK equity portfolio increased by 24.4%, outperforming both indices, reflecting its higher weighting to medium-sized companies. The improved market confidence experienced over the course of the year supported the closure of our equity futures contracts that were put in place to limit potential losses in equity markets.

Our UK bond portfolio produced a total return of 1.6% in 2013, while the FTSE Government All Stocks Index recorded a -4.0% total return over the course of the year as investors began to price in the possibility of a near-term increase

in base rates as the domestic economy improved. Our preference for corporate bonds over gilts, together with our weighting towards shorter-dated bonds enabled us to outperform the index.

### Investment management

EIM saw continued growth in funds under management, which have increased to £2.2bn reflecting new business inflows and positive market movements.

EIM attracted nearly £100m net new flows from third parties into Ecclesiastical Investment Funds, which resulted in us climbing further up the rankings of top-selling asset managers on the platforms. A further £2m was invested into our special charity investment vehicle. Overall fee income for EIM increased by 21% to £12.8m, and this mainly reflects the growth of pooled funds to over £890m. Pre-tax profits increased by nearly 45% to £1.7m.

EIM further consolidated its position as a leader in sustainable and responsible investment, with the company winning the Moneyfacts Best Ethical Investment Provider Award for the fifth consecutive year and Blue & Green Tomorrow's Sustainable Fund Manager of the Year.

EIM and its funds continued to win awards: the Amity Sterling Bond Fund won Money Observers Best Ethical/SRI bond Fund; and the Higher Income Fund was named Best Fund (Mixed Asset Class) over five years by Lipper. Our Fund Managers continue to be highly rated, with Robin Hepworth rated by Trustnet as an Alpha Trustnet Manager, placing him in the top 10% of all Fund Managers. Andrew Jackson and Sue Round currently hold Citywire ratings of AAA for their three-year risk-adjusted performance.

### **Long-term insurance**

Ecclesiastical Life Limited ceased writing new funeral plan business from the end of April 2013. Since then, the insurance policies backing the funeral plans have been written by an alternative life insurance company.

Our life business recorded a profit of £0.4m, which was in line with our expectations of modest profits emerging from the existing book of business.

### **Broking and Advisory**

SEIB continued to provide a steady and consistent income stream to the Group. The equine and pets insurance market is very competitive, and although SEIB benefits from its operations in niche markets, commission and fee income only grew by 1% to £7.3m (2012: £7.2m). Net profit before tax was in line with 2012 at £2.5m.

EFAS, our small financial advisory business, has reported a loss before tax of £0.8m. During the year EFAS rationalised its Independent Financial Advisers business in order to provide a more focused approach to our core church market. Fee and commission income, however, increased by 91% in the year as EFAS began providing administration services for the NAFD funeral plan offering.

**Ian Campbell**  
**Director Group Finance**



# Risk Management

The core business of Ecclesiastical Insurance Office plc is general insurance. Thus, risk selection, pricing, reinsurance strategy, portfolio management and regulatory compliance play an important part in our business model.

We have established an Enterprise Risk Management framework to ensure that risks are managed well on a consistent basis. This is overseen by the Group Risk Committee.

## **Enterprise Risk Management**

Enterprise Risk Management is a proactive group-wide strategic process designed to identify and manage all the individual and aggregated risks that could have a significant impact on our ability to deliver our objectives.

This process is integrated into the culture of the Group and is led by the Group Management Board, which is supported by four Executive Risk Management Committees:

- The (Non-Life) Insurance Risk Committee which has oversight of the non-life insurance risks of the Group including counterparty risk;
- The Investment and Market Risks Committee which has oversight of the investment and market risks of the Group;
- The (Non-Broker) Operational Risk Committee which has oversight for the operational risks of the non-broker elements of the Group and also EIM; and
- The (Broker) Operational Risk Committee which has oversight for the operational risks of the broker businesses within the Group, including EFAS.

It supports accountability, performance measurement and reward, thus promoting operational efficiency at all levels.

On an annual basis the Group Management Board identifies key strategic risks and allocates responsibility for each of them. Any risk management actions that arise are regularly monitored.

The key to the success of this process is the deployment of a strong Three Lines of Defence Model whereby:

- 1st Line (Business Management) is responsible for strategy, performance and managing risks arising;
- 2nd Line (Reporting, Oversight and Guidance) is responsible for establishing minimum standards, appropriate reporting, oversight and challenge of our risk profiles and risk management activities within each of our businesses. This includes Executive Risk Management Committees and is subject to oversight and challenge by the Group Risk Committee; and the
- 3rd Line (Assurance) provides independent and objective assurance of the effectiveness of the Group's systems of internal control. This activity principally comprises the Internal Audit function which is subject to oversight and challenge by the Group Audit Committee.

We have a continuous and evolving approach to Enterprise Risk Management and use emerging experience to refine our approach. During 2013 this specifically included improvements in:

- Qualitative and quantitative risk profiling;
- Underwriting standards and risk pricing capabilities;
- Our reinsurance strategy; and
- Our group-wide risk appetite.

#### **Risk appetite**

On at least an annual basis, the Board establishes a formal appetite for risk. This sets out the principles, guidance, limits and tolerances within which the Board authorises the Group Management Board to carry out the business plan. Compliance with risk appetite is reported to the Group Risk Committee at each meeting.

Amongst other things, our risk appetite sets limits on the type, nature, size and concentration of insurance risks that will be accepted by the Group together with the Board's requirements for a group-wide reinsurance strategy. We purchase reinsurance cover to protect against property catastrophe events that are predicted to occur once every 250 to 500 years, depending upon the territory.

A key objective of our risk appetite is to ensure that we have sufficient capital to meet our liabilities in extreme adverse scenarios. The risk appetite aims to achieve and support a credit rating of at least single A minus from Standard & Poor's and A.M. Best.

#### **Quantitative Risk Measures and Stress Testing framework**

The primary tool used to measure aggregate risk is an Internal Model which has been calibrated to estimate the resources required to meet the UK regulatory risk-based capital requirements.

Over the last year we have improved and further embedded our Internal Model in order to better inform our strategic decision-making within Ecclesiastical. For example, the Internal Model was used extensively in order to support a Reinsurance Strategy Review.

We continue to refine a comprehensive scenario and Stress Testing framework to complement our Quantitative Risk Measures and meet regulatory requirements.

#### **Principal risks**

The following table shows the principal risks we face that could have the highest potential to damage our Group both in the short and long term.

# Principal Risks

RISK TYPE AND DESCRIPTION	WHY WE HAVE IT	HOW WE MITIGATE IT
<b>BUSINESS MIX, UNDERWRITING AND PRICING RISK</b>  The risk of failing to price adequately for claims costs, expenses, cost of capital and profit requirements; failure to manage portfolio risk; failure to manage the underwriting cycle; diversification and concentration; failure to establish appropriate underwriting disciplines.	General insurance is a highly competitive business. The premium required for an insurance policy needs to reflect the cover provided and the risk factors present.	Disciplined underwriting and pricing is central to our business and key to the success of the Group. Since 2010 we have established sales, claims and underwriting academies to support these activities and to ensure the correct skill set is maintained and developed. In 2013 we made a significant investment to enhance underwriting and pricing techniques across the Group.  We have a specialist focus and a strategy of diversification within the type of business underwritten and between territories, which helps us to manage the underwriting cycle and reduce the variability of the expected outcome. Concentration risk is a key consideration and limits are established within the risk appetite.  The size of this risk has fallen slightly over the year; partly due to our reduction in risk appetite for liability business within the UK and Ireland and partly due to increased premiums.
<b>REINSURANCE RISK</b>  The risk of failing to access and manage reinsurance capacity at a reasonable price.	Reinsurance is a central component of our business model, enabling us to insure a portfolio of large risks in relation to our capital base. The Board has long accepted a high appetite for a strategic exposure to the reinsurance market.	This risk is managed by taking a long-term relationship view towards reinsurance purchases to deliver sustainable capacity rather than opportunistic results. The global reinsurance market has undergone a major change over the last two years, driven mainly by record amounts of capital entering the market from various sources. This abundance of new capital, supported by strong balance sheets and low loss experience has driven reinsurance rates down in most territories and lines of business for 2014. In 2013 we conducted a major review of our reinsurance strategy and will maintain improved cover at a lower cost during 2014.  The size of this risk has fallen slightly over the year.
<b>CLAIMS RESERVING RISK</b>  The risk of actual claims payments exceeding the amount we are holding on our statement of financial position for these liabilities.	Claims reserving risk is a natural consequence of incurring insurance claims. Throughout the lifecycle of a claim the estimated ultimate cost will vary as additional information becomes available.	Claims development and reserving levels are closely monitored. Claims reserving risk primarily arises from longer tail liability business. For statutory and financial reporting purposes margins are added to a best estimate outcome to allow for uncertainties. This approach generally results in a favourable release of previous year's provisions within the current financial year. Claims reserves are reviewed and signed off by the Board acting on the advice and recommendations of the Chief Actuary and the Group Audit Committee.  Over the last year an external review of reserving levels was carried out, resulting in a small reserves release.  Further information on this risk is given in notes 2, 3 and 26 to the financial statements in section 4 of this annual report and accounts.
<b>COMPETITION AND DISTRIBUTION RISK</b>  The risk of failing to recognise and address changes in a competitive market, particularly competitor actions, distribution channels, an imbalance of bargaining power with distributors, business concentration and resource issues.	General insurance is a highly competitive business. A niche and investment strategy is a critical component of our ability to put products in front of customers in a compliant manner which minimises the risk of consumer detriment.	The Group Management Board monitors key competitors on a regular basis, managing their impact on our markets. We have a strategy to deliver excellent customer service through multiple distribution channels. Doing this helps us to diversify our distribution risk as does transacting business with well-diversified broker panels.  The size of this risk is largely unchanged over the year.

RISK TYPE AND DESCRIPTION	WHY WE HAVE IT	HOW WE MITIGATE IT
<b>MARKET RISK</b> The risk of adverse movements in net asset values arising from a change in interest rates, equity prices and foreign exchange rates.	<p>Market risk principally arises from investment of reserves (these are held to pay future claims) and shareholders' funds.</p> <p>Our investment strategy is focused on fixed income and as a result has exposure to interest rate risk. Some of our fixed income is invested in corporate bonds giving exposure to credit spread risk.</p> <p>Market risk also arises as we have a significant equity portfolio.</p> <p>A proportion of our equity portfolio is invested in overseas equities in pursuit of better and/or more diversified investment returns.</p>	<p>A robust management framework is in place to mitigate the impact of changes in financial markets.</p> <p>EIM manages shareholders' funds in accordance with the investment strategy and guidelines agreed by the Finance and Investment Committee of the Board.</p> <p>We hold a relatively significant equity portfolio in order to deliver a real long-term investment return on capital and the Board has long accepted a high appetite for variable investment returns. When appropriate, as was the case in 2013, we use derivatives to reduce equity exposure.</p> <p>As we have exposure to overseas businesses and investments we ensure that currency risk is appropriately monitored and controlled with oversight by our Group Finance function to try and reduce the impact of fluctuating currency rates.</p> <p>Interest rate risk is partly managed through selecting appropriate portfolios to back pools of longer term liabilities and partly through holding a portfolio which has a relatively short average period to maturity.</p> <p>Credit spread risk is managed by limiting exposure to non-rated and lower rated bonds and adherence to limits for exposure to any single issuer.</p> <p>Market risk exposure fell in 2013 due to the sale of around £50m overseas equities which we have reinvested in UK fixed income debt securities.</p> <p>Further information on this risk is given in note 4 to the financial statements on page 110.</p>
<b>CREDIT RISK</b> The risk of non-payment of their obligations by counterparties and financial markets borrowers.	<p>Our principal exposure to credit risk arises from reinsurance, which is central to our business model.</p> <p>Additional credit risk arises from our investment in debt securities, cash deposits and amounts owed to us by intermediaries and policyholders.</p>	<p>Investment credit risk is controlled through the investment strategy and guidelines agreed by the Finance and Investment Committee of the Board. Reinsurer credit risk is controlled by the Group Reinsurance Security Committee, principally through careful selection and monitoring of reinsurance partners. All reinsurers on the 2013 reinsurance programme had a minimum rating of A minus from Standard &amp; Poor's or an equivalent agency at the time of purchase with the exception of MAPFRE RE whose rating was adversely impacted by the sovereign rating of Spain. However, MAPFRE RE was upgraded by Standard &amp; Poor's to A minus with a stable outlook in February 2014.</p> <p>Counterparty risk remained in line with 2012, as there were no material changes in our exposure to counterparties during the year.</p> <p>Further information on this risk is given in note 4 to the financial statements on page 110.</p>
<b>BUSINESS INTELLIGENCE RISK</b> The risk of shortfalls in the quality or availability of management information for decision-making.	<p>Accessing claims data in relation to the risk offered is a key tool in enabling sufficient and competitive pricing. Other management information can enable a quick response to claims or other market developments.</p>	<p>Over the last four years an extensive programme has focused on accuracy, completeness and appropriateness of data and on the development of a strategic data warehouse.</p> <p>The size of this risk has reduced slightly this year due to continuing deliverables from internal projects.</p>
<b>REGULATORY AND LEGAL RISK</b> Regulatory and legal risk is the risk of non-compliance with applicable law and regulations, unenforceable contractual rights and any dispute resolution or other proceedings arising in relation to legal rights.	<p>Regulatory and legal risk arises in each territory in which we write business and this can result in significant cost and reputational implications if it is not managed appropriately.</p>	<p>Legal and regulatory developments are monitored throughout the Group and working parties are established to consider significant developments which impact on our business.</p> <p>We have an appropriately resourced regulatory compliance function which is headed up by a Group Compliance Officer. That said, during the year, by recognising the increasing importance of regulatory compliance and the continued evolution of regulation following the establishment of the separate and independent PRA and Financial Conduct Authority (FCA) regimes, (commonly referred to as twin peaks) we have strengthened our compliance capability.</p> <p>The size of this risk has increased during the year given the emergence of the twin peaks regulatory regime and increasing regulatory obligations and expectations.</p>
<b>OPERATIONAL RISK</b> The risk of unexpected loss or cost arising from the operation of the business or due to external impacts not covered above.	<p>We have a relatively complex business operating in a number of specialist markets and territories. Whilst considerable attention to detail is paid, errors and non-controllable external events do occur.</p>	<p>Over the last year we have introduced, and nearly completed, the roll-out of a live Operational Risk Profile approach which enables us to capture risks and management actions within each business unit. Risks are managed to comply with the levels set by the Board approved within the risk appetite. Stress and scenario testing is undertaken and the results are taken into capital requirement considerations.</p> <p>Each area of our Group has a Disaster Recovery and Business Continuity Plan in place that is regularly tested and updated.</p> <p>The size of this risk is largely unchanged over the year.</p>
<b>REPUTATIONAL RISK</b> The risk of a reduction in trust by customers, brokers, reinsurers and other stakeholders as a result of an event or series of events.	<p>We always aim to be fair to our stakeholders. However, if disagreements occur, it could result in negative commentary in many forms of media.</p>	<p>Reputational risk is primarily managed through our approach to treating stakeholders fairly, combined with the other actions taken to manage risks to our financial position.</p> <p>Reputational risk is overseen by the Group Management Board together with the Group Risk Committee. We will not accept risks that will materially damage our reputation. We work closely with external stakeholders, gathering feedback and encouraging dialogue through a variety of communication channels, to proactively monitor and build our reputation.</p> <p>The size of this risk is largely unchanged over the year.</p>

# Corporate Responsibility Report

In 2013, we continued our commitment to Corporate Responsibility (CR) as a Group, focusing specifically on delivering our community investment programme, key CR initiatives and building our local charity partnerships across the globe.

#### **Continued commitment to making a difference**

Support for our communities in 2013 was given through a range of initiatives, including company matching for staff giving, the company's Helping Hands volunteering programme and grant giving through the Ecclesiastical 125 Fund, set up in our 125th anniversary year in 2012.

In recognition of our community investment programme activities over the last few years in particular, we were awarded the prestigious CommunityMark by Business in the Community (BITC), an external endorsement of our significant community investment and our continuous efforts to exceed industry targets. We were also ranked as the 8th largest corporate donor in the UK for our charitable giving by the Directory of Social Change\* and Our Helping Hands volunteering programme received insurance industry recognition by being shortlisted for the 2013 British Insurance Awards in the Corporate Social Responsibility Initiative of the Year category.

\*Source: UK Guide to Company Giving 2013/2014, published by the Directory of Social Change

## ►► CORE ISSUES AT THE HEART OF OUR CR PROGRAMME

Over the last few years our community investment programme has focused on issues that are important to our customers and the communities we operate in.

We have used our understanding of our customers (charity, heritage, faith and education sectors) and the challenges they face to focus on three core issues, which all of our community investment projects aim to tackle in some way:

- Protecting our heritage against crime and anti-social behaviour
- Supporting vulnerable children and adults in our local communities
- Supporting the sustainability of local charities that address the specific needs of our communities.

## Responsibility for CR in the Group

Formal responsibility and accountability for our approach to CR is clear at all levels in our organisation:

Corporate Responsibility at Ecclesiastical

### Group Strategy and Corporate Affairs Director

Responsible for reporting on progress and achievements in CR to the Board and Group Management Board

### Corporate Affairs Team

Responsible for developing and implementing the Group CR strategy, monitoring and reporting on CR activities to the UK General Insurance Managing Director

### Employee Community Panel

Responsible for engaging and inspiring employees to get involved in community support activities, championing community activity, and leading relationships with our local charity partners

## Highlights of 2013 CR Activities

### Community

**1,600**

We gave 1,600 hours of volunteering support to charities in the UK

**£78,000**

We raised a total of £78,000 for our charity partners across the UK through employee fundraising

**£25,000**

We donated £25,000 to the **DEC Philippines appeal** and provided 100% match-funding of all staff donations to the appeal

**£3,000**

Our annual **Charity Carol Concert** in Gloucester Cathedral raised more than £3,000 for charity partners in Gloucestershire

**£6,300**

We gave £6,300 in small grants to local charities through **Gloucestershire Community Foundation** and the Ecclesiastical 125 Fund

**5%**

We continued our approach to matching employee fundraising and payroll giving and were awarded a **Payroll Giving Quality Mark Silver Award** for 5% employee participation

**£10,000**

Taking part in the **Nightrider** cycle challenge through London for Carers Trust raised £10,000

**£40,000**

Our employees donated £40,000 in **payroll** giving

## Environment

Our Billiter Street office in London won a Gold Award in the annual Clean City Awards Scheme, which is run by the City of London. Gold Awards are given to those sites that meet and exceed the requirements of the scheme so it is a great recognition of our continued recycling and waste management efforts.

## Workplace

We continued our focus on improving performance and enhancing skills and capabilities across the business. In 2013 we launched MyEcclesiastical which provides all employees with a central resource to support them across all aspects of human resources and learning. We also continued to build on the range of training and development opportunities we offer our people, launching an online learning management system, new regulatory compliance modules, an advanced apprenticeship programme as well as focused development activity to support our higher potential employees. With a strong focus on technical skill, we were also delighted to attain Corporate Chartered Insurer Status with the CII.

## Suppliers

We include standard questions within our procurement process with CR performance as a key consideration. We will continue to question how our suppliers and business partners address their responsibilities.

## Customers

In November, Ecclesiastical ran a two-day Helping Hands initiative in conjunction with insurance brokers D E Ford to provide professional volunteering support to three Yorkshire charities. This is the third year Ecclesiastical has run a similar professional volunteering initiative, which has proved hugely successful over the years.

# Overview of CR Programme Achievements

by region

## UK

### **The Ecclesiastical 125 Fund**

Ecclesiastical's 125 Fund was set up with the Foundation in 2012 and currently receives 100% government match-funding. It distributes small grants to Gloucestershire charities through the Gloucestershire Community Foundation.

The Fund supports local registered charities, social enterprises and voluntary or community groups that:

- Support people who care for others
- Work with vulnerable children and adults
- Focus on preserving our heritage.

Seven worthy causes benefited from a total of £6,300 in small grants during the last grant-giving period in 2013.

### **National charity partnership with Carers Trust**

In 2012 Ecclesiastical chose Carers Trust as the company's national charity to support in 2012–2013 because it has strong links with a number of our core business areas. In the first year, activity as part of the partnership included supporting the charity's first national network conference and financing the post of a care adviser. In the second year of our partnership we funded the charity's national research into dementia care in the UK, resulting in the first ever in-depth report into dementia care in the UK titled 'A Road Less Rocky'.

### **BITC Business Class programme**

Our support to Gloucestershire-based Millbrook Academy through a number of mentoring and coaching activities marked the launch of the UK-wide BITC Business Class programme in Gloucestershire. As part of the initiative, local schools and businesses are grouped together to meet on a regular basis to share best practice and pool resources. Programme members are also able to share learning and ideas with other Business Class clusters nationwide.

In 2013 Ecclesiastical worked closely with Millbrook Academy for the second year and the partnership has already resulted in:

- An increase in the year 7 intake
- Enhanced marketing material and opportunities for the school
- Opportunities for mentoring of students by staff from Ecclesiastical's talent pool
- A collaborative event with two other schools to equip students with employability skills.



Ecclesiastical Employees taking part in the Nightrider challenge for Carer's Trust

## Section 2/Corporate Responsibility Report

### IRELAND

#### National charity partnership with SOAR

In 2013 our Irish business partnered with SOAR – an Irish charity foundation which delivers positive life-skills workshops within and outside the school system for young people aged 10–18. These programmes are high energy, youth relevant and uniquely different with a focus on key transitional stages in young peoples' lives.

In addition to corporate support we undertook fundraising throughout the year and raised over €10,000 in support of the work that SOAR does to make a difference to the lives of local young people.

Our support was specifically used to fund SOAR programmes in 10 schools in the North West Inner City School's Programme which is local to our Dublin office.

Fundraising included cake sales, a Christmas jumper day, a table quiz attended by staff and brokers, running the Dublin women's mini-marathon and Connemara and Wexford half-marathons. One employee even climbed Ben Nevis and another grew a moustache for November (Movember) in support of SOAR.

In 2014 we will continue to support SOAR and in addition to fundraising, hope to undertake some volunteering within SOAR.

#### Other community support

In December 2013 we lent a hand to the Dublin Simon Community in support of the work they do to help prevent and address homelessness in Dublin, Kildare and Wicklow. As well as making a monetary donation, staff also gave non-perishable foods, gifts and toys to help make a difference at Christmas to those less fortunate.

The Irish team also supported other events such as the Dublin Relay in aid of Irish Autism Action and the Dublin Dockland's 5k in aid of Barnardos. Many employees were additionally involved in and supported initiatives within their local communities.



## AUSTRALIA

Every year in Australia, Ansvar donates a proportion of its profits to its Community Education Programme (CEP), which provides grants for organisations that support disadvantaged Australian youth through education and life-skills programmes. Since 1994, investment in these programmes has exceeded \$10 million. Ansvar grants help organisations enrich the lives of young people, so they can develop themselves and give back to their communities.

### **Doxa Youth Foundation**

One CEP grant recipient was the 2013 Doxa Youth Foundation Cadetship Programme, which provides grants to talented young people from disadvantaged backgrounds to enable them to go to university and make the transition from students to young professionals. The adversity experienced by the students includes homelessness, regional isolation, poverty, family/personal illness, drug and alcohol-affected family members and financial hardship. As part of the programme, Ansvar mentors two cadets and provides eight-week work experience opportunities across the three years of their university degrees.

### **Red Dust Programme**

For the last three years Ansvar has also supported the Red Dust Programme, which promotes health awareness in several remote indigenous communities across Australia. The health programmes aim to raise awareness of the link between lifestyle choices and chronic disease, with a particular focus on Australian youth.

In 2013, as part of the 'Living Longer Programme' eight volunteers from Ansvar spent a week working in schools in three remote communities across Australia, including the outback and a remote island north of Darwin. The volunteers are role models for the youth and use sport, art, music and dance to educate students in healthy living.



Red Dust programme - Australia

## Section 2/Corporate Responsibility Report

### CANADA

During 2013 Ecclesiastical Canada staff continued to exhibit a strong commitment to giving back and supporting charities, communities, worthy causes and fundraising activities through a variety of philanthropic initiatives.

#### Kids Help Phone (KHP)

In 2013 Ecclesiastical Canada became a proud national sponsor of KHP, a counselling, information, and referral service that provides professional support to young people who are experiencing difficult and often overwhelming problems. In addition to our corporate sponsorship which funds specialised programmes, our staff lent their support by raising funds and participating in KHP's 'Walk So Kids Can Talk', Canada's largest annual charity walk in support of youth mental health and wellbeing. Our staff from across the country also participated in KHP's national Halloween themed bowling fundraiser 'Boo-la-thon' in October.

#### Heart and Stroke Foundation

For the second consecutive year our Toronto staff engaged in fundraising activities to support the Heart and Stroke Foundation's 'Big Bike' campaign. Riding a bike built for 30 and pedalling around our local community was a fun way for the team to celebrate achieving its fundraising goal. Monies raised supported heart and stroke research, prevention and education.

#### Other community support

Other causes our staff lent their time, support and generosity to during the year included Aboriginal Community Forum, Halifax Clean Sweep and Typhoon Haiyan Philippine Disaster Relief. In total our Canadian staff volunteered 454 hours during 2013.



### STRATEGIC REPORT APPROVAL

The Strategic Report, outlined on pages 11 to 47, incorporates the Chief Executive's Review, the Business Model and Strategy, the Key Performance Indicators, reviews of Financial Performance and Risk Management and the Corporate Social Responsibility Report and when taken as a whole, is considered by the Directors to be fair, balanced and understandable.

**By order of the Board**

**Mark Hews**

**Group Chief Executive**

**25 March 2014**



“We make a real difference to the lives of people in the markets and communities in which we operate, and I believe that our financial strength and committed ethical approach give our business strong foundations upon which we can build our charitable giving.”

**Mark Hews**, Group Chief Executive



# 3

SECTION

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# Board of Directors



**Will Samuel BSc, FCA\* (a) (b)**  
Chairman



**David Christie BA, BSc (Econ) Dip. Ed.\* (a) (b) (e)**  
Deputy Chairman and Senior Independent Director



**Mark Hews BSc (Hons), FIA (c)**  
Group Chief Executive



**S. Jacinta Whyte MC Inst. M, ACII, Chartered Insurer**  
Deputy Group Chief Executive



**John Hylands FFA\***  
(b) (c) (d)

Appointed to the Board in January 2006 and became Chairman in June 2009. He is Chairman of TSB Bank plc and Chairman of Howden Joinery Group plc (formerly Galliford plc). Previously he was a Senior Adviser to Lazard & Co. Limited, Senior Adviser to the PRA, Trustee and Honorary Treasurer of International Alert, a Non-Executive Director of Edinburgh Investment Trust, Director of Schroder plc, Vice Chairman of Investment Banking of Citigroup Europe and Deputy Chairman and Senior Independent Non-Executive Director of Inchcape plc.

Appointed to the Board in 2001 and was appointed as the Deputy Chairman and Senior Independent Director in February 2013. He retired as Warden of St Edward's School, Oxford, in 2004. Previously he taught and researched economics in schools and universities in the UK and Europe, and has been a trustee to a number of charities. He was appointed as a Trustee of Allchurches Trust Limited in June 2013.

Appointed Group Chief Executive in May 2013 and was previously the Group Chief Financial Officer for the Group. Appointed to the Board in June 2009 and appointed to the Board of MAPFRE RE in December 2013. He was formerly a Director of HSBC Life and Chief Executive of M&S Life. Prior to this he was Finance Director at Norwich Union Healthcare. He started his financial career at Deloitte as a consultant and actuary.

Appointed Deputy Group Chief Executive and to the Board in July 2013. She is responsible for the Group's General Insurance business globally, and was also appointed to the Ansvar Australia Board during 2013. She joined Ecclesiastical in 2003 as a General Manager and Chief Agent of the Group's Canadian business. Starting her career as an Underwriter with RSA in Dublin in 1974, she moved with them to Canada in 1988, holding a number of senior executive positions in both Ireland and Canada.

Appointed to the Board in September 2007. Until March 2007 he was an Executive Director of Standard Life plc. He is currently a Director of Alliance Trust PLC, Chairman of the trustees of the BOC and Standard Life pension schemes, a Governor of the Royal Conservatoire of Scotland and a school governor.



**Tony Latham ACII\***  
(a) (c) (d)



**The Venerable  
Christine Wilson\* (e)**



**Denise Wilson BA  
(Hons), FCII\* (d) (e)**



**Tim Carroll FCII, BA,  
MBA\* (a) (c) (d)**

Appointed to the Board in March 2008. Until December 2007 he was a member of the Group Executive of RSA Group plc. He is Chairman of Pool Reinsurance Limited and a Director of Codan A/S.

Appointed to the Board in June 2012 and has served for 13 years in parochial ministry. She was Chaplain to the High Sheriff of East Sussex in 2008 and has been Archdeacon of Chesterfield in the Diocese of Derby since 2010. She is also a member of the Church of England General Synod. In December 2013 she was elected as the East Midlands female regional representative to the House of Bishops. She has also been chair of a number of charities.

Appointed to the Board in December 2010. She is currently CEO for the Lord Davies Review of Women on Boards, Chairman of the Friends Board at the Royal Academy of Arts, Chairman of Lorica International Limited and a Director of Lorica Consulting Group. In a prior Executive capacity, at National Grid until 2011 and previously BG Group and British Gas, she has served in many senior roles including Head of Investor Relations, Global Audit Director, and Commercial and Customer Director, and started her career in insurance with RSA.

Appointed to the Board in March 2013, he is an international business leader with significant London Market and Lloyd's experience, including roles as CEO of Swiss Re's UK holding company, CEO Europe of GE Insurance Solutions, President and CEO of GE Reinsurance Inc in the USA and Active Underwriter of Canopius Syndicate 4444 at Lloyd's. He has held a number of industry positions including Chairman of the International Underwriting Association and President of the Insurance Institute of London.

\* Non-Executive Directors (NEDs)

**Key to  
membership of  
Group Board  
Committees**

- (a) Finance and Investment
- (b) Nominations
- (c) Risk
- (d) Audit
- (e) Remuneration

# Directors' Report

The Directors submit their annual report and accounts for Ecclesiastical Insurance Office plc, together with the consolidated financial statements of the Group for the year ended 31 December 2013. The Group Chief Executive's Review, Strategic Report and Corporate Governance section (this includes Board Governance, the Group Finance and Investment Committee Report, the Group Nominations Committee Report, the Group Risk Committee Report, the Group Audit Committee Report and the Group Remuneration Report) are all incorporated by reference into this Directors' Report.

## **Principal activities**

The Group operates principally as a provider of general insurance in addition to offering a range of financial services, with offices in the UK, Ireland, Canada and Australia. A list of the Company's main subsidiary undertakings are given on page 157 and details of international branches are shown on page 156.

## **Ownership**

At the date of this report the entire issued Ordinary share capital of the Company and none of the issued 8.625% Non-Cumulative Irredeemable Preference Shares of £1 each ('Preference shares') were owned by Ecclesiastical Insurance Group plc. In turn, the entire issued Ordinary share capital of Ecclesiastical Insurance Group plc was owned by Allchurches Trust Limited, the ultimate parent of the Group.

## **Board of Directors**

The Directors of the Company at the date of this report are stated on page 51.

Tim Carroll was appointed as a Director of the Company on 2 April 2013. Mark Hews was appointed as Group Chief Executive on 1 May 2013. Michael Tripp and Steve Wood resigned from the Board on 21 May and 12 June 2013, respectively. S. Jacinta Whyte was appointed as Deputy Group Chief Executive on 16 July 2013.

In line with the Financial Reporting Council's (FRC) UK Corporate Governance Code (the Code) the Board has voluntarily chosen to comply with the recommended annual re-election of Directors. All Directors that have served since the last annual general meeting (AGM) will be proposed for re-election at

the forthcoming AGM, and S. Jacinta Whyte will be recommended for election at the forthcoming AGM following recommendation from the Group Nominations Committee.

The Group has made qualifying third-party indemnity provisions for the benefit of its Directors. These were in place throughout the year and remain in force at the date of this report.

Neither the Directors nor their connected persons held any beneficial interest in any Ordinary shares of the Company during the year ended 31 December 2013. There has been no change in this position since the end of the financial year and the date of this report.

The following Directors of the Company, and their connected persons, held Preference shares in the capital of the Company at 31 December 2013:



DIRECTOR	NATURE OF INTEREST	NUMBER OF NON-CUMULATIVE IRREDEEMABLE PREFERENCE SHARES HELD
David Christie	Director	11,079
Mark Hews	Connected person	75,342
Will Samuel	Director	151,000

There have been no changes to their holdings between the end of the financial year and the date of this report.

No contract of significance subsisted during or at the end of the financial year in which a Director was or is materially interested.

#### Dividends

Dividends paid on the Preference shares were £9,181,000 (2012: £9,181,000).

The Directors do not recommend a final dividend on the Ordinary shares (2012: £nil), and no interim dividends were paid in respect of either the current or prior year.

#### Charitable and political donations

Charitable donations paid, and provided for, by the Group in the year amounted to £5.5 million (2012: £5.7 million).

During the last 10 years, a total of £95.3 million (2012: £94.3 million) has been provided by Group companies for church and charitable purposes.

It is the Group's policy not to make political donations.

#### Employees

The Group recognises the importance of employee communication and aims to keep employees informed about its affairs through the use of briefing groups, Group newsletters and the publication of financial reports. Regular meetings are held between management and other employees and discussion encouraged. It is the Group's policy to give full consideration to applications for employment by disabled persons. Appropriate adjustments are arranged for disabled persons, including retraining for alternative work of employees who become disabled, to promote their career development within the organisation.

#### Principal risks and uncertainties

The principal risks and uncertainties, together with the financial risk management objectives and policies of the Group and Company, are included in the Risk Management section of the Strategic Report and can be found starting on page 34.

#### Going concern

The Financial Performance section on page 30 and Risk Management section of the Strategic Report starting on page 34 provide a review of the Group's business activities and describe the principal risks and uncertainties, including exposures to insurance and financial risk.

The Group has considerable financial resources: financial investments of £946.5m, 97% of which are liquid (2012: financial investments of £922.1m, 96% liquid); cash and cash equivalents of £107.2m and no borrowings (2012: cash and cash equivalents of £112.6m and no borrowings); and a regulatory enhanced capital cover of 2.6 (2012: 2.7). As a consequence, the Directors have a reasonable expectation that the Group is well placed to manage its business risks successfully and continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

## Section 3/Directors' Report

### Auditor and the disclosure of information to auditor

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information that the auditor is unaware of, that could be needed by the auditor in order to prepare their report. Having made enquiries of fellow Directors and the Company's auditor, each Director has taken all the steps that they ought to have taken as a Director, in order to make themselves aware of any relevant audit information, and to establish that the auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

The Group Audit Committee reviews the reappointment of the auditor, including the auditor's effectiveness and independence, and recommends the auditor's reappointment and remuneration to the Board. Further details are disclosed in the Corporate Governance section on page 56.

In accordance with Section 489 of the Companies Act 2006, a resolution proposing that Deloitte LLP be re-appointed as auditor of the Company will be put to the forthcoming AGM.

### Directors' responsibilities

The Directors are responsible for preparing the annual 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 the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted

by the European Union and Article 4 of the International Accounting Standards (IAS) Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the European Union. Under company law the Directors must not approve the accounts 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, IAS 1 requires that Directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

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 are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

### Responsibility statement

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- The annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

### By order of the Board

**Will Samuel**

Chairman

25 March 2014

**Mark Hews**

Group Chief

Executive

25 March 2014



# Corporate Governance

The Board of Directors are committed to applying the highest standards of corporate governance and believe that the affairs of the Company should be conducted in accordance with best business practice. Accordingly, the Company has chosen to voluntarily comply with the Code's Main Principles and Code Provisions, where relevant to the Company. The Code is available from the FRC's website. The Company does not have any shares with a Premium Listing on the London Stock Exchange and is therefore not legally required to comply with the Code. The corporate governance disclosures include the Board Governance section, Group Nominations Committee Report, Group Risk Committee Report, Group Audit Committee Report and Group Remuneration Report.

## Board Governance

### **The Board**

*The Chairman and Group Chief Executive*

The roles of the Chairman and the Group Chief Executive are undertaken by separate individuals. The Chairman, Will Samuel, is responsible for leadership of the Board. The day-to-day management of the business is undertaken by the Group Chief Executive, Mark Hews, assisted by the Group Management Board.

*Senior Independent Director*

David Christie, Deputy Chairman, has been appointed as the Senior Independent Director (SID). The SID supports and acts as a sounding board for the Chairman and is responsible for overseeing the governance practices of

the Company and leading the Directors in their appraisal of the Chairman. Along with the Chairman, the SID is the primary contact for the shareholder and they meet regularly to share and understand views.

### **Directors' conflicts**

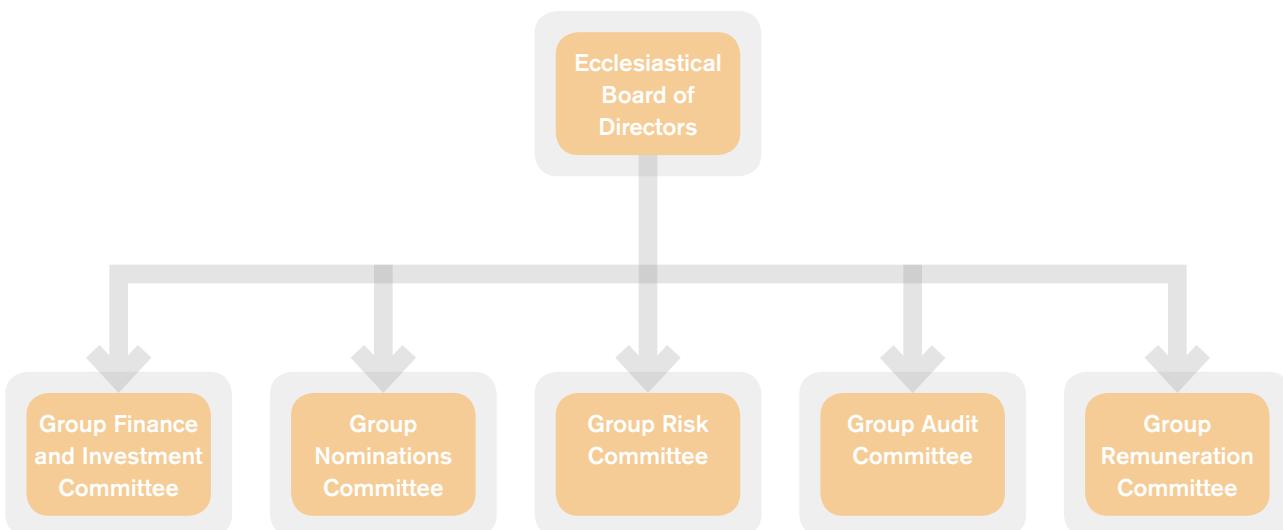
A Conflicts Register is maintained by the Group Company Secretary to monitor and manage any potential conflicts of interest. Training on the Companies Act 2006 has been given to all Directors on the provisions and Directors are regularly reminded of their duties. Any conflicts are declared at the first Board meeting at which the Director becomes aware of a potential conflict and then recorded in the Conflicts Register. The Board considers

all conflicts in line with the provisions set out in the Company's Articles. The Directors are required to review their interests recorded in the Conflicts Register on a biannual basis.

### **Role of the Board**

The Board is responsible to the Group's shareholders for the long-term success of the Group, its strategy, values and its governance. Great importance is placed on a well-informed and decisive Board, and Board meetings are scheduled and held regularly throughout the year.

A one-year rolling plan of business for discussion is reviewed and agreed by the Board annually to ensure that the Board is focused on the right issues at the right times and sufficient time is allowed for appropriate consideration and debate.



The Board sets annual objectives for each year in addition to setting the Group's strategic direction. These are implemented through approval and regular assessment of the business plan and strategy process. At each Board meeting the Directors discuss strategic and business matters, financial, operational and governance issues and other relevant business items that arise. Following Committee meetings the Board receives oral reports from the Chairs of each Committee at the next Board meeting.

#### Board Committees

The Group has five Board Committees which are shown above.

Details of all the Board Committees are contained within their respective reports that follow: the Group Finance and Investment Committee Report on page 60; the Group Nominations Committee Report on page 62; the Group Risk Committee Report on page 66; the Group Audit Committee Report on page 68; and the Group Remuneration Report on page 74.

The terms of reference for all five Board Committees can be obtained from either the Company's registered office address or the website at:

[www.ecclesiastical.com/general/investorrelations/corporategovernance/termsreferencetocommittees](http://www.ecclesiastical.com/general/investorrelations/corporategovernance/termsreferencetocommittees)

#### Attendance at meetings

Directors are required to attend all Board meetings and strategy days as well as Committee meetings where they are members. In 2013, six scheduled Board meetings, two additional Board meetings and two off-site strategy days were held. In addition, three scheduled training sessions took place.

All Directors receive papers and minutes for all meetings, unless restricted due to conflict or sensitivity. Papers are circulated electronically, generally one week in advance of all scheduled meetings. All Directors have access to the Group Company Secretary and to independent professional advice at the Company's expense as required.

## Section 3/Corporate Governance

Below is a record of the Directors' attendance for the Board meetings during 2013:

### Board attendance table

EXECUTIVE DIRECTORS	DIRECTOR SINCE	MEETINGS ELIGIBLE TO ATTEND	MEETINGS ATTENDED
Mark Hews	June 2009	10	9
S. Jacinta Whyte	July 2013	3	2
Michael Tripp	January 2007 (resigned May 2013)	4	3
Steve Wood	January 2006 (resigned June 2013)	5	4

NON-EXECUTIVE DIRECTORS	DIRECTOR SINCE	MEETINGS ELIGIBLE TO ATTEND	MEETINGS ATTENDED
Will Samuel (Chairman)	January 2006	10	10
David Christie (SID)	January 2001	10	10
Tim Carroll	March 2013	7	6
Sir Philip Mawer	February 2008 (resigned February 2013)	2	2
John Hylands	September 2007	10	9
Denise Wilson	December 2010	10	10
Tony Latham	March 2008	10	8
Christine Wilson	June 2012	10	8

During 2013, the Board made decisions on the following business issues and routine matters:

Routine matters	Board's annual objectives Financial performance and statements Risk management, appetite, and registers Overview of compliance and audit work undertaken for the Group Audit Committee Dividends, charitable donations and Gift Aid Setting and reviewing budgets Committee reports and recommendations
Operational matters	Performance, strategic and business plans for Group businesses Group reinsurance arrangements General insurance claims reserves Sales and claims Treating Customers Fairly and complaints handling Review of staff pension arrangements Determining NEDs' fees for recommendation at a general meeting Stakeholder relationships Review of UK General Insurance business including niches Review of overseas businesses
Projects	Exiting motor insurance Review of capital structure Restructure of the underwriting business Review of Group structure Review of Governance arrangements
Governance and regulatory matters	Changes to Executive Directors Taxation matters Evaluation of the Board

### **Internal controls**

The Board is ultimately responsible for the systems of risk management and internal control maintained by the Group and reviews their appropriateness and effectiveness annually. The Board views the management of risk as a key accountability and is the responsibility of all management and believes that, for the period in question, the Company has maintained an adequate and effective system of risk management and internal control that complies with the Code. Further details are set out in the Risk Management section on page 34.

The Company embeds risk management into its strategic and business planning activities whereby major risks that could affect the business in the short and long term are identified by the relevant management together with an assessment of the effectiveness of the processes and controls in place to manage and mitigate these risks.

The Chartered Institute of Internal Auditors (CIIA) issued guidance during 2013, and as a result of this guidance the Internal Audit and Compliance functions now have separate reporting lines. The Compliance function is now clearly operating in the second line of defence. More detail on how these functions operate can be found in the Group Audit Committee Report which starts on page 68.

The Group's internal control framework is vital in setting the tone for the Group and in creating a high degree of control consciousness in all employees.

A Code of Conduct and a Code of Ethics is embedded into the culture of the Group and is accessible to all staff via the intranet.

Assurance on the adequacy and effectiveness of internal control systems is obtained through management reviews, control self-assessment and internal audits.

Systems of internal control are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide reasonable, but not absolute assurance as to the prevention and detection of financial misstatements, errors, fraud or violation of law or regulations.

#### **By order of the Board**

**Mrs. R. J. Hall**

Group Company Secretary

25 March 2014

# Group Finance and Investment Committee Report

## Chairman's introduction



I am pleased to present the Group Finance and Investment Committee's report describing the work we have undertaken during the past year. I have handed the Chairmanship of the Committee over to Tim Carroll from 1 January 2014 and he will report on the Committee's activities in future years. Our main purpose is to ensure that the management of the Group's financial assets, including its investment portfolio, is properly governed, controlled and performing as expected. We also review and advise on any major financial decisions on behalf of the Board. This report gives more information on how we performed our duties during 2013.

**David Christie**

Chairman of the Group Finance and Investment Committee

## Membership

The members of the Group Finance and Investment Committee are shown in the table below:

COMMITTEE MEMBER	MEMBER SINCE	MEETINGS ELIGIBLE TO ATTEND	MEETINGS ATTENDED
David Christie (Chairman)*	September 2010	5	5
Tim Carroll*	August 2013	4	3
Will Samuel	March 2006	5	5
Tony Latham	February 2009	5	5
Michael Tripp	June 2008 (resigned May 2013)	2	1

\*Tim Carroll was appointed Chairman of the Committee with effect from 1 January 2014.

The Committee reviews its terms of reference annually and during the year held four scheduled meetings and an additional meeting. The remit of the Committee, in line with its terms of reference and designated financial limits, is to:

- Consider and review Group treasury management and Group tax strategies;
- Consider and review Group capital management, taking into consideration the Individual Capital Assessment (ICA) and risk appetite;
- Consider and review major capital projects and contracts;
- Consider and review major investments of the Group including the acquisition or disposal of interests of more than 5% in the voting shares of any listed company;
- Consider and review acquisitions and disposal of investment property or businesses by the Group, and enter into formal discussions with the intention of making a takeover offer;
- Consider and review borrowings, committing any Group Company to a guarantee or indemnity for the performance of a subsidiary, or authorising a mortgage or a charge over the whole or any part of the Group's undertaking;
- Consider and review circulars to shareholders and listing particulars;
- Provide broad strategy and set specific investment parameters for portfolio investment matters within the context of the Board's assessment of overall risk to the business;
- Provide broad Group strategy and set investment parameters for Group portfolio investment matters including derivative instruments within the context of overall risk to the business and monitor adherence to parameters;
- Consider monthly investment reports and review investment performance against benchmark levels; and
- Oversee and review performance of delegated funds.

During 2013, the remit of the Committee was extended to be on a 'Group basis'. Its main activities were in line with its remit above and included:

- Review of the annual investment strategy;
- Setting investment parameters for Group portfolio investment and review of derivative instruments;
- Review of quarterly investment reports and investment performance against benchmark levels;
- Review of investment property;
- Consideration of a potential acquisition by a subsidiary;
- Review of tax strategy;
- Review of treasury management; and
- Review of the evaluation results of the Committee undertaken in 2012.

#### **By order of the Board**

**David Christie**

Chairman of the Group Finance and Investment Committee

25 March 2014

# Group Nominations Committee Report



## Chairman's introduction

I am pleased to present the Group Nominations Committee's report describing the work we have carried out in 2013. Our main purpose is to ensure that there is an appropriate balance of skills, knowledge and experience on the Board, its Committees and within the Group's subsidiary companies. This report gives more detailed information on how we performed our duties during the year.

**Will Samuel**

Chairman of the Group Nominations Committee

## Membership

The Group Nominations Committee comprises the NEDs shown below and are appointed by the Board:

COMMITTEE MEMBER	MEMBER SINCE	MEETINGS ELIGIBLE TO ATTEND	MEETINGS ATTENDED
Will Samuel (Chairman)	June 2008	4	4
David Christie	January 2001	4	4
John Hylands	May 2013	3	3
Sir Philip Mawer	November 2009 (resigned February 2013)	1	1

The Committee held three scheduled meetings and one additional meeting during the year. The remit of the Committee, in line with its terms of reference, is to:

- Review the structure, size and composition of the Board, its Committees and subsidiary companies;
- Conduct evaluations of the Board and Committees and make recommendations to the Board;
- Oversee and approve the Board composition and officer changes in Group subsidiaries and senior management changes within the Group;

- Consider Board and senior executive succession planning for the Group;
- Assess and review Directors' skills, knowledge and experience;
- Review the Group's leadership needs in order to compete effectively in the target markets;
- Undertake recruitment of new Directors and Executives to the Board, utilising external search consultancy as appropriate; and
- Oversee the content and operation of the induction programme, annual training programme, and continuous professional development (CPD) of Directors.

The principal activities of the Committee during 2013 included:

- Review of the Board's composition;
- Review and agreement of the matrix of the Board's leadership skills and technical skills to identify gaps;
- Review of the Succession Plans for the Board and Senior Management;
- Selection and recommendation of the appointment of Tim Carroll as a new NED to the Board;
- Commencement of a selection process for a new NED;
- Utilisation of an external search consultancy, to select and recommend the appointment of Mark Hews as Group Chief Executive;
- Recommendation of S. Jacinta Whyte as Deputy Group Chief Executive;
- Review of diversity trends across the Group;
- Monitoring the implementation of recommendations arising from the external evaluation of the Board's strategy approach undertaken in 2012;

- Assessing the outcomes of the evaluation of Internal Board Committees which was undertaken at the end of 2012;
- Internal Board evaluation at the end of 2013;
- Review of the Directors' annual appraisal and development needs;
- Review of the CPD programme for Directors; and
- Review of the Board training programme.

### Board composition and independence

The Board comprises a Non-Executive Chairman, six other NEDs and two Executive Directors. The Company believes the size and composition of the Board gives it sufficient independence, balance and broad experience to consider the issues of strategy, performance, resources and standards of conduct. The strong representation of NEDs on the Board demonstrates its independence, provides a greater depth of experience and facilitates challenge.

### Board appointments

All NEDs are provided with a Letter of Appointment on acceptance of the appointment, which includes the terms and conditions of their role. Letters of Appointment are available on request from the Group Company Secretary.

### Board diversity

Ecclesiastical recognises the benefits of having a diverse Board. It is committed to improving diversity on the Board, including gender diversity and acknowledges diversity both improves performance of the Board and strengthens the business.

Currently the representation of women on the Board stands at 33%, with three women members in a current membership of nine. The Board will take the opportunity, as and when appropriate, to improve further its gender balance. An external search consultancy has been used in the appointment of NEDs during the year to ensure best practice is adhered to.

The Board also recognises the importance of improving gender balance at senior levels within the organisation and is actively reviewing diversity across the Group.

### Board performance and evaluation

#### Induction

All Directors are required to undertake a formal and comprehensive induction to the Group upon joining the Board. The induction is a three-stage process and is undertaken by the Legal and Secretarial Department.

On acceptance of a position on the Board, all Directors receive an induction pack, which includes their appointment letter and terms; latest audited report and accounts; constitutional documents; protocols on conflicts of interest, price-sensitive information, Directors' duties, share dealing, data protection and Board procedures; the Code; Board minutes for the current and past year; and Board dates and contact details.

After appointment, a two-day induction programme is provided where presentations are given by Legal and Secretarial, Group Compliance, Finance, Group Risk, Actuarial, Group Strategy, and Heads of the businesses. The programme is also offered to other Directors as a refresher every two years and when a programme is being run. New Directors also meet individually with the Chairman of the ultimate parent company (Allchurches Trust Limited),

## Section 3/Group Nominations Committee Report

the Group Chairman, the Deputy Chairman and the SID, and each of the Executive Directors.

The third stage of the induction is participation in the Board's CPD programme.

### *Training*

Throughout the year, Directors participate in the CPD programme, which includes internal training on topical issues (including business familiarisation) relevant to the Company's commercial and regulatory environment and attendance on relevant external CPD opportunities, funded by the Company. In 2013, three internal training sessions took place and covered Underwriting, Risk Framework, Treating Customers Fairly, and Human Resources.

The Group Company Secretary maintains annual CPD records for all Directors, which the Chairman reviews as part of their annual appraisal. Training and development needs of Board members are also reviewed in the Committee.

### **Performance evaluations**

At the end of 2012 the Committee led an internal evaluation of the five Board Committees, assisted by the Company Secretariat. All Committee members were required to complete bespoke Committee assessments. The outcome of the evaluations was considered by the Group Nominations Committee in February 2013 and recommendations were agreed and implemented.

In October 2013, an internal evaluation of the Board was undertaken, assisted by the Company Secretariat. The outcome of the evaluation was considered by the Board at its December Meeting and recommendations were agreed. The Group Nominations Committee will monitor their implementation. The Committee intends to keep the need

for a full external evaluation of the Board under regular review, with the expectation that it will be undertaken every two years as recommended by the Code. A company called Independent Audit Limited carried out the previous external evaluation of the Board and is not connected to Ecclesiastical Insurance Office plc. The next external evaluation is expected to take place at the end of 2014 and we have not yet decided which company will carry this out on our behalf.

All Directors receive an annual appraisal from the Chairman. The Chairman is appraised by the Board, in his absence, led by the SID.

### **Re-election of Directors**

In line with the Code, the Board has voluntarily chosen to comply with the annual re-election of Directors. NEDs are appointed for a period of three years, and are expected to serve a minimum of two consecutive terms, subject to satisfactory performance. Where NEDs have served for more than six years the Committee has undertaken a rigorous annual review before their recommendation for annual re-election. The report and accounts accompany the AGM notice and therefore provide the biographical information for the Board members seeking election and re-election.

In 2013, three NEDs, Will Samuel, David Christie and John Hylands, have all served for more than six years on the Board. The Committee has considered, in their absence, each NED's respective contribution and attributes, the Board composition and succession planning when making their decision. Following rigorous review, the Committee was satisfied that their length of service has not affected their independence and has proposed them for re-election at the forthcoming AGM.

The Chairman is satisfied that the performance of each NED is effective

and sufficient time has been spent on the Company's affairs.

The Board believes that all the NEDs were independent throughout 2013. Independence is reviewed as part of each Director's annual appraisal, considered by the Committee, and agreed by the Board annually. The Board has determined that, even though David Christie has served as a Director for more than nine years, he should be regarded as an independent NED as he remains independent in character and judgement and there are no circumstances or relationships likely to affect his judgement as a Director.

### **Executive Directors' other commitments**

External directorships are considered to be valuable in terms of broadening the experience and knowledge of Executive Directors, provided there is no actual or potential conflict of interest, and the commitment required is not excessive. All appointments are subject to approval by the Board, and the Conflicts Register maintained by the Group Company Secretary is used to monitor external interests. Any monetary payments received by Executive Directors from outside directorships are paid over to and retained by the Company.

### **Non-Executive Directors' commitments**

The Committee evaluates the time NEDs spend on the Company's business annually and is satisfied that in 2013 the NEDs continued to be effective and fulfilled their time commitment as stated in their letters of appointment. Accordingly, all NEDs at the date of this report are recommended for re-election at the AGM.

### **By order of the Board**

**Will Samuel**

Chairman of Group Nominations Committee

25 March 2014



# Group Risk Committee Report



## Chairman's introduction

I am pleased to present the Group Risk Committee's report describing the work we have done during the past year. The Group has voluntarily chosen to include a Group Risk Committee Report in the Annual Report of the Company in addition to the disclosures in the Risk Management section on page 34.

**Tony Latham**

Chairman of the Group Risk Committee

## Membership

The Group Risk Committee members and their attendance at meetings during the year are shown below:

COMMITTEE MEMBER	MEMBER SINCE	MEETINGS ELIGIBLE TO ATTEND	MEETINGS ATTENDED
Tony Latham (Chairman)	June 2010	4	4
Mark Hews	June 2010 (resigned 12 February 2014)*	4	4
Tim Carroll	August 2013	2	2
John Hylands	September 2010	4	4

\* S. Jacinta Whyte has been appointed to replace Mark Hews with effect from 12 February 2014

The Group Risk Committee was created in June 2010 and comprises the Directors shown in the table opposite who were appointed by the Board. In addition, Will Samuel (Chairman of the Board) is normally in attendance at the meetings.

The Chief Risk Officer reports to the Committee and has direct access to the Chairman of the Committee and the NEDs. The Committee ensure that they meet with the Chief Risk Officer at least once a year without the Executives present.

The remit of the Committee is to:

- Recommend and monitor the Group's overall risk appetite, tolerance and strategy in the context of the current and prospective macroeconomic and financial environment;
- Recommend and monitor the Group's strategy, policy and processes for risk management;
- Monitor the effectiveness of the Group's Enterprise Risk Management Framework, risk policies and systems;
- Receive and review risk-based management reports and other information, making recommendations for change as appropriate;
- Ensure that material risks facing the Group have been identified and addressed appropriately;
- Consider the effect on the risks of the Group of material findings of Compliance and Internal Audit reports carried out for the Group Audit Committee;
- Recommend the Individual Capital Assessment (ICA);
- Approve the appointment or removal of the Chief Risk Officer;
- Ensure that the Board receives adequate training on risk matters; and
- Ensure appropriate liaison with other Board Committees, e.g. the Group Remuneration Committee and the Group Audit Committee.

During 2013, the Committee held four meetings. In addition to the routine matters highlighted above, it also specifically considered:

- The Group's strategic risk profile, ensuring that this provided an accurate reflection of the Group's key risks;
- The annual review and recommendation of the Group's risk appetite (including catastrophe risk appetite);
- Reporting against the risk appetite from each of the Executive Risk Committees at each ordinary meeting and where appropriate challenging appetite breaches or potential breaches;
- Proposed changes to risk appetite and proposed exceptional transactions on an as required basis to confirm that these were appropriately authorised and did not expose the Group to undue risks;
- Stress and scenario testing carried out across the Group including Reverse Stress Testing;
- A 'dry run' Own Risk and Solvency Assessment (ORSA) at Group level;
- The risk impact of remuneration proposals and approval of the report to the Group Remuneration Committee;
- The risks arising from writing liability business;
- Property concentrations by business unit;
- The approval of Reverse Stress Test results and recommendations arising;
- The approval of Insurance Risk and Operational Risk Policy; and
- The capital requirements across the Group, and recommendation of the Group's ICA as at the end of 2012.

#### **By order of the Board**

**Tony Latham**

Chairman of the Group Risk Committee  
25 March 2014

# Group Audit Committee Report

## Chairman's introduction



I am pleased to present the Group Audit Committee's report describing the work we have done during the past year. We have considered the provisions of the new Code and the FRC Guidance on audit committees and modified our terms of reference to take account of them. These changes have reinforced the role of the Committee, on behalf of the Board, in ensuring that the Annual Report, taken as a whole, is fair, balanced and understandable. We have also expanded our report to provide more detail on the significant issues considered by the Committee in relation to the financial statements and how these issues were addressed.

**John Hylands**  
Chairman of the Group Audit Committee

## Membership

The Committee members have been selected with the aim of providing the wide range of financial and commercial expertise necessary to fulfil the Committee's duties. The Board considers that John Hylands has recent and relevant financial experience, as required by the Code.

The Group Audit Committee members and their attendance at meetings during the year are shown below:

COMMITTEE MEMBER	MEMBER SINCE	MEETINGS ELIGIBLE TO ATTEND	MEETINGS ATTENDED
John Hylands (Chairman)	March 2008	6	6
Tim Carroll	April 2013	2	2
Tony Latham	December 2008	6	5
Denise Wilson	August 2011	6	6

## Committee meetings

During the year, the Committee had six scheduled meetings. In addition to the members of the Committee the Chairman of the Board, the Group Chief Executive, the Group Finance Director, the Group Internal Audit Director and the Group Compliance Director attend meetings by invitation. Other relevant people from the business are also invited to attend certain meetings in order to provide a deeper level of insight into certain key issues and developments. We also invite our external auditor, Deloitte LLP, to attend most meetings, and during 2013 they attended five out of the six meetings held.

The Committee also meets with the Group Internal Audit Director on an annual basis, without management present, to discuss the Group Internal Audit (GIA) function and any issues arising from its activity. In addition, the Committee also meets with the external auditor on an annual basis, without management present, to discuss the external audit and any issues arising from it.

## Key objectives

The Committee's key objectives are the provision of effective governance over the appropriateness of the Group's financial reporting (including the appropriateness of the judgements made in respect of the financial results and the adequacy of related disclosures), the performance of both the GIA function and the external auditor, and the management of the Group's systems of internal control and related compliance activities.

## Main activities of the Committee during the year

At its six meetings during the year, the Committee focused on:

### Financial reporting

The primary role of the Committee in relation to financial reporting is to review, challenge and agree the appropriateness of the half-year and annual financial statements concentrating on, amongst other matters:

- The quality and acceptability of the Group's accounting policies and practices;
- The clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- Material areas in which significant judgements have been made by the Group or there has been discussion with the external auditor;
- Whether the Group's annual report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy; and
- Any correspondence from regulators in relation to our financial reporting.

To aid this review, the Committee considered reports from the Group Management Board, the Group Finance Director and also reports from the external auditor on the outcomes of their half-year review and annual audit. As a Committee we support Deloitte LLP in displaying the necessary professional scepticism their role requires.

## Audit planning

The Committee oversees the plans for the audit to ensure it is comprehensive, risk based and cost effective. Deloitte and each component auditor draft an initial audit plan in conjunction with executive management and present them for review by the Committee. The plans describe the proposed scope of the work and the approach to be taken. They also propose the materiality levels to be used. In order to focus the audit work on the right areas the auditors identify particular risk issues based on their knowledge of the business and operating environment, discussions with management and the half-year review. The fee for the audit is also proposed as part of this discussion.

## Review of financial statements and audit findings

The Committee reviewed the full and half-year financial statements and the reports of the external auditor on these statements. The Deloitte partner responsible for the Group's audit attends the Audit Committee meetings to present the reports and answer questions from Committee members. Senior Deloitte staff who have had day-to-day involvement in the conduct of the audit also attend.

## Section 3/Group Audit Committee Report

The Committee considered the following significant issues:

ISSUE	ASSESSMENT
General insurance claims reserves	<p>The estimation of the ultimate liability arising from claims made under general business insurance contracts is a critical accounting estimate. There is uncertainty as to the total number of claims made on each class of business, the amounts that such claims will be settled for and the timings of any payments.</p> <p>The Committee considered detailed reports provided by the Group's senior actuary on the adequacy of the Group's general insurance reserves at both the half year and the full year. During 2013 an independent review of liability claims reserves for our UK business was carried out by Towers Watson. Following challenge and debate the Committee concluded that the assumptions made and judgements applied were reasonable and appropriate.</p>
Life insurance reserves	<p>The calculation of the Group's life insurance reserves requires management to make significant judgements about bond yields, discount rates, credit risk, mortality rates and current expectations of future expense levels. The Actuarial Function Holder's proposed assumptions are reviewed, challenged and agreed by the Ecclesiastical Life Limited Board. Any one-off or unusual items are referred to the Committee for further approval. During 2013 the Committee specifically considered the run-off expense provision set up once ELL closed to new business and concluded that it was reasonable. All other assumptions were reviewed by the Committee at a high level and, following this review and consideration of the report of the external auditor, the Committee was satisfied that the judgements made were reasonable and appropriate.</p>
Carrying value of goodwill	<p>The judgements in relation to asset impairment largely relate to the assumptions underlying the calculation of the value in use of the business being tested for impairment, primarily the achievability of the long-term business plan and macroeconomic assumptions underlying the valuation process. The Committee addresses these matters by receiving reports from management outlining the basis for the assumptions used. Business plans are reviewed, challenged and signed off by the Board.</p> <p>After review, the Committee agreed with management's conclusions that no material impairment was required for any of the businesses under review.</p>
Valuation of defined benefit pension scheme liability	<p>Although the Group's defined benefit pension schemes remain in surplus, the liabilities of the schemes are material in comparison to the Group's net assets and the valuation requires many actuarial assumptions, including judgements in relation to long-term interest rates, inflation, longevity and investment returns.</p> <p>The actuarial assumptions used are based on advice from the Group's pension adviser, who also performs the calculations in respect of the schemes.</p> <p>The Committee considered the assumptions used, and also compared them to benchmark data. In addition, the Committee considered whether it was appropriate to recognise the pension fund surplus as an asset of the Group.</p> <p>After review of the assumptions used, the external advice provided, benchmark data and careful consideration of the requirements of IAS 19(R) and International Financial Reporting Interpretations Committee (IFRIC) 14, the Committee concluded that reasonable assumptions had been used and recognition of the surplus as an asset of the Group was appropriate.</p>
Carrying value of tax liabilities	<p>The calculation of tax liabilities requires management to make judgements in respect of the expected tax payable for the current and prior periods based on the interpretation of applicable tax legislation. In particular, the Group has a material liability for deferred tax which primarily relates to future tax due on unrealised gains in respect of equities held prior to 2002. The Committee reviewed the material judgements management had applied in respect of tax calculations in 2013 and concluded that they were appropriate.</p>

## Assessment of the external auditor

The Committee is required to assess the qualifications, expertise, resources and independence of the external auditor and the objectivity and effectiveness of the audit process. At the conclusion of each audit the Committee performs a specific evaluation of the performance of the external auditor. This assessment was carried out during the year on the basis of the Committee's own appraisal of the performance of the auditor and the views of the senior management team as well as consideration of materials provided by the auditor.

The criteria used for this assessment remained unchanged from last year and were as follows:

- Delivery of a thorough and efficient global audit in compliance with agreed plan and timescales;
- Provision of accurate, robust and perceptive advice on key accounting and audit judgements, technical issues and best practice;
- A high level of professionalism and technical expertise consistently demonstrated by all audit staff and maintenance of continuity within the core audit team; and
- Strict adherence to independence policies and other regulatory requirements.

There were no significant findings from the evaluation this year, although where appropriate, actions were agreed against any points raised.

## Independence of the external auditor

Deloitte LLP has been the external auditor of the Company since 1998 and there has been no tender held for audit services during that time. The Committee monitors arrangements to ensure that the partner in charge of the audit is changed every five years and

that the relationship between the auditor and management does not affect the auditor's independence.

The Committee also keeps under review whether the external audit should be tendered. Due to the rotation of the audit partner for the 2013 financial period, the Committee did not consider a tender of the external audit was required. However, the Committee intends to comply fully with the FRC Audit Committees Guidance regarding the frequency of audit tender and we will consider each year whether to tender the audit.

The Committee is responsible for the development, implementation and monitoring of the Group's policy on the provision of non-audit services by the external auditor. The policy is reviewed annually by the Committee to ensure alignment with the latest standards on auditor objectivity and independence, and compliance with the policy.

The policy covers a number of areas including:

- The Group's restrictions, procedures and safeguards, relative to the engagement of the external auditor on non-audit services;
- The Group's requirements for the pre-approval and reporting of fees for non-audit services;
- Policy on the appointment of former audit employees of the external auditor; and
- The requirement to keep a register of all former employees of the current external auditor employed by the Group.

The Company determines non-audit services which are prohibited and those which are permitted 'subject to safeguards'. The Group's aim is to identify appropriate service providers and ensure that any non-audit work

is carried out by the most appropriate provider in a manner that affords fullest value for money. The policy is shared with the external auditor of the Group. Adherences to the policy and non-audit fees incurred are regularly reviewed by the Committee.

For the year ended 31 December 2013, the Group was charged £340,000 (exc VAT) by Deloitte LLP and its associates for audit services. The fees for other services amounted to £103,000, making total fees from Deloitte LLP of £443,000. None of the non-audit services provided during the year was in respect of significant engagements. More detail can be found in note 11 to the financial statements on page 123.

There are no contractual obligations to restrict the choice of external auditor. Following the assessment of the external auditor's effectiveness and their remuneration, the Committee recommended to the Board that Deloitte LLP be reappointed as the auditor of the Company at the forthcoming AGM.

## Effectiveness of internal control and risk management

The Group's approach to internal control and risk management is set out in the Corporate Governance report on page 59.

In reviewing the effectiveness of the system of internal control and risk management during 2013 the Committee has:

- Reviewed internal audit reports;
- Monitored management's responsiveness to the findings and recommendations of the Head of Internal Audit;
- Met with the Head of Internal Audit once during the year, without management being present, to discuss any issues arising from internal audits carried out;

## Section 3/Group Audit Committee Report

- Decided to undertake a formal evaluation and independent assessment of the GIA function in the forthcoming year;
- Received update reports from the Group Risk Committee;
- Reviewed regular reports from the Head of Group Compliance;
- Reviewed the Group's anti-bribery and corruption code of conduct; and
- Reviewed the Group's Whistleblowing policy.

As explained in the Corporate Governance report on page 59, Internal Audit and Compliance now have separate reporting lines. The change took place with effect from 1 January 2014; during 2013 both areas reported to the same individual, the Director of Group Internal Audit and Group Compliance, who reported to the Committee in respect of both areas.

### Internal control over financial reporting

Internal control over financial reporting is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of management and financial reporting in accordance with generally accepted accounting principles. Controls over financial reporting policies and procedures include controls to ensure that:

- Through clearly defined role profiles and financial mandates, there is effective delegation of authority;
- There is adequate segregation of duties in respect of all financial transactions;
- Commitments and expenditure are appropriately authorised by management;

- Records are maintained which accurately and fairly reflect transactions;
- Any unauthorised acquisition, use or disposal of the Company's assets that could have a material effect on the financial statements should be detected on a timely basis;
- Transactions are recorded as required to permit the preparation of financial statements; and
- The Company is able to report its financial statements in compliance with IFRS.

Due to inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Risk management and control systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies. Through its review of reports received from management, along with those from internal and external auditors, the Committee did not identify any material weaknesses in internal controls over financial reporting during the year. The financial systems are deemed to have functioned properly during the year under review, and there are no current indications they will not continue to do so in the forthcoming period.

### GIA

GIA is guided by the Committee and provides independent, objective assurance to the Board that the governance processes, management of risk and systems of internal control are adequate and effective to mitigate the most significant risks to the Group.

The Committee has oversight responsibilities for the Internal Audit Department and the Group Internal Audit Director is accountable to

the Committee Chairman, reports administratively to the Group Chief Executive Officer and has access to the Chairman of the Board.

GIA's annual programme of work is risk based and designed to cover areas of higher risk or specific focus across the Group. The plan is approved annually by the Committee and during 2013 it was reviewed regularly to accommodate changes required as a consequence of the Group's changing risk profile. All proposed changes to the plan were reviewed, challenged and approved by the Committee during the year.

Throughout the year, the GIA submitted quarterly reports to the Committee summarising findings from their work, and the responses from and action plans established by management. During 2013, the Committee monitored the progress of the most significant action plans to ensure that these were completed in a timely manner and to a satisfactory standard.

### Group Compliance

Group Compliance provides assurance to the Board that the Group is compliant with its regulatory obligations and for mitigating any risk that the firm might be used to further financial crime. In addition, it also ensures that appropriate mechanisms exist to identify, assess and address new and emerging regulatory obligations and compliance risks that may impact the Group.

The Committee has received and considered regular reports from the Group Compliance Director at each of its meetings and discussed the specific management actions identified to address or mitigate issues which arose during the year. The Committee also considered the impact of the changes in the UK and European regulatory

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landscape, particularly in light of the shift in UK regulatory focus following the split of the Financial Services Authority into the Prudential Regulation Authority and the Financial Conduct Authority during the year.

### **Legal and regulatory developments**

The Committee receives regular reports and considers the impact of legal and regulatory developments on the UK Group to control legal and regulatory risk. They monitor the application and impact of any actions required by the business or organisation through to completion. Reports are shared with relevant business areas, and with relevant subsidiary Boards and Board Committees.

### **By order of the Board**

**John Hylands**

Chairman of the Group Audit Committee  
25 March 2014



# Group Remuneration Report



The information contained in the Group Remuneration Committee Chairman's Statement and the Directors Remuneration Policy is not subject to audit.

Dear Shareholder,

As Chair of the Group Remuneration Committee (the Committee), I am pleased to introduce the Group Remuneration Report for the year ending 31 December 2013 and to highlight some of the key aspects of the Committee's work during the financial year.

In addition to me, the Committee during the year comprised two Non-Executive Directors (NEDs), Christine Wilson and David Christie, who were appointed by the Board in April, following the resignation of John Hylands in March. There were six meetings in total, three scheduled meetings and three additional meetings.

## Membership

The Group Remuneration Committee members and their attendance at meetings during the year are shown below:

COMMITTEE MEMBER	MEMBER SINCE	MEETINGS ELIGIBLE TO ATTEND	MEETINGS ATTENDED
Denise Wilson (Chair)	December 2011	6	6
David Christie	April 2013	5	5
John Hylands	November 2012 (resigned March 2013)	1	1
Christine Wilson	April 2013	5	5

# Group Remuneration Committee Chairman's Statement

This year we have improved the structure and content of the Group Remuneration Report, following the final publication of the new reporting regulations by the government in June 2013. Albeit our Group structure does not require us to comply with the listed companies regulations, as in previous years, we have chosen to largely adopt current reporting requirements, in order to provide greater transparency and follow best practice. Following on from this statement, there is a distinct Directors Remuneration Policy, which sets out the structure and elements of pay and how they interact. This can be found starting on page 76, and in addition, an Annual Report on Remuneration, starting on page 82 which describes how our policies have been implemented and provides retrospective disclosures on Directors remuneration for 2013.

As announced on 1 May 2013, Mark Hews, previously Chief Financial Officer, succeeded Michael Tripp as Group Chief Executive. The Committee carefully considered transition arrangements for the outgoing Group Chief Executive, as well as the remuneration package for the new Group Chief Executive. These were discussed with our ultimate parent company Allchurches Trust Limited (ATL), and details of these arrangements can be found starting on page 77 in this remuneration report.

We also saw the appointment of S. Jacinta Whyte to the Board in July 2013, as she succeeded Steve Wood as Managing Director of UK General Insurance and assumed additional Group

responsibilities under a new position of Deputy Group Chief Executive. Consideration was given to the remuneration package of the Deputy Group Chief Executive, as well as the contractual entitlements of the departing Managing Director of UK General Insurance.

Appointing two new Executive Directors to the Board clearly presented some challenges. It was important to balance the immediate demands of the role, given the poor underwriting performance across the Group, to the experience of those appointed. Engaging specialist advice from Hewitt New Bridge Street, we were able to benchmark appropriate remuneration packages, including the design of a new three-year incentive plan, beginning in the 2014 financial year. This is intended to focus efforts on specific deliverables deemed critical to the required turnaround in underwriting performance and profitability of the Group.

As described in the Strategic Report starting on page 11, the Group continues to operate in challenging times with efforts focused in the second half of the year on improving underwriting profitability and transforming business processes, whilst maintaining good service to customers. This work will continue throughout 2014. We know that these are difficult economic times, bringing challenges for the industry and for Ecclesiastical, and therefore our approach to remuneration remains restrained. On the basis of 2012's performance, a decision was taken to

forgo the usual annual pay increase for all UK and Ireland employees, though we were able to give a degree of recognition for individual performance through our annual bonus scheme. However during 2013, we have delivered a strong investment return with mixed underwriting results, improving our Profit Before Tax (PBT) to £67m (2012: £38m) and it is important that we reward employees at all levels for good performance, in a year which has seen many challenges for Ecclesiastical.

In this context, the Committee are satisfied that an annual bonus payment of around 45% of the maximum potential value for the Group Chief Executive is reflective of performance.

This year we have also reviewed the structure of our incentive schemes and the Committee are satisfied that the current arrangements are appropriate. However, we will be undertaking a strategic review of our Remuneration Policy during the coming year, including incentive schemes, to ensure we are able to attract and retain talented individuals for the Group.

Finally, I value continued support from our charitable owner ATL, and remain mindful of our responsibilities to drive sustained and improved performance over the long term and ensure our remuneration strategy, policy and principles deliver our objective of giving £50m to charity over three years.

**Denise Wilson**  
Chair of the Group Remuneration Committee

# Directors Remuneration Policy

The Directors Remuneration Policy (the Policy) described in this part of the report is intended to apply for the year from January to December 2014, and describes the structure and elements of pay and how they interact. The Policy differs very little from the one that was applied for the 2013 financial year.

The principles underlying the Policy are the recruitment, incentivisation and retention of talented individuals for the Group. We aim to do this without encouraging unnecessary risk-taking, and by developing remuneration practices consistent with the wider workforce.

A key objective of the Policy is to align the Executive Director's pay to the Group's strategy and we shall be undertaking a root and branch review of our remuneration strategy this year to further strengthen those links. Key measures of Group performance are embedded as performance measures in the annual and long-term bonus plans.

The Group aims to provide competitive remuneration packages, reflective of the markets in which it operates, in order to attract and retain high calibre employees and to encourage and reward superior performance.

The Policy places strong emphasis on the importance of delivering long-term value to our shareholder, by not only continuing to focus on the Combined Operating Ratio (COR) as a measure of the quality of the insurance business we write, but also on the overall PBT that ensures the sustainability of the

charitable grants we deliver to our charitable owner ATL. It also recognises the importance of continuing to drive for ever higher standards of service and good value for our customers. This Policy is also fundamental to delivering our objective of giving £50m to charity over three years.

The Committee considers the Policy annually to ensure that it remains aligned with the needs of Ecclesiastical and its longer term strategy and that it remains appropriately aligned with the external market. We use target performance measures to estimate the total potential reward and benchmark this against reward packages paid by our competitors.

We use a comparator group of companies within the insurance industry as well as the wider financial services sector. The group that we measure our performance against consists of insurance plcs, Mutuals and other organisations. Companies within the comparator group may be similar in size and complexity to Ecclesiastical. However we also include other companies which may be larger and more complex, as they are potential competitors for talent.

For completeness, we measure our reward arrangements against the whole of the UK financial services market. This broader review is a risk management exercise to ensure that we do not inadvertently lose talent as a result of falling behind the broader marketplace.

The main aim of the Policy, however, remains the incentivisation and reward of the level of performance we judge is necessary to achieve the successful implementation of our business strategy.

## Balancing short and long-term remuneration

We have established the remuneration elements set out in this report based on our view of current market practice. Fixed annual elements including salary, pension and benefits, are to recognise the responsibility and experience of our Executive Directors and to ensure current and future market competitiveness. The annual and long-term incentives are to incentivise and reward our Executive Directors for making Ecclesiastical successful on a sustainable basis. The balance between these elements is an aspect of our reward strategy which will require particular focus as we pursue our strategic review.

## Future policy table

ELEMENT AND PURPOSE	OPERATION	OPPORTUNITY	PERFORMANCE MEASURES	CHANGE FROM 2013
<b>SALARY</b> To provide a core reward for doing the job, at a level needed to recruit and retain talented individuals.	Salaries are paid in 12 equal monthly instalments during the year, and are reviewed annually with changes taking effect from 1 April each year.	When the annual review is conducted various factors are taken into account, including Company and individual performance, relevant market information and levels of pay increases in the wider UK population. Relevant pay data including market practice among a chosen set of comparator organisations in the financial services sector is also considered.	Individual contribution and Group performance	None
<b>BENEFITS</b> To provide a market competitive reward package and promote the wellbeing of employees.	Benefits normally comprise a car allowance or company car and a private healthcare scheme. Executive Directors also receive life assurance cover on the same basis as the wider employee population.	Not applicable	Not applicable	None
<b>PENSION</b> To aid retention and provide a market competitive provision for post-retirement income.	<b>Defined Benefit Scheme:</b> the Staff Retirement Benefit Fund was provided by Ecclesiastical but has now been closed to new employees. Neither of the current Executive Directors are members of this scheme.  <b>Defined Contribution Scheme:</b> this is the Group Personal Pension plan where contributions are made by the employee and employer.	Any contributions that are above the Annual or Lifetime Earnings Limit may be paid in cash, net of National Insurance contributions charge.	Not applicable	None
<b>GROUP BONUS SCHEME</b> To incentivise the Executive Directors to achieve key financial and strategic goals and targets that have been set for the financial year.	This cash bonus is paid annually, normally three months after the end of the financial year to which it relates.	Maximum opportunity of 100% of salary with 25% payable for on-target performance.	The annual bonus structure is based upon: <ul style="list-style-type: none"><li>■ Group PBT</li><li>■ Group COR</li><li>■ UK &amp; Ireland COR</li><li>■ Top 5 Group priorities</li><li>■ Personal performance rating.</li></ul>	None
<b>LONG-TERM INCENTIVE PLAN (LTIP)</b> To focus the Executives and incentivise the achievement of the Group's long-term objectives. This also helps to align the Executive Directors interests with those of the shareholder. The LTIP aims to attract and retain talented individuals.	The outcome of this award is subject to the Committee's assessment of underlying performance. When agreeing targets, the Committee also receives advice from the Chief Risk Officer on the extent to which the scheme meets the Group's risk appetite.  There is no deferral, but there is scope for clawback within the rules of the scheme.	Maximum opportunity of 30% of salary. On-target opportunity of 15% of salary. For the Group Chief Executive the maximum opportunity is 100% of salary, with an on-target opportunity of 50% of salary.	There are two underlying performance conditions which are weighted equally: <ol style="list-style-type: none"><li>1. 50% of award dependent on average Group COR</li><li>2. 50% of award dependent on Group PBT performance</li></ol> There is a 36 month performance period from the date of grant.	The Group Chief Executive's maximum opportunity has changed to 100% of salary.

## Section 3/Group Remuneration Report

ELEMENT AND PURPOSE	OPERATION	OPPORTUNITY	PERFORMANCE MEASURES	CHANGE FROM 2013	
<b>EXCEPTIONAL BONUS ARRANGEMENTS</b>	See the elements below				
The Committee may decide, from time to time, to incentivise specific Executive Directors on either a multi-year or single year basis to achieve specific objectives. These arrangements will either be in place of or in addition to existing bonus arrangements.					
<b>GROUP CHIEF EXECUTIVE'S 3-YEAR INCENTIVE PLAN</b>	To incentivise the Group Chief Executive and Deputy Group Chief Executive to achieve specific goals that have been set for the period 2014-2016.	No mandatory deferral provision. Staged payments: Year 1 up to 25% of salary Year 2 up to 50% of salary, less payments made in the previous year Year 3 up to 100% of salary, less payments made in Year 1 and Year 2 above	Maximum opportunity of 100% of salary over the 2014-2016 performance period.	There are three areas of performance conditions that apply to this award: 1. 50% dependent upon financial performance 2. 25% dependent on achievement of measurable, non-financial results 3. 25% dependent upon achievement of qualitative achievements	New element for 2014
Performance period 2014-2016	<b>FORMER GROUP CHIEF EXECUTIVE INCENTIVE AWARD 2013</b>	This incentive replaced Michael Tripp's participation in both the annual bonus scheme and the LTIP with effect from 1 January 2013. This incentive was agreed in January 2013 to focus the Group Chief Executive to deliver certain objectives and was subject to the Committee's assessment of the Group Chief Executive's performance.	The delivery of a smooth transition of the management to a successor in the role of Group Chief Executive.	New element for 2013	
The maximum opportunity was capped at three months' salary.	<b>Notes to the policy table</b>				
The Committee selected these performance conditions because they are central to the Group's overall strategy and are key metrics used by the Executive Directors in measuring the performance of the Group. The performance conditions are reviewed and set annually by the Committee, following consultation with the Chief Risk Officer.	The Committee are of the opinion that the performance targets are commercially sensitive to the Group and that disclosure at the beginning of the financial year would be detrimental to its interests. The targets will therefore be disclosed at the end of the relevant financial year in that year's Remuneration Report.				

## Differences in Remuneration Policy for all employees

All employees of Ecclesiastical are entitled to a salary, benefits, pension and annual bonus. The maximum bonus opportunity is based on differing levels of seniority and responsibility. For example, there is an increased emphasis on performance-related pay for the Executive Directors through a higher bonus opportunity and participation in the LTIP. This aligns the interests of Directors in the long-term performance of the Group with those of the shareholders.

## Statement of consideration of employment conditions elsewhere in the Group

The Committee invites the HR Director to present at its meeting (normally in March) on proposals for salary increases for the general employee population and on any other changes to the Remuneration Policy within the Group.

The HR Director consults with the Committee on the performance measures for Executive Directors' bonuses and the extent to which these should be cascaded to other employees. The Committee approves the overall bonus cost to the Group each year and has oversight of the grant of all LTIP awards across the Group.

The Committee is provided with data on the remuneration structure for designated senior management below the Executive Directors and use this information to work with the HR function to ensure consistency of approach throughout the Group.

The discretion available to the Committee has been identified against the separate elements of the future policy table shown above. It exists and is only to be relied upon to address extreme circumstances.

## Approach to recruitment remuneration

Ecclesiastical Insurance Office plc is a specialist insurer competing for talent across a variety of markets and often with organisations which are much larger than we are.

The Committee's approach is to pay a fair market value to attract appropriate candidates to the role, taking into consideration their individual skills and experience and the ethos of the organisation. Where it is thought necessary to compensate an individual's awards from previous employment, the Committee will, as far as practicable, seek to match the expected value of such awards by granting awards that vest over a similar timeframe as that of the original awards. There would be a proportionate reduction in the amount vesting, should the new awards not be subject to performance conditions as stretching as those on the awards foregone.

Any new Executive Director's package would include the same elements and generally be subject to the same constraints as existing Executive Directors.

ELEMENT OF REMUNERATION	MAXIMUM PERCENTAGE OF SALARY
Salary	-
Benefits	Dependent upon position
Annual bonus	100%
LTIP	30% / 100% <sup>1</sup>
Pension contribution/allowance	15%

<sup>1</sup> The higher percentage is the maximum payable for the position of Group Chief Executive

The Committee has discretionary authority over matters within its remit, and may from time to time exercise discretion according to exceptional or specific circumstances, albeit the Committee will not do so in a frivolous manner.

## Section 3/Group Remuneration Report

### Policy on termination payments for Executive Directors

STANDARD PROVISION	POLICY	DETAILS
Notice periods in Executive Directors' service contracts <sup>2</sup>	12 months by Company or Executive Director.	Executive Directors may be required to work through their notice period, or may be paid in lieu of notice if they are not required to work the full notice period.
Summary termination – payment in lieu of notice	The Company may decide if it wishes to make a payment in lieu of notice of an amount prescribed under the contract. This is salary and benefits for the balance of the notice period, excluding bonus and accrued holiday entitlement.	Payable as a lump sum, within 14 days of termination date.
Mitigation	The Executive Directors' service contracts do not expressly provide for mitigation on termination.	The Committee will take account of the circumstances of the termination and the Director's performance during the period of qualifying service to determine whether the exercise of any discretion is appropriate.
Treatment of annual bonus on termination or change of control under plan rules	No payment unless employed on date of bonus payment except for 'good leavers' as defined in the plan rules and other circumstances at the Committee's discretion. If there is a change of control event, then an early payment can be calculated and made.  Good leavers include those who cease to be employed by reason of death, ill health or disability, redundancy, retirement by agreement or any other reason, at discretion of the Committee (which would not be exercised where the Executive Director is at fault).	Good leavers are entitled to a bonus payment subject to the achievement of bonus criteria which is pro-rated down to reflect their service during the performance year unless the Committee determines that a higher amount is justified. A similar provision would apply if there were a change of control event.
Treatment of long-term incentive awards on termination or change of control under plan rules	All awards lapse except for 'good leavers' as defined in the plan rules and other reason at the discretion of the Committee.  If there is a change of control event, then an early payment can be calculated as stated in the rules of the scheme.	For good leavers vesting is determined based on the application of the performance conditions and any award is then pro-rated down based on the proportion of the 36-month performance period that the employee has served since the grant date unless the Committee determines that a higher amount is justified. A similar provision would apply if there were a change of control event.
Exercise of discretion	Intended to be relied upon only in exceptional or specific circumstances.	The Committee's determination will take into account the circumstances of the Executive Director's departure and the recent performance of the Company when using discretion in relation to short or long-term bonus payments.
Group Chief Executive's 3-year incentive plan	If the Group Chief Executive ceases to be employed in this capacity, the award will lapse unless they are a good leaver.  There is an express provision for clawback if the financial information or factual reports on which a judgement to pay an award has been made was materially misstated and the Committee so determines.	If the Group Chief Executive is a good leaver the Committee may decide to make an immediate pro-rata payment based on the Executive's performance up to the termination date.
Other matters	The Company's policy is to honour commitments made to contractual arrangements that may have been entered into with an employee prior to their becoming a Director.  There are no other provisions for termination payments or payments for loss of office in standard directors' service contracts.	

<sup>2</sup> Steve Wood had a nine-month contract with Ecclesiastical Insurance Office plc.

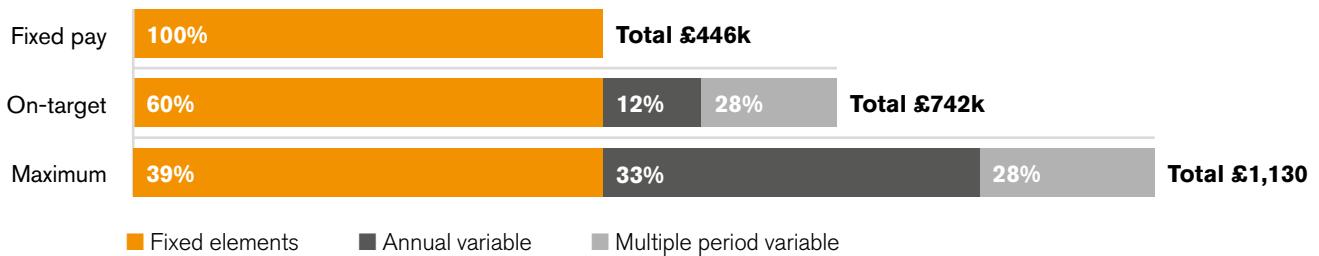
Copies of the relevant service contracts and letters of appointment are available for inspection at the Company's registered office, details of which can be found on page 154.

### Total remuneration opportunity

The total remuneration for each of the Executive Directors that could result from the application of this policy in 2014 under the three different performance levels is shown below.

### Mark Hews: Effect of the application of this policy in financial year 2014

Percentages/Amounts (£000s)



Fixed elements of pay comprises of salary, benefits and pension.

S. Jacinta Whyte: The details of the Deputy Group Chief Executive's package is still subject to negotiation and will be included in future remuneration reports.

### NEDs' fees policy

HOW THE ELEMENT SUPPORTS OUR STRATEGIC OBJECTIVES	OPERATION	OPPORTUNITY	PERFORMANCE MEASURES
To attract NEDs who have a range of experience and skills to oversee the implementation of our strategy.	<p>NEDs' fees, including the Committee Chairman's fees are approved by the Board at a General meeting, following recommendation by the Chairman and Executive Directors. The Committee Chair takes no part in the discussion relating to their fees.</p> <p>Fees are paid in 12 equal monthly instalments during the year. Fees are reviewed every two years against those for NEDs in companies of a similar scale and complexity.</p> <p>NEDs are not eligible to receive benefits and do not participate in incentive or pension plans.</p>	Current fee levels are shown in the section on implementation of policy.	NEDs are not eligible to participate in any performance-related arrangements.

### Statement of consideration of shareholder views

The Committee, through the Board, consults with the shareholder on any changes to this policy in order to understand expectations with regard to Executive Directors remuneration and any changes in shareholder views. Any views expressed by the shareholder are then considered and taken into account at the annual review of the policy.

# Annual Report on Remuneration

The following information contained in this report is auditable unless otherwise stated:

## Statement of implementation of Remuneration Policy in 2014 (not auditable)

Differences between the Remuneration Policy for 2013 and the policy for 2014 are set out in the table below:

ELEMENT	OPERATION	OPPORTUNITY	PERFORMANCE MEASURES
<b>SALARY</b>	No difference	No difference	N/A
<b>BENEFITS</b>	No difference	No difference	N/A
<b>ANNUAL BONUS</b>	No mandatory deferral provision  Clawback at the discretion of the Committee	No difference	In 2013, the annual bonus was based upon: <ul style="list-style-type: none"><li>■ Group PBT</li><li>■ Group COR</li><li>■ UK &amp; Ireland COR</li><li>■ Top 5 Group priorities</li><li>■ Personal performance rating</li></ul>
<b>LTIP</b>	No mandatory deferral provision  Clawback at discretion of Committee	Maximum grant is 100% of salary for the Group Chief Executive.  Normal grant policy is either 20% or 30% of salary dependent on the position for all other Executive Directors.	There are two underlying performance conditions which are weighted equally: 1. 50% of award dependent on average Group COR 2. 50% of award dependent on Group PBT performance  There is a 36-month performance period from the date of grant.
<b>GROUP CHIEF EXECUTIVE'S 3-YEAR INCENTIVE PLAN</b>	No mandatory deferral provision  This operates through staged payments: <ul style="list-style-type: none"><li>■ Year 1 up to 25% of salary</li><li>■ Year 2 up to 50% of salary, less payments made in the previous year</li><li>■ Year 3 up to 100% of salary, less payments made in Year 1 and Year 2 above</li></ul>	Maximum bonus is 100% of salary over the 2014-2016 performance period.	There are three areas of performance conditions that apply to this award: 1. 50% dependent upon financial performance 2. 25% dependent on achievement of measurable, non-financial results 3. 25% dependent upon achievement of qualitative achievements  Performance period is 2014-2016.
<b>FORMER GROUP CHIEF EXECUTIVE INCENTIVE AWARD 2013.</b>  This incentive replaced Michael Tripp's participation in both the annual bonus scheme and the LTIP.	This incentive was agreed in January 2013 to focus the Group Chief Executive to deliver certain objectives and was subject to the Committee's assessment of the Group Chief Executive's performance.	The maximum opportunity was capped at three months' salary.	The delivery of a smooth transition of the management to the successor in the role of Group Chief Executive.

None of the Executive Directors received an increase in salary last year, except those that changed their role within the Group. Details are shown in the table below:

#### Salary at the annual review date

NAME	SALARY £000s <sup>3</sup>	SALARY £000s <sup>3</sup>	PERCENTAGE INCREASE
	1 April 2013	1 July 2012	
Mark Hews	260	260	0.0%
Michael Tripp	335	335	0.0%
Steve Wood	257	257	0.0%

<sup>3</sup> The change in period dates results from a change to annual pay review dates in 2013.

Mark Hews became Group Chief Executive on 1 May 2013 and therefore his salary was increased to £350k with effect from this date.

#### Single total figure of remuneration

##### For Executive Directors

The table below shows a single total figure of remuneration received in respect of qualifying services for the 2013 financial year for each Executive Director, together with comparative figures for 2012, where applicable. Aggregate Executive Directors' emoluments are shown on page 87. Details of NEDs' fees are set out in a separate table on page 86.

SINGLE TOTAL FIGURE FOR EXECUTIVE DIRECTORS	SALARY £000s		BENEFITS <sup>4</sup> £000s		ANNUAL BONUS £000s		LTIP <sup>5</sup> £000s		TOTAL £000s	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Mark Hews <sup>6</sup>	320	253	37	19	157	83	5	0	519	355
S. Jacinta Whyte <sup>7</sup>	162	N/A	10	N/A	33	N/A	15	N/A	220	N/A
Michael Tripp <sup>8</sup>	196	332	44	58	84	0	2	0	326	390
Steve Wood <sup>9</sup>	244	254	32	32	0	0	3	0	279	286
<b>Total</b>	<b>922</b>	<b>839</b>	<b>123</b>	<b>109</b>	<b>274</b>	<b>83</b>	<b>25</b>	<b>0</b>	<b>1,344</b>	<b>1,031</b>

<sup>4</sup> Benefits include items such as a car allowance and private medical insurance which are valued at their taxable value

<sup>5</sup> LTIP represents the amount payable in respect of the three-year performance period 2011-2013 for 2013 and 2010-2012 for 2012. All Executive Directors hold unvested LTIP awards in accordance with the rules of the plan

<sup>6</sup> Mark Hews was appointed Group Chief Executive on 1 May 2013

<sup>7</sup> S. Jacinta Whyte was appointed Deputy Group Chief Executive on 16 July 2013 and did not participate in the Executive Director's annual bonus and LTIP scheme during 2013. The annual bonus for 2013 and the LTIP payment shown in table above only relates to her appointment as a General Manager in Canada

<sup>8</sup> Michael Tripp resigned from the Board on 21 May 2013. He received no payment under the annual bonus or the Executive Director's LTIP for performance in 2013. He did, however, receive a payment under the terms of his special bonus scheme, outlined in the policy table on page 77. The LTIP payment is in respect of performance in the years 2011 and 2012.

<sup>9</sup> Steve Wood resigned from the Board on 12 June 2013

Mark Hews is also a NED for MAPFRE RE and was appointed to their Board in December. The fees that Mark earns in respect of this role are paid directly to the Group by MAPFRE RE.

## Section 3/Group Remuneration Report

### Additional requirements in respect of the single total figure table

The annual bonus payable to Executive Directors is assessed taking into account both Group and individual performance, both of which are assessed in a range of 0-2. The two results are multiplied together and applied to the on-target bonus opportunity of 25%. For example, if Group performance was assessed at 1.2 and individual performance at 1.1, the bonus payable would be  $1.2 \times 1.1 \times 25\% = 33\%$ .

Performance targets are set in respect of the Group multiplier, and these are shown in the table below. Actual results are assessed against these targets to calculate the Group multiplier as shown in the second table below. The proposed personal performance multiplier is reviewed and agreed by the Committee.

Bonuses are earned in respect of the financial year and are paid in March following the end of the financial year. The bonuses accruing to the Executive Directors in respect of 2013 are shown in the single total figure for Executive Directors table above. None of the 2013 annual bonuses are subject to deferral.

### Annual bonus table

#### Original targets:

MEASURE	THRESHOLD	ON-TARGET	MAXIMUM	WEIGHTING
Group COR	101%	100%	97%	25%
UK & Ireland COR	100%	98%	96%	25%
Group PBT	£29.8m	£37.0m	£51.8m	35%
Group Top 5 Priorities	0%	75%	100%	15%

#### Actual results giving the Group multiplier:

MEASURE	RESULT	RANGE	WEIGHTING	MULTIPLE
Group COR	102.9%	-	25%	-
UK & Ireland COR	99.7%	0.58	25%	0.1
Group PBT	£67m	2.00	35%	0.7
Group Top 5 Priorities	83%	1.32	15%	0.2
Overall multiplier				1.0

### Performance against conditions for LTIP payment

The LTIP amount included in the single total figure of remuneration is the cash award resulting from the LTIP grant in 2011 for the period 2011-2013. Vesting was dependent on performance over the three financial years ending on 31 December 2013 and continued service until March 2014. The performance achieved against the performance targets is shown below:

PERFORMANCE MEASURE	THRESHOLD – 20% VESTING	TARGET – 50 % VESTING	MAXIMUM – 100% VESTING	ACTUAL	PERCENTAGE OF SALARY PAID
COR	101.0%	95.5%	90.0%	105.6%	0.0%
Group PBT	£95m	£170m	£260m	£97m	1.6%

### Total pension entitlement

Below is a table which shows the pension benefits for the Executive Directors that are in the Defined Benefit Scheme. The Defined Benefit Scheme was closed to new members during 2006.

#### Pension table

DIRECTOR	INCREASE IN ACCRUED PENSION DURING 2013 (PER ANNUM)	INCREASE IN ACCRUED LUMP SUM DURING 2013 (PER ANNUM)	TOTAL ACCRUED ANNUAL PENSION AT 31 DECEMBER 2013	TOTAL ACCRUED LUMP SUM AT 31 DECEMBER 2013	PENSION INPUT AMOUNT DURING THE ACCOUNTING PERIOD ENDING 31 DECEMBER 2013	PENSION INPUT AMOUNT DURING THE ACCOUNTING PERIOD ENDING 31 DECEMBER 2012
Steve Wood	2	6	14	43	36	33

The table below shows the employer contributions that have been made by the Group in respect of the following Executive Directors participating in the Defined Contribution Scheme.

DIRECTOR	2013		2012	
	£000s	£000s	£000s	£000s
Mark Hews	48		38	
S. Jacinta Whyte	19		N/A	
Michael Tripp <sup>10</sup>	0		0	

<sup>10</sup> A cash allowance of 15% of salary (net of NIC) is paid to Executive Directors where continued Company contributions would result in a breach of the HMRC annual allowance.

### Single total figure of remuneration for NEDs

NEDs do not participate in any of the Company's incentive arrangements nor do they receive any benefits. NED fees were last reviewed in 2012, at which time they were found to be lagging behind the market. An increase is due to be put to the general meeting which will become effective from 1 January 2014. We believe that it is appropriate to reflect the level of fees paid by organisations of similar size and complexity and this will enable us to attract NEDs of the calibre we require to help us to implement our future strategy.

## Section 3/Group Remuneration Report

### NEDs' fees for the current and prior year

DIRECTOR	2013	2012
	£000s	£000s
Will Samuel	68	68
David Christie	42	38
John Hylands	40	40
Tony Latham	40	40
Denise Wilson	36	32
The Venerable Christine Wilson <sup>11</sup>	32	16
Tim Carroll <sup>12</sup>	24	0
Sir Philip Mawer <sup>13</sup>	4	43
Nigel Peyton <sup>15</sup>	0	14
Mervyn Couve <sup>14</sup>	0	18
<b>Total</b>	<b>286</b>	<b>309</b>

<sup>11</sup> The Venerable Christine Wilson was appointed to the Board on 21 June 2012 and her fees are paid directly to charity at her request

<sup>12</sup> Tim Carroll was appointed to the Board on 2 April 2013

<sup>13</sup> Sir Philip Mawer resigned on 6 February 2013

<sup>14</sup> Nigel Peyton resigned on 21 June 2012

<sup>15</sup> Mervyn Couve resigned on 21 June 2012

### Executive Directors' termination payments

Michael Tripp resigned as Group Chief Executive on 1 May 2013 and resigned from the Board on 21 May 2013. Steve Wood resigned as an Executive Director and from the Board on 12 June 2013. The following table shows the payments made in accordance with their contractual entitlements:

DIRECTOR	TOTAL PAID IN CASH
	£000s
Michael Tripp	167
Steve Wood	134

### Early vesting of LTIP award

There is no early vesting of the Executive Directors' LTIP. For good leavers grants will vest on the original anniversary date. Any payment is then pro-rated to reflect employment during the 36-month performance period.

### Payments to past Directors

No payments were made to past Directors other than the compensatory payments shown in the table above and bonus payments included in the single figure table on page 83.

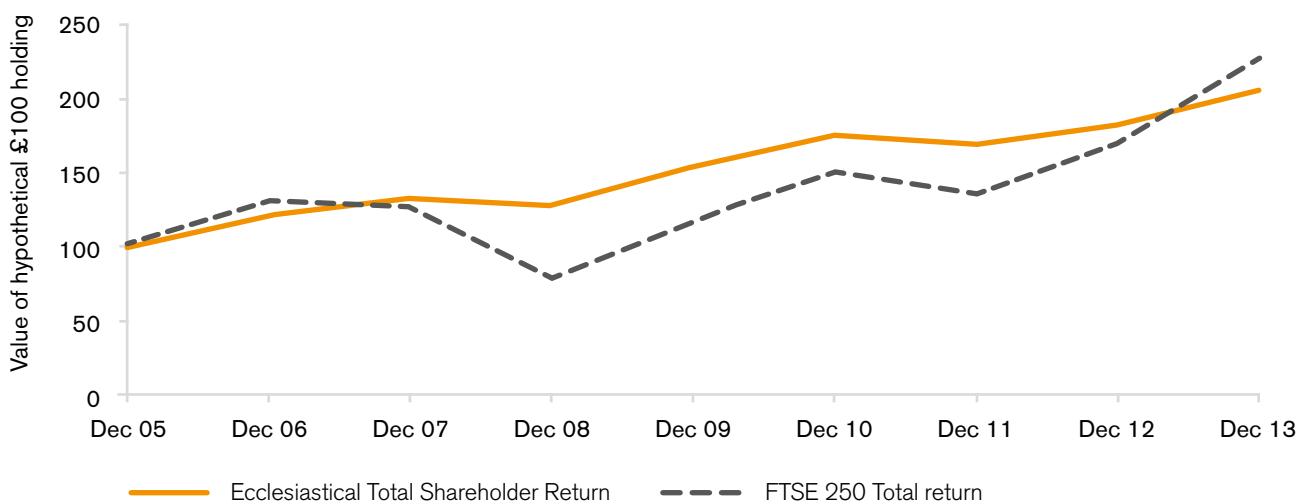
### LTIP grant policy (not auditable)

Grants of participation in the LTIP are made annually following the publication of the Company's accounts. In 2013 awards were made to Executive Directors and other designated senior managers in accordance with our normal grant policy. This is included in the single figure table. During the year, the maximum opportunity for the Group Chief Executive was raised to 100% of salary with effect from 1 January 2013 as a result of the benchmarking information which was considered before determining the package.

### Performance graph (not auditable)

As Ecclesiastical Insurance Office plc does not have equity shares traded on a regulated market, total equity shareholder's funds growth over time as reported each year (plus the grant to ATL) has been used in the performance graph compared with the FTSE 250. Total equity excludes Preference shareholders' capital since this is not attributable to ATL.

Ecclesiastical Insurance Office plc 8-year to 2013 TSR performance against the FTSE 250



### Total emoluments of Executive Directors

For the purposes of the disclosure required by Schedule 5 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations, the total aggregate remuneration of the Executive Directors in respect of qualifying services during 2013 was £1,605,000 (2012: £1,336,000).

After inclusion of amounts receivable under long-term incentive schemes and pension benefits, the total aggregate emoluments of the Executive Directors was £1,705,000 (2012: £1,381,000)

### Ecclesiastical Investment Management (EIM) (not auditable)

EIM is a limited licence Investment management firm under IFPRU, at proportionality level 3 for reporting purposes. EIM has been subject to the FCA Remuneration Code since 1 January 2011. EIM operates a remuneration policy which is compliant with the Remuneration Code, details of which can be found in the EIM pillar 3 statement on Ecclesiastical's website.

CODE STAFF	NUMBER OF EMPLOYEES	AGGREGATE TOTAL REMUNERATION PAID IN 2013
£000s		
EIM staff	5	1,162
EIO staff	4	1,262

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## Section 3/Group Remuneration Report

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### **Consideration by the Committee of matters relating to Directors' remuneration (not auditable)**

#### **Advisers to the Committee**

Hewitt New Bridge Street (HNBS) were the appointed advisers to the Committee for 2013. During the year external professional advice was sourced from HNBS when determining appropriate remuneration packages for Executive Directors and those holding Significant Influence Functions. HNBS have no other advisory function within the Group. The Committee also has access to benchmarking reports from Towers Watson and McLagan, which provide data for determining pay and conditions throughout the Group.

The Committee is content that advice received from Hewitt New Bridge Street was impartial.

The Committee is responsible for recommending to the Board the Remuneration Policy for Executive Directors and for setting the remuneration packages for each Executive Director, members of the Group Management Board, Remuneration Code Staff and Heads of strategic business units. The Committee also has overarching responsibility for the group-wide Remuneration Policy.



# Independent Auditor's Report

## to the Members of Ecclesiastical Insurance Office plc

### Opinion on financial statements of Ecclesiastical Insurance Office plc

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated Statement Of Profit Or Loss, the Consolidated and Parent Statement of Comprehensive Income, the Consolidated and Parent Statement of Changes in Equity, the Consolidated and Parent Statement Of Financial Position and the Consolidated and Parent Statement Of Cash Flows, and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

### Going concern

We have reviewed the directors' statement contained within the Directors Report on page 54 that the Group is a going concern. We confirm that:

- we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and

- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

### Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

RISK	HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE RISK
<b>GENERAL INSURANCE TECHNICAL RESERVES</b>	We challenged the key judgements within the calculation of the general insurance technical reserves as set out in note 26 to the financial statements by working with our general insurance actuarial specialists to specifically assess the movements in prior year reserves, material changes in methodology and assumptions and the impact of claims experience in the year. We also tested the completeness and accuracy of underlying data used in the reserving.
<b>CARRYING VALUE OF GOODWILL</b>	We challenged management's key assumptions used in the impairment model for goodwill and intangible assets, described in note 16 to the financial statements, relating to estimated future cash flows, growth rates and the discount rate applied through comparing this against benchmarks on similar assets, comparison against the prevailing group cost of capital at the year-end and our understanding of management's past forecasting accuracy and future prospects of the business.
<b>LIFE INSURANCE RESERVES</b>	We evaluated the key judgements underpinning the calculation of the life insurance reserves as set out in note 26 to the financial statements by involving our internal life actuarial specialists to benchmark the valuation and expense assumptions to those used in the market. We also tested the completeness and accuracy of underlying data used in the reserving.
<b>ASSUMPTIONS UNDERPINNING THE CALCULATION AND RECOGNITION OF RETIREMENT BENEFIT OBLIGATIONS</b>	We assessed management's assumptions used in the calculations of the defined benefit pension asset and retirement benefit obligations as set out in note 18 to the financial statements by involving our internal pensions actuarial specialists to benchmark the assumptions in respect of the discount rate, inflation and mortality assumptions to those used in the market. We tested the completeness and accuracy of underlying data used in the calculation of the retirement benefit obligations. We assessed management's valuation of pension assets, held at fair value, by comparison to observable market prices. We also evaluated the accessibility of the surplus on the main scheme by reference to applicable accounting standards and advice received by management from external parties.
<b>CARRYING VALUE OF TAX LIABILITIES</b>	We worked with our internal tax specialists to evaluate the appropriateness of management's assumptions in deriving the tax liabilities described in notes 13, 27 and 28 to the financial statements, by reviewing relevant correspondence with HMRC.

## Section3/Independent Auditor's Report

The Audit Committee's consideration of these risks is set out on page 70.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

### Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £3.7m, which is below 1% of both Gross Written Premiums and Equity.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £77,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

### An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope

primarily on the audit work for the general and life insurance businesses in the UK, Ireland, Australia and Canada. Together, these represent the principal business units and account for 96% of the Group's net assets, 93% of the Group's revenue and 85% of the Group's profit before tax. All significant components were subject to full scope audits which were executed at levels of materiality applicable to each individual entity and which were lower than Group materiality.

We completed the majority of our audit work in the UK. The group audit team continued to follow a programme of planned visits that has been designed so that a senior member of the group audit team visits each of the components where the group audit scope is focused at least once every three years. In years when we do not visit a significant component we discuss the risk assessment with the component auditor, and review documentation of the findings from their work.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

### Opinion on other matter prescribed by the Companies Act 2006

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

### Matters on which we are required to report by exception

*Adequacy of explanations received and accounting records*

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

*Directors' remuneration*

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made. We have nothing to report arising from this matter.

*Our duty to read other information in the Annual Report*

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

### **Other matters**

#### *Directors' remuneration report*

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 that would have applied were the company a quoted company.

*Corporate Governance Statement*  
Although not required to do so, the directors have voluntarily chosen to make a corporate governance statement detailing the extent of their compliance with the UK Corporate Governance Code. At the request of the directors, we have reviewed the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement, 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. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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/or those further matters we have expressly agreed to report to them on in our engagement letter 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.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates

made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Mark McQueen ACA**

(Senior statutory auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory  
Auditor  
London, United Kingdom  
25 March 2014



## **Section 4/Financial Statements**

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# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2013

	Notes	2013 £000	2012 £000
<b>Revenue</b>			
Gross written premiums	5, 6	399,345	481,334
Outward reinsurance premiums	6	(131,274)	(157,843)
Net change in provision for unearned premiums	6	24,592	(12,846)
<b>Net earned premiums</b>		<b>292,663</b>	<b>310,645</b>
Fee and commission income	7	58,088	53,657
Net investment return	7	77,243	64,991
<b>Total revenue</b>		<b>427,994</b>	<b>429,293</b>
<b>Expenses</b>			
Claims and change in insurance liabilities	8	(234,789)	(256,057)
Reinsurance recoveries	8	36,545	41,447
Fees, commissions and other acquisition costs	9	(80,285)	(97,454)
Other operating and administrative expenses		(82,411)	(79,311)
<b>Total operating expenses</b>		<b>(360,940)</b>	<b>(391,375)</b>
Operating profit		67,054	37,918
Finance costs		(117)	(115)
<b>Profit before tax</b>	5	<b>66,937</b>	<b>37,803</b>
Tax expense	13	(4,819)	(4,448)
<b>Profit for the year from continuing operations</b>		<b>62,118</b>	<b>33,355</b>
Net loss attributable to discontinued operations	14	-	(5,737)
<b>Profit for the year (attributable to equity holders of the Parent)</b>	10	<b>62,118</b>	<b>27,618</b>

On 15 May 2012, the Group disposed of its wholly-owned subsidiary, ACS (NZ) Limited. The results of the disposed business are presented within discontinued operations in the prior year.

# CONSOLIDATED AND PARENT STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2013

	2013		2012	
	Group £000	Parent £000	Group £000	Parent £000
<b>Profit for the year</b>	<b>62,118</b>	<b>52,494</b>	27,618	16,162
<b>Other comprehensive income</b>				
<i>Items that will not be reclassified to profit or loss:</i>				
Fair value losses on property	(104)	-	(313)	(313)
Actuarial losses on retirement benefit plans	(1,526)	(1,526)	(1,331)	(1,331)
Attributable tax	484	453	511	511
	<b>(1,146)</b>	<b>(1,073)</b>	(1,133)	(1,133)
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Losses on currency translation differences	(10,071)	(2,727)	(3,784)	(904)
<b>Net other comprehensive income</b>	<b>(11,217)</b>	<b>(3,800)</b>	(4,917)	(2,037)
<b>Total comprehensive income attributable to equity holders of the Parent</b>	<b>50,901</b>	<b>48,694</b>	22,701	14,125

# CONSOLIDATED AND PARENT STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2013

Group	Share capital £'000	Share premium £'000	Equalisation reserve £'000	Revaluation reserve £'000	Translation reserve £'000	Retained earnings £'000	Total £'000
<b>At 1 January 2013</b>	<b>120,477</b>	<b>4,632</b>	<b>25,590</b>	<b>752</b>	<b>24,411</b>	<b>279,795</b>	<b>455,657</b>
<i>Profit for the year</i>	-	-	-	-	-	62,118	62,118
<i>Other net expense</i>	-	-	-	(52)	(10,071)	(1,094)	(11,217)
Total comprehensive income	-	-	-	(52)	(10,071)	61,024	50,901
Dividends	-	-	-	-	-	(9,181)	(9,181)
Net charitable grant to ultimate parent	-	-	-	-	-	(3,070)	(3,070)
Group tax relief in excess of standard rate	-	-	-	-	-	(164)	(164)
Reserve transfers	-	-	247	-	-	(247)	-
<b>At 31 December 2013</b>	<b>120,477</b>	<b>4,632</b>	<b>25,837</b>	<b>700</b>	<b>14,340</b>	<b>328,157</b>	<b>494,143</b>
<b>At 1 January 2012</b>	<b>120,477</b>	<b>4,632</b>	<b>22,719</b>	<b>971</b>	<b>28,195</b>	<b>268,267</b>	<b>445,261</b>
<i>Profit for the year</i>	-	-	-	-	-	27,618	27,618
<i>Other net expense</i>	-	-	-	(219)	(3,784)	(914)	(4,917)
Total comprehensive income	-	-	-	(219)	(3,784)	26,704	22,701
Dividends	-	-	-	-	-	(9,181)	(9,181)
Net charitable grant to ultimate parent	-	-	-	-	-	(3,020)	(3,020)
Group tax relief in excess of standard rate	-	-	-	-	-	(104)	(104)
Reserve transfers	-	-	2,871	-	-	(2,871)	-
<b>At 31 December 2012</b>	<b>120,477</b>	<b>4,632</b>	<b>25,590</b>	<b>752</b>	<b>24,411</b>	<b>279,795</b>	<b>455,657</b>
<b>Parent</b>							
<b>At 1 January 2013</b>	<b>120,477</b>	<b>4,632</b>	<b>25,590</b>	<b>542</b>	<b>9,185</b>	<b>232,176</b>	<b>392,602</b>
<i>Profit for the year</i>	-	-	-	-	-	52,494	52,494
<i>Other net income/(expense)</i>	-	-	-	21	(2,727)	(1,094)	(3,800)
Total comprehensive income	-	-	-	21	(2,727)	51,400	48,694
Dividends	-	-	-	-	-	(9,181)	(9,181)
Net charitable grant to ultimate parent	-	-	-	-	-	(3,070)	(3,070)
Group tax relief in excess of standard rate	-	-	-	-	-	(751)	(751)
Reserve transfers	-	-	247	-	-	(247)	-
<b>At 31 December 2013</b>	<b>120,477</b>	<b>4,632</b>	<b>25,837</b>	<b>563</b>	<b>6,458</b>	<b>270,327</b>	<b>428,294</b>
<b>At 1 January 2012</b>	<b>120,477</b>	<b>4,632</b>	<b>22,719</b>	<b>761</b>	<b>10,089</b>	<b>232,202</b>	<b>390,880</b>
<i>Profit for the year</i>	-	-	-	-	-	16,162	16,162
<i>Other net expense</i>	-	-	-	(219)	(904)	(914)	(2,037)
Total comprehensive income	-	-	-	(219)	(904)	15,248	14,125
Dividends	-	-	-	-	-	(9,181)	(9,181)
Net charitable grant to ultimate parent	-	-	-	-	-	(3,020)	(3,020)
Group tax relief in excess of standard rate	-	-	-	-	-	(202)	(202)
Reserve transfers	-	-	2,871	-	-	(2,871)	-
<b>At 31 December 2012</b>	<b>120,477</b>	<b>4,632</b>	<b>25,590</b>	<b>542</b>	<b>9,185</b>	<b>232,176</b>	<b>392,602</b>

The equalisation reserve is not distributable and must be kept in compliance with the insurance companies' reserves regulations. The revaluation reserve represents cumulative net fair value gains on owner-occupied property. The translation reserve arises on consolidation of the Group's and Parent's foreign operations.

# CONSOLIDATED AND PARENT STATEMENT OF FINANCIAL POSITION

for the year ended 31 December 2013

	Notes	2013		2012	
		Group £000	Parent £000	Group £000	Parent £000
<b>Assets</b>					
Goodwill and other intangible assets	16	23,684	3,795	24,349	3,811
Deferred acquisition costs	17	34,757	30,542	34,626	35,886
Deferred tax assets	28	3,261	37	3,202	-
Pension assets	18	32,288	32,288	36,521	36,521
Property, plant and equipment	19	7,292	6,084	8,414	6,623
Investment property	20	45,099	45,099	27,315	27,315
Financial investments	21	946,452	763,926	922,109	726,652
Reinsurers' share of contract liabilities	26	132,593	121,490	141,011	127,472
Current tax recoverable		135	135	316	316
Other assets	23	124,464	108,271	145,714	124,525
Cash and cash equivalents	24	107,241	80,430	112,584	88,963
<b>Total assets</b>		<b>1,457,266</b>	<b>1,192,097</b>	1,456,161	1,178,084
<b>Equity</b>					
Share capital	25	120,477	120,477	120,477	120,477
Share premium account		4,632	4,632	4,632	4,632
Retained earnings and other reserves		369,034	303,185	330,548	267,493
<b>Total shareholders' equity</b>		<b>494,143</b>	<b>428,294</b>	455,657	392,602
<b>Liabilities</b>					
Insurance contract liabilities	26	848,267	663,188	878,691	675,787
Finance lease obligations		1,624	1,624	1,812	1,812
Provisions for other liabilities	27	6,710	6,566	7,273	6,939
Retirement benefit obligations	18	11,744	11,744	14,810	14,810
Deferred tax liabilities	28	40,116	39,548	38,653	38,024
Current tax liabilities		2,463	2,171	290	99
Deferred income		14,231	13,950	14,782	14,238
Other liabilities	29	37,968	25,012	44,193	33,773
<b>Total liabilities</b>		<b>963,123</b>	<b>763,803</b>	1,000,504	785,482
<b>Total shareholders' equity and liabilities</b>		<b>1,457,266</b>	<b>1,192,097</b>	1,456,161	1,178,084

The financial statements of Ecclesiastical Insurance Office plc, registered number 24869, on pages 95 to 152 were approved and authorised for issue by the Board of Directors on 25 March 2014 and signed on its behalf by:

Will Samuel  
*Chairman*

Mark Hews  
*Group Chief Executive*

# CONSOLIDATED AND PARENT STATEMENT OF CASH FLOWS

for the year ended 31 December 2013

	2013		2012	
	Group £000	Parent £000	Group £000	Parent £000
<b>Profit before tax</b>	<b>66,937</b>	<b>57,394</b>	37,803	17,658
<i>Adjustments for:</i>				
Loss before tax on discontinued operations	-	-	(834)	-
Depreciation of property, plant and equipment	1,930	1,673	2,132	1,656
Loss/(profit) on disposal of property, plant and equipment	112	(30)	79	57
Amortisation and impairment of intangible assets	2,770	2,017	2,125	1,405
Loss on disposal of intangible assets	7	-	83	83
Net fair value gains on financial instruments and investment property	(36,072)	(32,603)	(23,498)	(15,606)
Dividend and interest income	(38,364)	(28,453)	(38,867)	(28,541)
Finance costs	117	114	115	115
<i>Changes in operating assets and liabilities:</i>				
Net (decrease)/increase in insurance contract liabilities	(8,689)	(7,941)	(23,201)	29,112
Net decrease in reinsurers' share of contract liabilities	5,275	5,056	71,872	14,767
Net (increase)/decrease in deferred acquisition costs	(1,075)	4,902	1,037	(1,545)
Net decrease/(increase) in other assets	16,385	12,792	1,404	(8,159)
Net decrease in operating liabilities	(777)	(4,766)	(8,971)	(314)
Net increase/(decrease) in other liabilities	48	214	(877)	(746)
Cash generated by operations	8,604	10,369	20,402	9,942
Dividends received	9,923	9,228	9,358	8,947
Interest received	27,388	18,350	28,967	19,116
Interest paid	(117)	(114)	(115)	(115)
Tax (paid)/recovered	(225)	1,117	303	1,949
<b>Net cash from operating activities</b>	<b>45,573</b>	<b>38,950</b>	<b>58,915</b>	<b>39,839</b>
<b>Cash flows from investing activities</b>				
Purchases of property, plant and equipment	(1,017)	(941)	(1,633)	(1,477)
Proceeds from the sale of property, plant and equipment	54	54	51	41
Purchases of intangible assets	(2,232)	(2,096)	(1,237)	(1,217)
Investment in subsidiaries, net of cash acquired	-	-	-	(1,589)
Disposal of businesses, net of cash transferred	-	-	(12,734)	-
Purchases of financial instruments and investment property	(269,766)	(209,153)	(256,467)	(182,299)
Sale of financial instruments and investment property	242,082	182,040	180,742	130,468
<b>Net cash used by investing activities</b>	<b>(30,879)</b>	<b>(30,096)</b>	<b>(91,278)</b>	<b>(56,073)</b>
<b>Cash flows from financing activities</b>				
Payment of finance lease liabilities	(418)	(418)	(527)	(527)
Payment of group tax relief in excess of standard rate	(163)	524	(463)	(1,910)
Dividends paid to Company's shareholders	(9,181)	(9,181)	(9,181)	(9,181)
Donations paid to ultimate parent undertaking	(8,000)	(8,000)	-	-
<b>Net cash used by financing activities</b>	<b>(17,762)</b>	<b>(17,075)</b>	<b>(10,171)</b>	<b>(11,618)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(3,068)</b>	<b>(8,221)</b>	<b>(42,534)</b>	<b>(27,852)</b>
Cash and cash equivalents at beginning of year	112,584	88,963	155,024	116,239
Exchange (losses)/gains on cash and cash equivalents	(2,275)	(312)	94	576
<b>Cash and cash equivalents at end of year</b>	<b>107,241</b>	<b>80,430</b>	<b>112,584</b>	<b>88,963</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 1 Accounting policies

Ecclesiastical Insurance Office plc (hereafter referred to as the 'Company', or 'Parent'), a public limited company incorporated and domiciled in England, together with its subsidiaries (collectively, the 'Group') operates principally as a provider of general insurance in addition to offering a range of financial services, with offices in the UK, Australia, Canada and Ireland. The principal accounting policies adopted in preparing the Group's International Financial Reporting Standards (IFRS) financial statements are set out below.

### Basis of preparation

The Group's consolidated financial statements have been prepared using the following accounting policies, which are in accordance with IFRS applicable at 31 December 2013 issued by the International Accounting Standards Board and endorsed by the European Union (EU). The financial statements have been prepared on the historical cost basis, except for the revaluation of properties and certain financial instruments.

The Financial Performance and Risk Management sections of the Strategic Report provide a review of the Group's business activities and describe the principal risks and uncertainties, including exposures to insurance and financial risk. The Group has considerable financial resources: financial investments of £946.5m, 97% of which are liquid (2012: financial investments of £922.1m, 96% liquid); cash and cash equivalents of £107.2m and no borrowings (2012: cash and cash equivalents of £112.6m and no borrowings); and a regulatory enhanced capital cover of 2.6 (2012: 2.7). As a consequence, the Directors have a reasonable expectation that the Group is well placed to manage its business risks successfully and continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

In accordance with IFRS 4, *Insurance Contracts*, on adoption of IFRS the Group applied existing accounting practices for insurance and participating investment contracts, modified as appropriate to comply with the IFRS framework and applicable standards, introducing changes only where they provide more reliable and relevant information.

Items included in the financial statements of each of the Group's entities are measured in the currency of the primary economic environment in which that entity operates (the 'functional currency'). The consolidated financial statements are stated in sterling, which is the Company's functional and presentation currency.

As permitted by Section 408 of the Companies Act 2006, a separate profit and loss account for the Company is not presented.

### New and revised Standards

In the current year the Group has adopted the following Standards and Amendments:

- IAS 27 (Revised), *Separate Financial Statements*;
- IAS 28 (Revised), *Investments in Associates and Joint Ventures*;
- IFRS 10, *Consolidated Financial Statements*;
- IFRS 11, *Joint Arrangements*;
- IFRS 12, *Disclosure of Interests in Other Entities*;
- IFRS 13, *Fair Value Measurement*;

- Amendment to IAS 1 (Revised), *Presentation of Items of Other Comprehensive Income*;
- Amendment to IFRS 7, *Disclosures: Offsetting Financial Assets and Financial Liabilities*;
- Amendments to IFRS 10, IFRS 11 and IFRS 12, *Transition Guidance*; and
- Annual Improvements to IFRSs 2009 - 2011 Cycle.

IFRS 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. The adoption has had no material impact on the measurement of fair value of financial assets and financial liabilities in the Group, and the disclosures required are shown in note 4.

The amendment to IAS 1 requires items of other comprehensive income to be grouped by those items that will be reclassified subsequently to profit or loss and those that will never be reclassified, along with their associated tax. The amendments have been applied retrospectively and hence the presentation of items of other comprehensive income has been modified to reflect the changes. The amendment also introduces new terminology, whose use is not mandatory, for the statement of comprehensive income and the income statement. As such, the 'income statement' has been renamed as the 'statement of profit or loss'.

The amendment to IFRS 7 requires disclosure of the gross amounts of recognised financial assets and liabilities where they are offset and the net amount presented in the statement of financial position. Disclosure of amounts offset within pension assets, other assets and other liabilities are shown in notes 18, 23 and 29, respectively.

The other Standards, Interpretation and Amendments adopted in the year have not had a significant impact on the financial statements.

At the date of authorisation of these financial statements, the following Standard and Amendments which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 9 (Revised), *Financial Instruments*;
- IFRIC 21, *Levies*;
- Amendment to IAS 19 (Revised), *Defined Benefit Plans: Employee Contributions*;
- Amendment to IAS 32, *Offsetting Financial Assets and Financial Liabilities*;
- Amendment to IAS 36, *Recoverable Amount Disclosures for Non-Financial Assets*;
- Amendment to IAS 39, *Novation of Derivatives and Continuation of Hedge Accounting*;
- Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised), *Investment Entities*;
- Annual Improvements to IFRSs 2010 - 2012 Cycle; and
- Annual Improvements to IFRSs 2011 - 2013 Cycle.

On adoption of the amendment to IAS 19 (R) (effective for annual periods beginning on or after 1 July 2014), there will be a presentational change in the pension asset and retirement benefit obligations note. The adoption of the other Standard, Interpretation and Amendments is not expected to significantly impact the Group.

The Group has no transactions within the scope of other new or revised Standards or Interpretations which are effective in the year or in issue but not yet effective.

### **Use of estimates**

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

### **Operating profit or loss**

Operating profit or loss is stated before finance costs.

### **Basis of consolidation**

#### **Subsidiaries**

Subsidiaries are those entities in which the Group, directly or indirectly, has the power to govern the financial and operating policies in order to gain economic benefits. The results and cash flows relating to subsidiaries acquired or disposed of in the year are included in the consolidated statement of profit or loss and the consolidated statement of cash flows from the date of acquisition or up to the date of disposal. All inter-company transactions, balances and profits are eliminated.

In the Parent statement of financial position subsidiaries are accounted for within financial investments at cost, in accordance with IAS 27 (Revised), *Separate Financial Statements*.

The Group uses the acquisition method of accounting to account for business combinations. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Non-controlling interests are measured either at fair value or at a proportionate share of the identifiable net assets of the acquiree. Goodwill is measured as the excess of the aggregate of the consideration transferred, the non-controlling interests and for an acquisition achieved in stages, the fair value of previously held equity interest, over the fair value of the identifiable net assets acquired. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised directly through profit or loss.

For business combinations involving entities or businesses under common control, the cost of the acquisition equals the value of net assets transferred, as recognised by the transferor at the date of the transaction. No goodwill arises on such transactions.

### **Investment vehicles**

Investment vehicles such as mutual funds are consolidated when the Group has a controlling interest.

### **Foreign currency translation**

The assets and liabilities of foreign operations are translated from their functional currencies into the Group's presentation currency using year end exchange rates, and their income and expenses using average exchange rates for the year. Exchange differences arising from the translation of the net investment in foreign

operations are taken to the currency translation reserve within equity. On disposal of a foreign operation, such exchange differences are transferred out of this reserve and are recognised in the statement of profit or loss as part of the gain or loss on sale.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. Exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised through profit or loss.

### **Product classification**

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder, are classified as insurance contracts. Contracts that do not transfer significant insurance risk are classified as investment or service contracts. All of the Group's long-term business contracts are classified as insurance contracts.

Both insurance and investment contracts may contain a discretionary participating feature, which is defined as a contractual right to receive additional benefits as a supplement to guaranteed benefits. The Group does not have any such participating contracts (referred to as with-profit contracts). The Company's long-term business contracts are referred to as non-profit contracts in the financial statements.

### **Premium income**

#### **General insurance business**

Premiums are shown gross of commission paid to intermediaries and accounted for in the period in which the risk commences. Estimates are included for premiums not notified by the year end and provision is made for the anticipated lapse of renewals not yet confirmed. Those proportions of premiums written in a year which relate to periods of risk extending beyond the end of the year are carried forward as unearned premiums.

Premiums written include adjustments to premiums written in prior periods and estimates for pipeline premiums and are shown net of insurance premium taxes. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or inwards reinsurance business.

### **Long-term business**

Insurance contract premiums are recognised as income when receivable, at which date the liabilities arising from them are also recognised.

### **Fee and commission income**

Fee and commission income consists primarily of reinsurance commissions receivable in addition to income from the Group's insurance broking activities, investment fund management fees, distribution fees from mutual funds and commission revenue from the sale of mutual fund shares. Reinsurance commissions receivable and other commission income are recognised on the trade date. Income generated from insurance placements is recognised at the inception date of the cover.

# NOTES TO THE FINANCIAL STATEMENTS

## 1 Accounting policies (continued)

Fees charged for investment management services are recognised as revenue when the services are provided. Initial fees which exceed the level of recurring fees and relate to the future provision of services are deferred and amortised over the anticipated period in which services will be provided. Fees charged for investment management services for institutional and retail fund management are also recognised on this basis.

### Net investment return

Net investment return consists of dividends, interest and rents receivable for the year, realised gains and losses, and unrealised gains and losses on financial instruments and investment properties. Dividends on equity securities are recorded as revenue on the ex-dividend date. Interest and rental income is recognised as it accrues.

Unrealised gains and losses are calculated as the difference between carrying value and original cost, and the movement during the year is recognised through profit or loss. The value of realised gains and losses includes an adjustment for previously recognised unrealised gains or losses on investments disposed of in the accounting period.

### Claims

General insurance claims incurred include all losses occurring during the year, whether reported or not, related handling costs, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Claims handling costs include all internal and external costs incurred in connection with the negotiation and settlement of claims.

Long-term insurance business claims and death claims are accounted for when notified.

### Insurance contract liabilities

#### General insurance provisions

##### (i) Outstanding claims provisions

General insurance outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the year end date, whether reported or not, together with related claims handling costs. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, the ultimate cost of which cannot be known with certainty at the year end date. An estimate is made representing the best estimate plus a risk margin within a range of possible outcomes. Designated insurance liabilities are remeasured to reflect current market interest rates.

##### (ii) Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as a provision for unearned premiums. The change in this provision is taken to profit or loss in order that revenue is recognised over the period of risk.

##### (iii) Liability adequacy

At each reporting date, the Group reviews its unexpired risks and carries out a liability adequacy test for any overall excess of expected claims and deferred acquisition costs over unearned premiums, using the current estimates of future cash flows under its contracts. Unexpired risks are assessed separately for each class of

business. Surpluses and deficits are offset where business classes are considered to be managed together.

### Long-term business provisions

Under current IFRS requirements, insurance contract liabilities are measured using accounting policies consistent with those adopted previously. Accounting for such contracts is determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005, and amended in December 2006.

The long-term business provision is determined using methods and assumptions approved by the Directors based on advice from the Actuarial Function Holder. Initially it is calculated to comply with the reporting requirements under the Prudential Sourcebook for Insurers. This statutory solvency basis of valuation is then adjusted by eliminating or adjusting certain reserves advised under insurance companies' regulations and general contingency reserves. This adjusted basis is referred to as the modified statutory solvency basis.

### Reinsurance

The Group assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance assumed are recognised as revenue in the same manner as direct business. Outwards reinsurance premiums are accounted for in the same accounting period as the related premiums for the direct or inwards reinsurance business being reinsured. The Group does not reinsure its long-term business.

Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

### Intangible assets

#### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets and liabilities of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions prior to 1 January 2004 (the date of transition to IFRS) is carried at book value (original cost less amortisation) on that date, less any subsequent impairment. Where it is considered more relevant, the Group uses the option to measure goodwill initially at fair value, less any subsequent impairment.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

### Computer software

Computer software is carried at historical cost less accumulated amortisation, and amortised over a useful life of between three and five years, using the straight-line method. The amortisation charge for the period is included in the statement of profit or loss within other operating and administrative expenses.

## Other intangible assets

Other intangible assets consist of acquired customer and distribution relationships, and are carried at cost at acquisition less accumulated amortisation after acquisition. Amortisation is on a straight-line basis over the weighted average estimated useful life of intangible assets acquired. The amortisation charge for the period is included in the statement of profit or loss within other operating and administrative expenses.

## Property, plant and equipment

Owner-occupied properties are stated at open market value and movements are taken to the revaluation reserve within equity, net of deferred tax. When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings. Where the market value of an individual property is below original cost, any revaluation movement arising during the year is recognised within net investment return in the statement of profit or loss. Valuations are carried out at least every three years by external qualified surveyors. All other items classed as property, plant and equipment within the statement of financial position are carried at historical cost less accumulated depreciation.

Land is not depreciated. No depreciation is provided on owner-occupied properties since such depreciation would be immaterial. Depreciation is calculated on the straight-line method to write down the cost of other assets to their residual values over their estimated useful lives as follows:

Computer equipment	3 - 5 years
Motor vehicles	27% reducing balance or length of lease
Fixtures, fittings and office equipment	3 - 15 years

Where the carrying amount of an item carried at historical cost less accumulated depreciation is greater than its estimated recoverable amount, it is written down to its recoverable amount by way of an impairment charge to profit or loss.

Repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

## Investment property

Investment property comprises land and buildings which are held for long-term rental yields. It is carried at fair value with changes in fair value recognised in the statement of profit or loss within net investment return. Investment property is valued annually by external qualified surveyors at open market value.

## Financial instruments

IAS 39, *Financial Instruments: Recognition and Measurement* requires the classification of certain financial assets and liabilities into separate categories for which the accounting requirements differ.

The classification depends on the nature and purpose of the financial assets and liabilities, and is determined at the time of initial recognition. Financial instruments are initially measured at fair value.

Their subsequent measurement depends on their classification:

- Financial instruments designated as at fair value through profit or loss and those held for trading are subsequently carried at fair value. Changes in fair value are recognised through profit or loss in the period in which they arise.
- All other financial assets and liabilities are held at amortised cost, using the effective interest method (except for short-term receivables and payables when the recognition of interest would be immaterial).

The Directors consider that the carrying value of those financial assets and liabilities not carried at fair value in the financial statements approximates to their fair value.

## Offset of financial assets and financial liabilities

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position, when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

## Financial investments

The Group classifies its financial investments as either financial assets at fair value through profit or loss (designated as such or held for trading) or loans and receivables.

## Financial assets at fair value through profit or loss

Financial investments are classified into this category if they are managed, and their performance evaluated, on a fair value basis. Purchases and sales of these investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the assets, at their fair value adjusted for transaction costs. Financial investments within this category are classified as held for trading if they are derivatives or acquired principally for the purpose of selling in the near-term.

The fair values of investments are based on quoted bid prices. Where there is no active market, fair value is established using a valuation technique based on observable market data where available. There is no current intention to dispose of these investments.

## Loans and receivables

Loans and receivables, comprising mortgages and other loans, are recognised when cash is advanced to borrowers. These are carried at amortised cost using the effective interest method. To the extent that a loan is uncollectable, it is written off as impaired. Subsequent recoveries are credited to profit or loss.

## Derivative financial instruments

Derivative financial instruments include financial instruments that derive their value from underlying equity instruments or foreign exchange rates. Group derivative transactions, while providing effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting under the specific IFRS rules and are therefore treated as derivatives held for trading. All derivatives are initially recognised in the statement of financial position at their fair value, which usually represents their cost, including any premium paid. They are subsequently remeasured at their fair value with changes in the fair value recognised

# NOTES TO THE FINANCIAL STATEMENTS

## 1 Accounting policies (continued)

immediately in net investment return. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on the statement of financial position as they do not represent the fair value of these transactions. Collateral pledged by way of cash margins on futures contracts is recognised as an asset on the statement of financial position within cash and cash equivalents.

### Deferred acquisition costs

#### General insurance business

For general insurance business, a proportion of commission and other acquisition costs relating to unearned premiums is carried forward as deferred acquisition costs or, with regard to reinsurance outwards, as deferred income. Deferred acquisition costs are amortised over the period in which the related revenues are earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset.

#### Long-term business

For insurance contracts, acquisition costs comprise direct costs such as initial commission and the indirect costs of obtaining and processing new business. Acquisition costs which are incurred during a financial year are deferred and amortised over the period during which the costs are expected to be recoverable, if applicable.

### Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

### Insurance broking debtors and creditors

Where the Group acts as agent in placing the insurable risks of clients with insurers, debtors arising from such transactions are not included within the Group's assets. When the Group receives cash in respect of resultant premiums or claims, a corresponding liability is established in other creditors in favour of the insurer or client. Where the Group provides premium finance facilities to clients, amounts due are included within other debtors, with the amount owing for onward transmission included in other creditors.

### Leases

Leases, where a significant portion of the risks and rewards of ownership is retained by the lessor, are classified as operating leases. Payments made as lessees under operating leases are charged to profit or loss on a straight-line basis over the period of the lease. Rental income received as lessor under operating leases is credited to profit or loss on a straight-line basis over the period of the lease.

Leases, where a significant portion of the risks and rewards of ownership is transferred to the Group, are classified as finance leases. Assets obtained under finance lease contracts are capitalised as property, plant and equipment and are depreciated over the period of the lease. Obligations under such agreements are included within liabilities net of finance charges allocated to future periods. The interest element of the lease payments is charged to profit or loss over the period of the lease. Assets held under finance leases are not significant to these financial statements.

### Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation, as a result of past events, and it is probable that an outflow of resources, embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is more probable than not.

The Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation but either an outflow of resources is not probable or the amount cannot be reliably estimated.

### Employee benefits

#### Pension obligations

The Group operates a number of defined benefit and defined contribution plans, the assets of which are held in separate trustee administered funds.

For defined benefit plans, the pension costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to profit or loss so as to spread the regular cost over the service lives of employees, in accordance with the advice of qualified actuaries. The pension obligation is measured as the present value of the estimated future cash outflows using a discount rate based on market yields for high quality corporate bonds. The resulting pension plan surplus or deficit appears as an asset or obligation in the statement of financial position. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future employer contributions to the plan.

In accordance with IAS 19 (Revised), *Employee Benefits*, current and past service costs, gains and losses on curtailments and settlements and net interest expense or income (calculated by applying a discount rate to the net defined benefit liability or asset), are recognised through profit or loss. Actuarial gains or losses are recognised in full in the period in which they occur in other comprehensive income.

Contributions in respect of defined contribution plans are recognised as a charge to profit or loss as incurred.

#### Other post-employment obligations

Some Group companies provide post-employment medical benefits to their retirees. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses are recognised immediately in other comprehensive income. Independent qualified actuaries value these obligations annually.

#### Other benefits

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the year end date.

## **Taxation**

Income tax comprises current and deferred tax. Income tax is recognised in the statement of profit or loss except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in the statement of comprehensive income.

Current tax is the expected tax payable on the taxable result for the period and any adjustment to the tax payable in respect of previous periods.

Deferred tax is provided in full on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred tax is measured using tax rates expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled based on tax rates and laws which have been enacted or substantively enacted at the year end date.

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

Deferred tax assets and liabilities are not discounted.

## **Appropriations**

### **Dividends**

Dividends on Ordinary shares are recognised in equity in the period in which they are declared and, for the final dividend, approved by shareholders. Dividends on Irredeemable Preference shares are recognised in the period in which they are declared and appropriately approved.

### **Charitable grant to ultimate parent undertaking**

Payments are made via Gift Aid to the ultimate parent company, Allchurches Trust Limited, a registered charity. The Group does not regard these payments as being expenses of the business and, as such, recognises them net of tax in equity in the period in which they are approved.

# NOTES TO THE FINANCIAL STATEMENTS

## 2 Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are regularly reviewed and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### (a) The ultimate liability arising from claims made under general business insurance contracts

The estimation of the ultimate liability arising from claims made under general business insurance contracts is a critical accounting estimate. There is uncertainty as to the total number of claims made on each class of business, the amounts that such claims will be settled for and the timings of any payments. There are various sources of uncertainty as to how much the Group will ultimately pay with respect to such contracts. Such uncertainty includes:

- whether a claim event has occurred or not and how much it will ultimately settle for;
- variability in the speed with which claims are notified and in the time taken to settle them, especially complex cases resolved through the courts;
- changes in the business portfolio affecting factors such as the number of claims and their typical settlement costs, which may differ significantly from past patterns;
- new types of claim, including latent claims, which arise from time to time;
- changes in legislation and court attitudes to compensation, which may apply retrospectively;
- the way in which certain reinsurance contracts (principally liability) will be interpreted in relation to unusual/latent claims where aggregation of claimants and exposure over time are issues; and
- whether all such reinsurances will remain in force over the long term.

The uncertainties surrounding the estimates of claims payments for the various classes of business are discussed further in note 3, and where discount rates have been applied these are disclosed in note 26. General business insurance liabilities include a margin for risk and uncertainty in addition to the best estimates for future claims. The sensitivity of profit or loss to changes in the ultimate settlement cost of claims reserves is presented in note 26.

### (b) Estimate of future benefit payments arising from long-term insurance contracts

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the Group.

Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to risk. The Group bases these estimates on standard industry and national mortality tables that reflect recent historical mortality experience, with allowance also being made for expected future mortality improvements where prudent. The estimated mortality rates profile provisions for forecast benefit payments net of forecast premium receipts.

Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

In addition to the best estimates of future deaths, inflation, investment returns and administration expenses, a margin for risk and uncertainty is added to these assumptions in calculating the liabilities of long-term insurance contracts. The sensitivity of profit or loss to changes in the key assumptions is presented in note 26.

### (c) Pension and other post-employment benefits

The cost of these benefits and the present value of the pension and other post-employment benefit liabilities depend on factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the charge to profit or loss for these benefits include the discount rate and, in the case of the post-employment medical benefits, expected medical costs inflation. Any changes in these assumptions will impact profit or loss and may affect planned funding of the pension plans. The Group determines an appropriate discount rate at the end of each year, to be used to determine the present value of estimated future cash outflows expected to be required to settle the pension and other post-employment benefit obligations.

In determining the appropriate discount rate, the Group considered interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. The expected rate of medical cost inflation has been determined by comparing the historical relationship of the actual medical cost increases with the rate of inflation. Other key assumptions for the pension and post-employment benefit costs and credits are based in part on current market conditions.

Additional information including the sensitivity of pension and post-employment medical benefit scheme liabilities to changes in the key assumptions is disclosed in note 18.

### (d) Goodwill

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. An impairment loss is recognised to the extent that the carrying value of goodwill exceeds the recoverable amount. The recoverable amount is determined by estimating the value in use of the business units to which the goodwill has been allocated. The value in use calculation requires the Group to make an estimation of the future cash flows expected to arise from the business unit and a suitable discount rate to calculate present value. Details of the carrying value of goodwill at the balance sheet date are shown in note 16.

### (e) Carrying value of tax liabilities

Calculating tax liabilities requires management to make judgements in respect of the tax payable for current and prior periods based on the interpretation of applicable tax legislation. In particular, the material deferred tax liability held by the Group primarily relates to future tax due on unrealised gains in respect to equities held prior to 2002. Gains on these assets are only recognised for tax purposes when sold and an estimate has to be made of the tax rate that would be applicable at the point of sale in order to determine the tax liability relating to the gain, applying tax rates substantively enacted at the balance sheet date.

### 3 Insurance risk

Through its general and life insurance operations, the Group is exposed to a number of risks, as summarised in the Risk Management section of the Strategic Report. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount and timing of the resulting claim. Factors such as the business and product mix, the external environment including market competition and reinsurance capacity all may vary from year to year, along with the actual frequency, severity and ultimate cost of claims and benefits. This subjects the Group to Underwriting and Pricing risk (risk selection and required premium), Claims Reserving Risk (the risk that the cost to settle claims exceeds the carrying amount of the related insurance liabilities) and Reinsurance Risk (the risk of failing to access and manage reinsurance capacity at a reasonable price).

#### (a) Risk mitigation

Experience shows that the larger and more diversified the portfolio of insurance contracts, the smaller the relative variability about the expected outcome will be. The Group's underwriting strategy is designed to ensure that the underwritten risks are well diversified in terms of type and amount of risk and geographical spread. In all operations pricing controls are in place, underpinned by sound statistical analysis, market expertise and appropriate external consultant advice. Gross underwriting exposure is protected through the use of a comprehensive programme of reinsurance and proactive claims handling. Net retention limits are in place and the Group arranges catastrophe reinsurance cover to protect against aggregations of losses.

#### (b) Concentrations of risk

The core business of the Group is general insurance, with the principal classes of business written being property and liability. The Group also underwrites a small portfolio of motor policies, but this class is in run-off following the decision in November 2012 to focus on the principal classes. The accident class of business covers injury, death or incapacity as a result of an unforeseen event. The Group's whole-of-life insurance policies support funeral planning products.

With reference to written premiums, the concentration of insurance risk for the financial year before and after reinsurance by territory in relation to the type of risk accepted is summarised below.

2013	Group	General insurance				Life insurance		Total
		Property £000	Liability £000	Motor £000	Accident £000	Funeral plans £000		
<b>Territory</b>								
United Kingdom	Gross	195,720	64,578	14,467	17,380	6,753	298,898	
	Net	105,832	58,753	13,138	16,519	6,753	200,995	
Australia	Gross	27,126	16,477	861	1,205	-	45,669	
	Net	10,784	13,869	761	1,163	-	26,577	
Canada	Gross	29,521	11,651	-	-	-	41,172	
	Net	19,835	10,772	-	-	-	30,607	
Ireland	Gross	7,876	5,691	1	38	-	13,606	
	Net	4,610	5,241	1	40	-	9,892	
Total	Gross	260,243	98,397	15,329	18,623	6,753	399,345	
	Net	141,061	88,635	13,900	17,722	6,753	268,071	
<b>Parent</b>								
<b>Territory</b>								
United Kingdom	Gross	199,673	64,578	14,467	17,380	-	296,098	
	Net	105,832	58,753	13,138	16,519	-	194,242	
Canada	Gross	29,521	11,651	-	-	-	41,172	
	Net	19,835	10,772	-	-	-	30,607	
Ireland	Gross	7,876	5,691	1	38	-	13,606	
	Net	4,610	5,241	1	40	-	9,892	
Total	Gross	237,070	81,920	14,468	17,418	-	350,876	
	Net	130,277	74,766	13,139	16,559	-	234,741	

# NOTES TO THE FINANCIAL STATEMENTS

## 3 Insurance risk (continued)

2012		General insurance				Life insurance		Total £'000
		Property £'000	Liability £'000	Motor £'000	Accident £'000	Funeral plans £'000		
<b>Group</b>								
<b>Territory</b>								
United Kingdom	Gross	210,913	72,705	40,937	20,404	20,208	365,167	
	Net	111,748	68,629	38,261	19,308	20,208	258,154	
Australia	Gross	41,483	19,585	2,658	1,400	-	65,126	
	Net	11,495	13,915	710	1,319	-	27,439	
Canada	Gross	27,122	9,873	-	-	-	36,995	
	Net	18,748	8,921	-	-	-	27,669	
Ireland	Gross	8,032	5,762	7	245	-	14,046	
	Net	4,704	5,296	7	222	-	10,229	
Total	Gross	287,550	107,925	43,602	22,049	20,208	481,334	
	Net	146,695	96,761	38,978	20,849	20,208	323,491	
<b>Parent</b>								
<b>Territory</b>								
United Kingdom	Gross	218,889	75,260	40,937	20,404	-	355,490	
	Net	111,749	68,574	38,261	19,308	-	237,892	
Canada	Gross	27,122	9,873	-	-	-	36,995	
	Net	18,748	8,921	-	-	-	27,669	
Ireland	Gross	8,032	5,762	7	245	-	14,046	
	Net	4,704	5,296	7	222	-	10,229	
Total	Gross	254,043	90,895	40,944	20,649	-	406,531	
	Net	135,201	82,791	38,268	19,530	-	275,790	

### (c) General insurance risks

#### Property classes

Property cover mainly compensates the policyholder for damage suffered to their properties or for the value of property lost. Property insurance may also include cover for pecuniary loss through the inability to use damaged insured commercial properties.

For property insurance contracts, including the property element of motor contracts, there can be variability in the nature, number and size of claims made in each period.

The nature of claims may include fire, business interruption, weather damage, subsidence, accidental damage to insured vehicles and theft. Subsidence claims are difficult to predict because the damage is often not apparent for some time. Changes in soil moisture conditions can give rise to changes in claim volumes over time. The ultimate settlements can be small or large with a greater risk of a settled claim being re-opened at a later date.

The number of claims made can be affected by weather events, changes in climate and crime rates. Climate change may give rise to more frequent and severe extreme weather events, such as river flooding, hurricanes and drought, and their consequences, for example, subsidence claims. If a weather event happens near the end of the financial year then the uncertainty about ultimate claims cost in the financial statements is much higher because there is insufficient time for adequate data to be received to assess the final cost of claims.

Individual claims can vary in amount since the risks insured are diverse in both size and nature. The cost of repairing property varies according to the extent of damage, cost of materials and labour charges.

The maximum claim payable is limited to the sum insured. These contracts are underwritten on a reinstatement basis or repair and renovation basis as appropriate. Costs of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims. Individual large claims are more likely to arise from fire, storm or flood damage. The greatest likelihood of an aggregation of claims arises from weather or recession-related events.

Claims payment, on average, occurs within a year of the event that gives rise to the claim. However, there is variability around this average with larger claims typically taking longer to settle.

## **Liability classes**

Liability insurance contracts protect policyholders from the liability to compensate injured employees (employers' liability) and third parties (public liability) and motor injuries.

Claims that may arise from the liability portfolios include damage to property, physical injury, disease and psychological trauma. The Group has a different exposure profile to most other commercial lines insurance companies as it has lower exposure to industrial risks, where uncertainty is higher. Therefore, claims for industrial diseases are less common for the Group than injury claims such as slips, trips and back injuries.

The frequency and severity of claims arising on liability insurance contracts, including the liability element of motor contracts, can be affected by several factors. Most significant are the increasing level of awards for damages suffered, the courts' move to periodic payments awards and the increase in the number of cases that have been latent for a long period of time.

The severity of bodily injury claims is highly influenced by the value of loss of earnings and the future cost of care. The settlement value of claims arising under public and employers' liability and the liability element of motor contracts is particularly difficult to predict. There is uncertainty as to whether any payments will be made and, if they are, the amount and timing of the payments. Key factors driving the high levels of uncertainty include the late notification of possible claim events and the legal process.

Late notification of possible claims necessitates the holding of provisions for incurred claims that may only emerge some years into the future. In particular the effect of inflation over such a long period can be considerable and is uncertain. A lack of comparable past experience makes it difficult to quantify the number of claims and, for certain types of claims, the amounts for which they will ultimately settle. The legal and legislative framework continues to develop which has a consequent impact on the uncertainty as to the length of the claims settlement process and the ultimate settlement amounts.

Claims payment, on average, occurs about three to four years after the event that gives rise to the claim. However, there is significant variability around this average.

### ***Provisions for latent claims***

The public and employers' liability classes can give rise to very late reported claims, which are often referred to as latent claims. These can vary in nature and are difficult to predict. They typically emerge slowly over many years. The Group has reflected this uncertainty and believes that it holds adequate reserves for latent claims that may result from exposure periods up to the reporting date.

Note 26 presents the development of the estimate of ultimate claim cost for public and employers' liability claims occurring in a given year. This gives an indication of the accuracy of the estimation technique for incurred claims.

### **(d) Life insurance risks**

The Group provides whole-of-life insurance policies to support funeral planning products, for most of which the future benefits are linked to inflation and backed by index-linked assets. The risk that actual claims payments exceed the carrying amount of the insurance liabilities may occur if the timing of claims is different from assumed.

Uncertainty in the estimation of the timing of future claims arises from the unpredictability of long-term changes in overall levels of mortality. The Group bases these estimates on standard industry and national mortality tables. The most significant factors that could alter the expected mortality rates profile are epidemics, widespread changes in lifestyle and continued improvement in medical science and social conditions. The primary risk on these contracts is the level of future investment returns on the assets backing the liabilities over the life of the policyholders. The investment risk within this has been largely mitigated by holding fixed interest assets of a similar term to the expected liabilities profile. The mortality risk is retained by the Group and directly impacts shareholders' equity.

# NOTES TO THE FINANCIAL STATEMENTS

## 4 Financial risk and capital management

The Group is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of financial risk are interest rate risk, credit risk, currency risk and equity price risk.

There has been no change from the prior period in the nature of financial risks that the Group is exposed to. Financial risk exposure fell in 2013 due to the sale of around £50m overseas equities which we have reinvested in UK fixed income debt securities. The Group's management and measurement of financial risks is informed by either stochastic modelling or stress testing techniques.

### (a) Categories of financial instruments

Group	Financial assets					Other assets and liabilities £000	Total £000
	Designated at fair value £000	Held for trading £000	Loans and receivables* £000	Financial liabilities** £000			
<b>At 31 December 2013</b>							
Financial investments	938,383	158	7,911	-	-	-	946,452
Other assets	-	-	121,411	-	3,053	124,464	
Cash and cash equivalents	-	-	107,241	-	-	107,241	
Other liabilities	-	-	-	(31,571)	(6,397)	(37,968)	
Net other	-	-	-	-	(646,046)	(646,046)	
<b>Total</b>	<b>938,383</b>	<b>158</b>	<b>236,563</b>	<b>(31,571)</b>	<b>(649,390)</b>	<b>494,143</b>	
<b>At 31 December 2012</b>							
Financial investments	910,785	1,846	9,478	-	-	-	922,109
Other assets	-	-	142,667	-	3,047	145,714	
Cash and cash equivalents	-	-	112,584	-	-	112,584	
Other liabilities	-	-	-	(37,796)	(6,397)	(44,193)	
Net other	-	-	-	-	(680,557)	(680,557)	
<b>Total</b>	<b>910,785</b>	<b>1,846</b>	<b>264,729</b>	<b>(37,796)</b>	<b>(683,907)</b>	<b>455,657</b>	
<b>Parent</b>							
<b>At 31 December 2013</b>							
Financial investments	713,989	158	14	-	49,765	763,926	
Other assets	-	-	105,606	-	2,665	108,271	
Cash and cash equivalents	-	-	80,430	-	-	80,430	
Other liabilities	-	-	-	(19,646)	(5,366)	(25,012)	
Net other	-	-	-	-	(499,321)	(499,321)	
<b>Total</b>	<b>713,989</b>	<b>158</b>	<b>186,050</b>	<b>(19,646)</b>	<b>(452,257)</b>	<b>428,294</b>	
<b>At 31 December 2012</b>							
Financial investments	675,027	1,846	14	-	49,765	726,652	
Other assets	-	-	121,621	-	2,904	124,525	
Cash and cash equivalents	-	-	88,963	-	-	88,963	
Other liabilities	-	-	-	(28,407)	(5,366)	(33,773)	
Net other	-	-	-	-	(513,765)	(513,765)	
<b>Total</b>	<b>675,027</b>	<b>1,846</b>	<b>210,598</b>	<b>(28,407)</b>	<b>(466,462)</b>	<b>392,602</b>	

\* Cash and cash equivalents have been presented with loans and receivables.

\*\* Financial liabilities are held at amortised cost.

### (b) Fair value hierarchy

The fair value measurement basis used to value those financial assets and financial liabilities held at fair value is categorised into a fair value hierarchy as follows:

Level 1: fair values measured using quoted bid prices (unadjusted) in active markets for identical assets or liabilities. This category includes listed equities in active markets, listed debt securities in active markets and exchange-traded derivatives.

Level 2: fair values measured using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes listed debt or equity securities in a market that is not active and derivatives that are not exchange-traded.

Level 3: fair values measured using inputs for the asset or liability that are not based on observable market data (unobservable inputs). This category includes unlisted debt and equities, including investments in venture capital, and suspended securities. Where a look-through valuation approach is applied, underlying net asset values are sourced from the investee and adjusted to reflect illiquidity where appropriate, with the fair values disclosed being directly sensitive to this input.

There have been no transfers between investment categories in the current year.

Analysis of fair value measurement bases		Fair value measurement at the end of the reporting period based on		
Group		Level 1 £000	Level 2 £000	Level 3 £000
<b>At 31 December 2013</b>				
<b>Financial assets at fair value through profit or loss</b>				
Financial investments				
Equity securities	276,660	270	19,390	296,320
Debt securities	636,330	5,416	317	642,063
Derivatives	-	158	-	158
Total financial assets at fair value through profit or loss	912,990	5,844	19,707	938,541
<b>At 31 December 2012</b>				
<b>Financial assets at fair value through profit or loss</b>				
Financial investments				
Equity securities	263,968	50	18,558	282,576
Debt securities	619,557	2,476	6,176	628,209
Derivatives	-	1,846	-	1,846
Total financial assets at fair value through profit or loss	883,525	4,372	24,734	912,631
<b>Parent</b>				
<b>At 31 December 2013</b>				
<b>Financial assets at fair value through profit or loss</b>				
Financial investments				
Equity securities	246,756	270	19,386	266,412
Debt securities	446,067	1,193	317	447,577
Derivatives	-	158	-	158
Total financial assets at fair value through profit or loss	692,823	1,621	19,703	714,147
<b>At 31 December 2012</b>				
<b>Financial assets at fair value through profit or loss</b>				
Financial investments				
Equity securities	240,922	50	18,514	259,486
Debt securities	408,049	1,789	5,703	415,541
Derivatives	-	1,846	-	1,846
Total financial assets at fair value through profit or loss	648,971	3,685	24,217	676,873

# NOTES TO THE FINANCIAL STATEMENTS

## 4 Financial risk and capital management (continued)

### Fair value measurements based on level 3

Fair value measurements in level 3 for both the Group and Parent consist of financial assets, analysed as follows:

Group	Financial assets at fair value through profit and loss		
	Equity securities £000	Debt securities £000	Total £000
	At 31 December 2013		
At 31 December 2013			
Opening balance	18,558	6,176	24,734
Total gains/(losses) recognised in profit or loss	832	(5,782)	(4,950)
Disposal proceeds	-	(77)	(77)
Closing balance	19,390	317	19,707
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	832	(5,782)	(4,950)
At 31 December 2012			
Opening balance	17,215	226	17,441
Total gains/(losses) recognised in profit or loss	1,343	(5,179)	(3,836)
Purchases	-	11,130	11,130
Disposal proceeds	-	(1)	(1)
Closing balance	18,558	6,176	24,734
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	1,343	(5,179)	(3,836)
Parent			
At 31 December 2013			
Opening balance	18,514	5,703	24,217
Total gains/(losses) recognised in profit or loss	872	(5,309)	(4,437)
Disposal proceeds	-	(77)	(77)
Closing balance	19,386	317	19,703
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	872	(5,309)	(4,437)
At 31 December 2012			
Opening balance	17,171	226	17,397
Total gains/(losses) recognised in profit or loss	1,343	(4,115)	(2,772)
Purchases	-	9,593	9,593
Disposal proceeds	-	(1)	(1)
Closing balance	18,514	5,703	24,217
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	1,343	(4,115)	(2,772)
All the above gains or losses included in profit or loss for the period (for both the Group and Parent) are presented in net investment return within the statement of profit or loss.			

The valuation techniques used for instruments categorised in Levels 2 and 3 are described below.

***Listed debt and equity securities not in active market (Level 2)***

These financial assets are valued using third party pricing information that is regularly reviewed and internally calibrated based on management's knowledge of the markets. Where material, these valuations are reviewed by the Group Audit Committee.

***Non exchange-traded derivative contracts (Level 2)***

The Group's derivative contracts are not traded in active markets. Foreign currency forward contracts are valued using observable forward exchange rates and interest rates corresponding to the maturity of the contract. Over-the-counter equity or index options and futures are valued by reference to observable index prices.

***Unlisted equity securities (Level 3)***

These financial assets are valued using observable net asset data, adjusted for unobservable inputs including comparable price-to-book ratios based on similar listed companies, and management's consideration of constituents as to what exit price might be obtainable. Where material, these valuations are reviewed by the Group Audit Committee.

The valuation is most sensitive to the level of underlying net assets, the euro exchange rate, the price-to-book ratio chosen and an illiquidity discount applied to the valuation to account for the risks associated with holding the asset. If the price-to-book ratio and illiquidity discount applied changed by +/- 10% the value of unlisted equity securities could move by +/- £3m.

The increase in value during the year is the result of an increase in underlying net assets, the movement in the euro exchange rate and an increase in the price-to-book ratio from the previous year end.

***Unlisted debt (Level 3)***

Unlisted debt is valued using an adjusted net asset method whereby management uses a look-through approach to the underlying assets supporting the loan, discounted using observable market interest rates of similar loans with similar risk, and allowing for unobservable future transaction costs. Where material, these valuations are reviewed by the Group Audit Committee.

The valuation is most sensitive to the level of underlying net assets but it is also sensitive to the interest rate used for discounting and the projected date of disposal of the asset, with the exit costs sensitive to an expected return on capital of any purchaser and estimated transaction costs. Reasonably likely changes in unobservable inputs used in the valuation would not have a significant impact on shareholders' equity or the net result.

The decrease in value during the year is primarily the result of a decrease in underlying net assets.

# NOTES TO THE FINANCIAL STATEMENTS

## 4 Financial risk and capital management (continued)

### (c) Interest rate risk

The Group's exposure to interest rate risk arises primarily from movements on financial investments that are measured at fair value and have fixed interest rates, which represent a significant proportion of the Group's assets, and from those insurance liabilities for which discounting is applied at a market interest rate. Investment strategy is set in order to control the impact of interest rate risk on anticipated Group cash flows and asset and liability values. The fair value of the Group's investment portfolio of fixed income securities reduces as market interest rates rise as does the present value of discounted insurance liabilities, and vice versa.

Interest rate risk concentration is reduced by adopting asset-liability duration matching principles where appropriate. Excluding assets held to back the long-term business, the average duration of the Group's fixed income portfolio is two years (2012: three years), reflecting the relatively short-term average duration of its general insurance liabilities. The mean-term of discounted general insurance liabilities is disclosed in note 26 (a) part (iv).

For the Group's long-term insurance funeral plan business, benefits payable to policyholders are independent of the returns generated by interest-bearing assets. Therefore the interest rate risk on the invested assets supporting these liabilities is borne by the Group. This risk can be mitigated by purchasing fixed interest investments with durations that precisely match the profile of the liabilities. For funeral plan policies, benefits are linked to the Retail Prices Index (RPI). Assets backing these liabilities are also linked to the RPI, and include index-linked gilts and corporate bonds. For practical purposes it is not possible to exactly match the durations due to the uncertain profile of liabilities (e.g. mortality risk) and the availability of suitable assets, therefore some interest rate risk will persist. The Group monitors its exposure by comparing projected cash flows for these assets and liabilities and making appropriate adjustments to its investment portfolio.

The table below summarises the maturities of long-term business assets and liabilities that are exposed to interest rate risk.

Group long-term business	Maturity			
	Within 1 year £'000	Between 1 & 5 years £'000	After 5 years £'000	Total £'000
<b>At 31 December 2013</b>				
<b>Assets</b>				
Debt securities	1,104	27,024	73,075	101,203
Cash and cash equivalents	2,214	-	-	2,214
	<b>3,318</b>	<b>27,024</b>	<b>73,075</b>	<b>103,417</b>
<b>Liabilities</b>				
Long-term business provision	6,125	22,200	64,121	92,446
<b>At 31 December 2012</b>				
<b>Assets</b>				
Debt securities	8,498	19,218	74,584	102,300
Cash and cash equivalents	441	-	-	441
	<b>8,939</b>	<b>19,218</b>	<b>74,584</b>	<b>102,741</b>
<b>Liabilities</b>				
Long-term business provision	5,951	21,985	65,020	92,956

Group financial investments with variable interest rates, including cash and cash equivalents, insurance instalment receivables and mortgage loans are subject to cash flow interest rate risk. This risk is not significant to the Group.

#### (d) Credit risk

The Group has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Areas where the Group is exposed to credit risk are:

- reinsurers' share of insurance liabilities (excluding provision for unearned premiums) and amounts due from reinsurers in respect of claims already paid;
- deposits held with banks;
- amounts due from insurance intermediaries and policyholders; and
- counterparty default on loans and debt securities.

The carrying amount of financial and reinsurance assets represents the Group's maximum exposure to credit risk. The Group structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty. Limits on the level of credit risk are regularly reviewed.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on a regular basis through the year by reviewing their financial strength. The Group Reinsurance Security Committee assesses, monitors and approves the creditworthiness of all reinsurers, reviewing relevant credit ratings provided by the recognised credit rating agencies, as well as other publicly available data and market information. The Committee also monitors the balances outstanding from reinsurers and maintains an approved list of reinsurers.

There has been no significant change in the recoverability of the Group's reinsurance balances during the year with all reinsurers on the 2013 reinsurance programme having a minimum rating of 'A-' from Standard & Poor's or an equivalent agency at the time of purchase, with the exception of MAPFRE RE whose rating was adversely impacted by the sovereign rating of Spain. However, MAPFRE RE was upgraded by Standard & Poor's to 'A-' with a stable outlook in February 2014.

Group cash balances are regularly reviewed to identify the quality of the counterparty bank and to monitor and limit concentrations of risk.

The Group's credit risk policy details prescriptive methods for the collection of premiums and control of intermediary and policyholder debtor balances. The level and age of debtor balances are regularly assessed via monthly credit management reports. These reports are scrutinised to assess exposure in more than one region in respect of aged or outstanding balances. Any such balances are likely to be major international brokers who are in turn monitored via credit reference agencies and considered to pose minimal risk of default. The Group has no material concentration of credit risk in respect of amounts due from insurance intermediaries and policyholders due to the well diversified spread of such debtors.

Collateral is held over loans secured by mortgages. The debt securities portfolio consists of a range of mainly fixed interest instruments including government securities, local authority issues, corporate loans and bonds, overseas bonds, preference shares and other interest bearing securities. Limits are imposed on the credit ratings of the corporate bond portfolio and exposures regularly monitored. Group investments in unlisted securities represent less than 1% of this category in the current and prior year. The Group's exposure to counterparty default on debt securities is spread across a variety of geographical and economic territories, as follows:

	2013		2012	
	Group £000	Parent £000	Group £000	Parent £000
UK	<b>463,879</b>	<b>362,676</b>	UK	428,760
Australia	<b>93,283</b>	<b>-</b>	Australia	108,761
Canada	<b>58,629</b>	<b>58,629</b>	Canada	61,113
Europe	<b>26,272</b>	<b>26,272</b>	Europe	23,773
Other	<b>-</b>	<b>-</b>	Other	5,802
Total	<b>642,063</b>	<b>447,577</b>	Total	628,209
				415,541

# NOTES TO THE FINANCIAL STATEMENTS

## 4 Financial risk and capital management (continued)

### (e) Liquidity risk

Liquidity risk is the risk that funds may not be available to pay obligations when due. The Group is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts. An estimate of the timing of the net cash outflows resulting from insurance contracts is provided in note 26. The Group has robust processes in place to manage liquidity risk and has available cash balances, other readily marketable assets and access to funding in case of exceptional need. This is not considered to be a significant risk to the Group.

Non-derivative financial liabilities consist of finance leases, which are not material to the Group, and other liabilities for which a maturity analysis is included in note 29.

### (f) Currency risk

The Group operates internationally and its main exposures to foreign exchange risk are noted below. The Group's foreign operations generally invest in assets and purchase reinsurance denominated in the same currencies as their insurance liabilities, which mitigates the foreign currency exchange rate risk for these operations. As a result, foreign exchange risk arises from recognised assets and liabilities denominated in other currencies and net investments in foreign operations. The Group mitigates this risk through the use of derivatives from time to time.

The Group exposure to foreign currency risk within the investment portfolios arises from purchased investments that are denominated in currencies other than sterling.

The Group foreign operations create two sources of foreign currency risk:

- the operating results of the Group foreign branches and subsidiaries in the Group financial statements are translated at the average exchange rates prevailing during the period; and
- the equity investment in foreign branches and subsidiaries is translated into sterling using the exchange rate at the year end date.

The largest currency exposures with reference to net assets/liabilities are shown below, before the mitigating effect of derivatives, representing effective diversification of resources.

	2013		2012	
	Group £000	Parent £000	Group £000	Parent £000
Aus \$	43,053	2,747	Aus \$	54,459
Can \$	33,044	33,044	Can \$	36,651
Euro	12,828	12,819	Euro	28,093
US \$	1,479	1,479	Hong Kong \$	8,180
Japanese Yen	1,130	1,130	Singapore \$	7,207

### (g) Equity price risk

The Group is exposed to equity price risk because of financial investments held by the Group and stated at fair value through profit or loss. The Group mitigates this risk by holding a diversified portfolio across geographical regions and market sectors, and through the use of derivative contracts from time to time which would limit losses in the event of a fall in equity markets.

The concentration of equity price risk by geographical listing, before the mitigating effect of derivatives, to which the Group and Parent are exposed is as follows:

	2013		2012	
	Group £000	Parent £000	Group £000	Parent £000
UK	273,650	243,742	UK	236,972
Europe	19,393	19,393	Europe	20,775
Canada	1,909	1,909	Hong Kong	8,032
US	979	979	Singapore	6,128
Other	389	389	Other	10,669
Total	296,320	266,412	Total	282,576

## (h) Market risk sensitivity analysis

The sensitivity of profit and other equity reserves to movements on market risk variables (comprising interest rate, currency and equity price risk), each considered in isolation, is shown in the following table:

Group			Potential increase/ (decrease) in profit		Potential increase/ (decrease) in other equity reserves	
Variable	Change in variable		2013 £000	2012 £000	2013 £000	2012 £000
Interest rate risk	-100 basis points		(254)	1,725	(121)	(24)
	+100 basis points		(4,769)	(4,212)	131	17
Currency risk	-5%		811	2,042	3,513	4,419
	+5%		(770)	(1,940)	(3,337)	(4,198)
Equity price risk	+/- 5%		11,371	10,667	-	-
Parent			Potential increase/ (decrease) in profit		Potential increase/ (decrease) in other equity reserves	
Variable	Change in variable		2013 £000	2012 £000	2013 £000	2012 £000
Interest rate risk	-100 basis points		1,269	2,185	(88)	(15)
	+100 basis points		(2,174)	(3,935)	85	15
Currency risk	-5%		811	1,820	1,391	1,922
	+5%		(770)	(1,729)	(1,321)	(1,826)
Equity price risk	+/- 5%		10,224	9,796	-	-

The following assumptions have been made in preparing the above sensitivity analysis:

- the value of fixed income investments will vary inversely with changes in interest rates, and all territories experience the same interest rate movement;
- currency gains and losses will arise from a change in the value of sterling against all other currencies moving in parallel;
- equity prices will move by the same percentage across all territories; and
- change in profit is stated net of tax at the standard rate applicable in each of the Group's territories.

## (i) Capital management

The Group's primary objectives when managing capital include:

- to comply with the regulators' capital requirements of the markets in which the Group operates; and
- to safeguard the Group's ability to continue to meet stakeholders' expectations, in accordance with its corporate mission, vision and values.

The Group is subject to insurance solvency regulations in all the territories in which it issues insurance and investment contracts, and capital is managed and evaluated on the basis of regulatory capital.

In the UK, the Group and its UK regulated entities are required to comply with rules issued by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA), and submit PRA returns detailing levels of regulatory capital held. Regulatory capital should be in excess of the higher of two amounts. The first is an amount which is calculated by applying fixed percentages to premiums and claims (general insurance business) or by applying fixed percentages to insurance liabilities and applying stress testing (long-term business). The second is an economic capital assessment by the regulated entity, which the PRA reviews and may amend by issuing Individual Capital Guidance. The Group sets internal capital standards above the PRA's minimum requirement. For overseas business the relevant capital requirement is the minimum requirement under the local regulatory regime. Both the Group and the regulated entities within it have complied with all externally imposed capital requirements throughout the current and prior year.

Regulated subsidiaries are restricted in the amount of cash dividends they transfer to the parent entity, in order for them to meet their individual minimum capital requirements. The Group's total available capital resources are disclosed in note 26 (b).

# NOTES TO THE FINANCIAL STATEMENTS

## 5 Segment information

### (a) Operating segments

The Group segments its business activities on the basis of differences in the products and services offered and, for general insurance, the underwriting territory. This reflects the management and internal Group reporting structure. Group activities that are not reportable operating segments on the basis of size are included within an 'Other activities' category. A change has been made to segments during 2013 as follows:

- The 'Broking' segment has been renamed 'Broking and Advisory' and includes Ecclesiastical Financial Advisory Services Limited, which had previously been included in 'Other activities'.

The prior period has been restated to the revised basis.

The activities of each operating segment are described below.

#### - General business

##### **United Kingdom**

The Group's principal general insurance business operation is in the UK, where it operates under the Ecclesiastical and Ansvar brands.

##### **Australia**

The Group has a wholly-owned subsidiary in Australia underwriting general insurance business under the Ansvar brand.

##### **Canada**

The Group operates a general insurance Ecclesiastical branch in Canada.

##### **Ireland**

The Group operates an Ecclesiastical branch in the Republic of Ireland underwriting general business across the whole of Ireland.

##### **Central operations**

This includes the Group's internal reinsurance function, corporate underwriting costs, adverse development cover sold to ACS (NZ) Limited and operations that are in run-off or not reportable due to their immateriality.

#### - Investment management

The Group provides investment management services both internally and to third parties through Ecclesiastical Investment Management Limited.

#### - Broking and Advisory

The Group provides insurance broking through South Essex Insurance Brokers Limited and financial advisory services through Ecclesiastical Financial Advisory Services Limited.

#### - Life business

Ecclesiastical Life Limited provides long-term insurance policies to support funeral planning products.

#### - Other activities

This includes corporate costs relating to acquisition and disposal of businesses.

Inter-segment and inter-territory transfers or transactions are entered into under normal commercial terms and conditions that would also be available to unrelated third parties.

## Segment revenue

The Group uses gross written premiums as the measure for turnover of the general and life insurance business segments. Turnover of the non-insurance segments comprises fees and commissions earned in relation to services provided by the Group to third parties. Segment revenues do not include net investment return or general business fee and commission income, which are reported within revenue in the consolidated statement of profit or loss.

Continuing operations	2013			2012		
	Gross written premiums £000	Non-insurance services £000	Total £000	Gross written premiums £000	Non-insurance services £000	Total £000
General business						
United Kingdom	291,338	-	291,338	336,579	-	336,579
Australia	45,669	-	45,669	65,126	-	65,126
Canada	41,172	-	41,172	36,995	-	36,995
Ireland	13,606	-	13,606	14,046	-	14,046
Central operations	807	-	807	8,380	-	8,380
Total	392,592	-	392,592	461,126	-	461,126
Life business	6,753	-	6,753	20,208	-	20,208
Investment management	-	10,535	10,535	-	8,396	8,396
Broking and Advisory	-	8,031	8,031	-	7,979	7,979
<b>Group revenue from continuing operations</b>	<b>399,345</b>	<b>18,566</b>	<b>417,911</b>	<b>481,334</b>	<b>16,375</b>	<b>497,709</b>

Group revenues are not materially concentrated on any single external customer.

## Segment result

General business segment results comprise the insurance underwriting profit or loss, investment activities and other expenses of each underwriting territory. The Group uses the industry standard net combined operating ratio (COR) as a measure of underwriting efficiency. The COR expresses the total of net claims costs, commission and underwriting expenses as a percentage of net earned premiums.

The life business segment result comprises the profit or loss on insurance contracts (including return on assets backing liabilities in the long-term fund), shareholder investment return and other expenses.

All other segment results consist of the profit or loss before tax measured in accordance with IFRS.

2013	Combined operating ratio	Insurance £000	Investments £000	Other £000	Total £000
General business					
United Kingdom	95.3%	9,815	59,726	(114)	69,427
Australia	114.8%	(4,182)	3,913	(2)	(271)
Canada	104.0%	(1,142)	1,459	-	317
Ireland	186.4%	(9,068)	385	-	(8,683)
Central operations		(3,666)	-	-	(3,666)
	102.9%	(8,243)	65,483	(116)	57,124
Life business		367	6,627	(5)	6,989
Investment management		-	1,728	-	1,728
Broking and Advisory		-	-	1,689	1,689
Other activities		-	-	(593)	(593)
<b>Profit before tax</b>		<b>(7,876)</b>	<b>73,838</b>	<b>975</b>	<b>66,937</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 5 Segment information (continued)

2012	Combined operating ratio	Insurance £000	Investments £000	Other £000	Total £000
<i>Continuing operations</i>					
General business					
United Kingdom	105.5%	(12,333)	41,255	(113)	28,809
Australia	122.1%	(5,194)	8,663	-	3,469
Canada	101.1%	(297)	1,257	(2)	958
Ireland	162.8%	(6,213)	1,130	-	(5,083)
Central operations		(559)	12	-	(547)
	108.5%	(24,596)	52,317	(115)	27,606
Life business		5,947	3,113	(5)	9,055
Investment management		-	1,194	-	1,194
Broking and Advisory		-	-	596	596
Other activities		-	-	(648)	(648)
<b>Profit before tax</b>		<b>(18,649)</b>	<b>56,624</b>	<b>(172)</b>	<b>37,803</b>

### (b) Geographical information

Gross written premiums from external customers and non-current assets, as attributed to individual countries in which the Group operates, are as follows:

	2013		2012	
	Gross written premiums £000	Non-current assets £000	Gross written premiums £000	Non-current assets £000
United Kingdom	298,898	73,329	365,167	74,902
Australia	45,669	918	65,126	1,453
Canada	41,172	1,338	36,995	734
Ireland	13,606	74	14,046	241
	<b>399,345</b>	<b>75,659</b>	<b>481,334</b>	<b>77,330</b>

Gross written premiums are allocated based on the country in which the insurance contracts are issued. Non-current assets exclude rights arising under insurance contracts, deferred tax assets, pension assets and financial instruments and are allocated based on where the assets are located.

## 6 Net insurance premium revenue

	General business £000	Long-term business £000	Total £000
<b>For the year ended 31 December 2013</b>			
Gross written premiums	392,592	6,753	399,345
Outward reinsurance premiums	(131,274)	-	(131,274)
Net written premiums	261,318	6,753	268,071
Change in the gross provision for unearned premiums	27,205	-	27,205
Change in the provision for unearned premiums, reinsurers' share	(2,613)	-	(2,613)
Change in the net provision for unearned premiums	24,592	-	24,592
<b>Earned premiums, net of reinsurance</b>	<b>285,910</b>	<b>6,753</b>	<b>292,663</b>
<b>For the year ended 31 December 2012</b>			
Gross written premiums	461,126	20,208	481,334
Outward reinsurance premiums	(157,843)	-	(157,843)
Net written premiums	303,283	20,208	323,491
Change in the gross provision for unearned premiums	(404)	-	(404)
Change in the provision for unearned premiums, reinsurers' share	(12,442)	-	(12,442)
Change in the net provision for unearned premiums	(12,846)	-	(12,846)
<b>Earned premiums, net of reinsurance</b>	<b>290,437</b>	<b>20,208</b>	<b>310,645</b>

## 7 Net investment return

	2013 £000	2012 £000
<i>Income from financial assets at fair value through profit or loss:</i>		
- equity income	9,948	9,274
- debt income	25,118	24,450
<i>Income from financial assets not at fair value through profit or loss:</i>		
- interest income on mortgages and other loans	414	477
- cash and cash equivalents income, net of exchange movements	1,933	3,504
- other income received	1,754	2,011
<i>Other income</i>		
- rental income	2,004	1,783
<b>Investment income</b>	<b>41,171</b>	<b>41,499</b>
Fair value movements on financial instruments at fair value through profit or loss	34,729	24,677
Fair value movements on investment property	1,343	(1,179)
<b>Net investment return</b>	<b>77,243</b>	<b>64,997</b>
Less: discontinued operations	-	(6)
<b>Net investment return of continuing operations</b>	<b>77,243</b>	<b>64,991</b>

Included within cash and cash equivalents income are exchange gains of £865,000 (2012: £1,494,000 gains).

Included within fair value movements on financial instruments at fair value through profit or loss are £7,813,000 losses (2012: £9,919,000 losses) in respect of derivatives classified as held for trading.

# NOTES TO THE FINANCIAL STATEMENTS

## 8 Claims and change in insurance liabilities and reinsurance recoveries

	General business £000	Long-term business £000	Total £000
<i>Continuing operations</i>			
<b>For the year ended 31 December 2013</b>			
Gross claims paid	206,963	7,854	214,817
Gross change in the provision for claims	20,526	(44)	20,482
Gross change in long-term business provisions	-	(510)	(510)
Claims and change in insurance liabilities	227,489	7,300	234,789
Reinsurers' share of claims paid	(38,888)	-	(38,888)
Reinsurers' share of change in the provision for claims	2,343	-	2,343
Reinsurance recoveries	(36,545)	-	(36,545)
<b>Claims and change in insurance liabilities, net of reinsurance</b>	<b>190,944</b>	<b>7,300</b>	<b>198,244</b>
<b>For the year ended 31 December 2012</b>			
Gross claims paid	244,444	6,930	251,374
Gross change in the provision for claims	(6,559)	-	(6,559)
Gross change in long-term business provisions	-	11,242	11,242
Claims and change in insurance liabilities	237,885	18,172	256,057
Reinsurers' share of claims paid	(75,228)	-	(75,228)
Reinsurers' share of change in the provision for claims	33,781	-	33,781
Reinsurance recoveries	(41,447)	-	(41,447)
<b>Claims and change in insurance liabilities, net of reinsurance</b>	<b>196,438</b>	<b>18,172</b>	<b>214,610</b>
<i>Discontinued operations</i>			
Prior year discontinued general business gross claims and change in insurance liabilities, and related reinsurance recoveries are disclosed in note 14.			

## 9 Fees, commissions and other acquisition costs

	2013 £000	2012 £000
Fees paid	404	484
Commission paid	62,744	70,436
Change in deferred acquisition costs	(1,075)	1,034
Other acquisition costs	18,212	25,500
<b>Fees, commissions and other acquisition costs</b>	<b>80,285</b>	<b>97,454</b>

## 10 Profit for the year

	2013 £000	2012 £000
<b>Profit for the year has been arrived at after (crediting)/charging</b>		
Net foreign exchange gains	(865)	(1,494)
Depreciation of property, plant and equipment	1,930	2,131
Loss on disposal of property, plant and equipment	112	79
Amortisation of intangible assets	2,706	2,117
(Increase)/decrease in fair value of investment property	(1,343)	1,179
Employee benefits expense	64,271	60,515
Operating lease rentals	3,671	3,723

## 11 Auditor's remuneration

	2013 £000	2012 £000
<b>Fees payable to the Company's auditor for the audit of the Company's annual accounts</b>	242	219
<b>Fees payable to the Company's auditor and its associates for other services:</b>		
- The audit of the Company's subsidiaries	113	144
Total audit fees	355	363
- Audit-related assurance services	94	92
- Taxation compliance services	-	18
- Taxation advisory services	9	8
Total non-audit fees	103	118
<b>Total auditor's remuneration</b>	458	481

Amounts disclosed are net of services taxes, where applicable. Audit-related assurance services include Prudential Regulatory Authority and other regulatory audit work.

Fees payable to the Company's auditor in respect of the audit of the Group's associated pension plans amounted to £15,000 (2012: £15,000).

# NOTES TO THE FINANCIAL STATEMENTS

## 12 Employee information

The average monthly number of employees of the Group, including Executive Directors, during the year by geographical location was:

	2013			2012		
	General business No.	Long-term business No.	Other No.	General business No.	Long-term business No.	Other No.
United Kingdom	732	9	101	758	10	116
Australia	110	-	-	132	-	-
Canada	60	-	-	59	-	-
Ireland	22	-	-	33	-	-
	<b>924</b>	<b>9</b>	<b>101</b>	<b>982</b>	<b>10</b>	<b>116</b>

Wages and salaries  
Social security costs  
Pension costs - defined contribution plans  
Pension costs - defined benefit plans  
Other post-employment benefits

2013 £000	2012 £000
<b>55,071</b>	51,588
4,192	3,878
2,577	2,485
1,648	1,804
783	760
<b>64,271</b>	60,515

The above figures include termination benefits of £4,257,000 (2012: £2,223,000).

The remuneration of the Directors (including Non-Executive Directors), who are the key management personnel of the Group, is set out both individually and in aggregate within the Group Remuneration Report in the Corporate Governance section of this report.

## 13 Tax expense

		2013 £000	2012 £000
Current tax	- current year	5,192	932
	- prior years	(1,696)	(798)
Deferred tax	- temporary differences	6,466	7,497
	- prior years	(254)	-
	- reduction in tax rate	(4,889)	(2,867)
<b>Total tax expense</b>		<b>4,819</b>	<b>4,764</b>
Less: tax expense of discontinued operations		-	(316)
<b>Tax expense of continuing operations</b>		<b>4,819</b>	<b>4,448</b>

Tax on the Group's result before tax differs from the United Kingdom standard rate of corporation tax for the reasons set out in the following reconciliation:

	2013 £000	2012 £000
Profit before tax (continuing operations)	66,937	37,803
Loss before tax (discontinued operations)	-	(6,053)
<b>Total pre-tax profit</b>	<b>66,937</b>	<b>31,750</b>
Tax calculated at the UK standard rate of tax of 23.25% (2012: 24.5%)	15,563	7,779
<i>Factors affecting charge for the year:</i>		
Expenses not deductible for tax purposes	101	4,663
Non-taxable income	(3,340)	(3,462)
Life insurance and other tax paid at non-standard rates	(389)	(1,799)
(Utilisation)/generation of tax losses for which no deferred tax asset has been recognised	(277)	1,248
Impact of reduction in deferred tax rate	(4,889)	(2,867)
Adjustments to tax charge in respect of prior periods	(1,950)	(798)
<b>Total tax expense</b>	<b>4,819</b>	<b>4,764</b>

A deferred tax credit on fair value movements on owner-occupied property of £52,000 (2012: £94,000 credit) and tax relief on charitable grants of £930,000 (2012: £980,000) are taken directly to equity.

A change in the UK standard rate of corporation tax from 24% to 23% became effective from 1 April 2013. Where appropriate, current tax has been provided at the blended rate of 23.25%. Further reductions in the rate of corporation tax to 21% from April 2014, and to 20% from April 2015, were substantively enacted on 2 July 2013. Deferred tax has been provided at the rate of 20%.

# NOTES TO THE FINANCIAL STATEMENTS

## 14 Prior year discontinued operations

During the prior year, the Group disposed of its wholly-owned subsidiary, ACS (NZ) Limited, transferring its holdings of Ordinary shares in ACS (NZ) Limited to the Canterbury Earthquake Church and Heritage Trust, an independent trust constituted in New Zealand, with objectives similar to those of the Group. The loss on disposal includes a contribution made to the Trust of NZ\$10.0m.

The disposal was effected in order to reduce the insurance and financial risks associated with the run-off of claims in relation to the series of earthquakes in Canterbury, New Zealand.

The results and cash flows of the discontinued operations, which have been included in the consolidated statement of profit or loss and consolidated statement of cash flows, respectively, were as follows:

	Period to 15 May 2012 £000
Total revenue	246
Claims and change in insurance liabilities	(41,226)
Reinsurance recoveries	40,751
Other expenses	(605)
Total expenses	<u>(1,080)</u>
<b>Loss before tax</b>	<u>(834)</u>
Loss on disposal, net of selling costs	(5,219)
Attributable tax	316
<b>Net loss attributable to discontinued operations</b>	<u>(5,737)</u>
Net cash used by operating activities	(2,466)
Net cash from financing activities*	5,863

\* Net cash from financing activities relates to loans provided by Group companies which are eliminated on consolidation. The full balance was repaid prior to the 2012 year end.

## 15 Appropriations

	2013 £000	2012 £000
Amounts recognised as distributions to equity holders in the period:		
<b>Dividends</b>		
Non-Cumulative Irredeemable Preference share dividend	<u>9,181</u>	9,181
<b>Charitable grants</b>		
Gross charitable grants to the ultimate parent company, Allchurches Trust Limited	4,000	4,000
Tax relief	(930)	(980)
Net appropriation for the year	<u>3,070</u>	3,020

## 16 Goodwill and other intangible assets

Group	Goodwill £000	Computer software £000	Other intangible assets £000	Total £000
<b>Cost</b>				
At 1 January 2013	19,387	21,629	3,918	44,934
Additions	-	2,232	-	2,232
Disposals	-	(1,206)	-	(1,206)
Exchange differences	-	(515)	-	(515)
At 31 December 2013	19,387	22,140	3,918	45,445
<b>Accumulated impairment losses and amortisation</b>				
At 1 January 2013	8	17,668	2,909	20,585
Amortisation charge for the year	-	2,113	593	2,706
Impairment losses for the year	64	-	-	64
Disposals	-	(1,198)	-	(1,198)
Exchange differences	-	(396)	-	(396)
At 31 December 2013	72	18,187	3,502	21,761
<b>Net book value at 31 December 2013</b>	<b>19,315</b>	<b>3,953</b>	<b>416</b>	<b>23,684</b>
<b>Cost</b>				
At 1 January 2012	19,387	21,841	3,918	45,146
Additions	-	1,237	-	1,237
Disposals	-	(1,349)	-	(1,349)
Exchange differences	-	(100)	-	(100)
At 31 December 2012	19,387	21,629	3,918	44,934
<b>Accumulated impairment losses and amortisation</b>				
At 1 January 2012	-	17,495	2,316	19,811
Amortisation charge for the year	-	1,524	593	2,117
Impairment losses for the year	8	-	-	8
Disposals	-	(1,266)	-	(1,266)
Exchange differences	-	(85)	-	(85)
At 31 December 2012	8	17,668	2,909	20,585
<b>Net book value at 31 December 2012</b>	<b>19,379</b>	<b>3,961</b>	<b>1,009</b>	<b>24,349</b>

£16,885,000 of the goodwill balance in the current and prior year relates to the acquisition of South Essex Insurance Holdings Limited during 2008. The recoverable amount, determined on a value in use basis indicates no impairment has arisen. The calculation uses discounted cash flow projections based on management approved business plans, with forecast annual cash flows at the end of the planning period continuing thereafter at a constant growth rate in perpetuity.

Assumptions used are consistent with historical experience within the business acquired and external sources of information, and discounting is at the Group's long-term targeted return on capital.

Other intangible assets consist of acquired customer and distribution relationships, which have an overall remaining useful life of one year on a weighted average basis.

## NOTES TO THE FINANCIAL STATEMENTS

### 16 Goodwill and other intangible assets (continued)

Parent	Computer software £'000
<b>Cost</b>	
At 1 January 2013	18,699
Additions	2,096
Exchange differences	(199)
Disposals	(723)
At 31 December 2013	19,873
<b>Amortisation</b>	
At 1 January 2013	14,888
Charge for the year	2,017
Exchange differences	(104)
Disposals	(723)
At 31 December 2013	16,078
<b>Net book value at 31 December 2013</b>	<b>3,795</b>
<b>Cost</b>	
At 1 January 2012	17,944
Additions	1,217
Exchange differences	(34)
Disposals	(428)
At 31 December 2012	18,699
<b>Amortisation</b>	
At 1 January 2012	13,854
Charge for the year	1,405
Exchange differences	(26)
Disposals	(345)
At 31 December 2012	14,888
<b>Net book value at 31 December 2012</b>	<b>3,811</b>

### 17 Deferred acquisition costs

	2013		2012	
	Group £'000	Parent £'000	Group £'000	Parent £'000
At 1 January	34,626	35,886	35,788	34,476
Increase in the period	35,795	31,023	34,690	35,973
Release in the period	(34,720)	(35,925)	(35,724)	(34,428)
Exchange differences	(944)	(442)	(128)	(135)
At 31 December	34,757	30,542	34,626	35,886

All balances are current.

## 18 Pension asset and retirement benefit obligations

### Defined benefit pension plans

The Group's main plan is a defined benefit plan operated by the Parent for UK employees, which includes two discrete sections, the EIO Section and Ansvar Section. The assets of the plan are held separately from those of the Group by the Trustee of the Ecclesiastical Insurance Office plc Staff Retirement Benefit Fund (the 'Fund'). The Fund is subject to the Statutory Funding Objective under the Pensions Act 2004. An independent qualified actuary appointed by the Trustee is responsible for undertaking triennial valuations to determine whether the Statutory Funding Objective is met. Pension costs for the plan are determined by the Trustee, having considered the advice of the actuary and having consulted with the Employer. The most recent triennial valuation was at 31 December 2010. Pension liabilities for the Ireland branch were dealt with by payment to an Irish life office. It was announced prior to the year end that the Irish plan would close on 31 March 2014, in agreement with the Trustees. Actuarial valuations have been reviewed and updated by the actuary at 31 December 2013 for IAS 19 (R) purposes. The plan typically exposes the Group to risks such as:

- Investment risk: The Fund holds some of its investments in asset classes, such as equities, which have volatile market values and, while these assets are expected to provide the best returns over the long term, any short-term volatility could cause additional funding to be required if a deficit emerges. Derivative contracts are used from time to time which would limit losses in the event of a fall in equity markets.
- Interest rate risk: The Fund's liabilities are assessed using market rates of interest to discount the liabilities and are therefore subject to any volatility in the movement of the market rate of interest. The net interest income or expense recognised in profit or loss is also calculated using the market rate of interest.
- Inflation risk: A significant proportion of the benefits under the Fund are linked to inflation. Although the Fund's assets are expected to provide a good hedge against inflation over the long term, movements over the short term could lead to a deficit emerging.
- Mortality risk: In the event that members live longer than assumed the liabilities may be understated originally, and a deficit may emerge if funding has not adequately provided for the increased life expectancy.

During the year, the Trustee and Employer completed a revision of the Fund's Statement of Investment Principles, to align with the Trustee's strategic objectives. The Trustees continue to work closely with the Plan Actuary and Fund Manager to deliver the optimal implementation of these objectives. The Trustees of the Irish plan chose to insure certain benefit payments using an annuity contract purchased with Irish Life Assurance plc. The payments made under the terms of the annuity contract exactly matched the benefits. The announced closure of the Irish plan will result in the Group relinquishing all obligations via settlement with the Trustees. The closure will not have a material impact on the Group accounts.

Pension assets and liabilities of entities within the Group have been offset where there is a legal right of offset or where the gross effect of offsetting is immaterial to the financial statements. The amount by which the pension asset has been offset in the current year is £638,000 (2012: £844,000).

All Group defined benefit plans are now closed to new entrants. The Group operates a number of defined contribution pension plans, for which contributions by the Group are disclosed in note 12.

## NOTES TO THE FINANCIAL STATEMENTS

### 18 Pension asset and retirement benefit obligations (continued)

Group and Parent	2013 £000	2012 £000
<b>The amounts recognised in the statement of financial position are determined as follows:</b>		
Present value of funded obligations	(255,604)	(225,164)
Fair value of plan assets	287,892	261,685
Net asset in the statement of financial position	<b>32,288</b>	36,521
<b>Movements in the net asset recognised in the statement of financial position are as follows:</b>		
At 1 January	<b>36,521</b>	35,227
Exchange differences	(24)	18
Expense charged to profit or loss*	(1,961)	(1,967)
Amounts recognised in other comprehensive income	(5,180)	203
Contributions paid	2,932	3,040
At 31 December	<b>32,288</b>	36,521
<b>The amounts recognised through profit or loss are as follows:</b>		
Current service cost	<b>3,441</b>	3,305
Administration cost	221	405
Interest expense on liabilities	9,971	9,846
Interest income on plan assets	(11,672)	(11,589)
Total, included in employee benefits expense	<b>1,961</b>	1,967
<b>The amounts recognised in the statement of other comprehensive income are as follows:</b>		
Return on plan assets, excluding interest income	<b>16,921</b>	18,602
Experience gains on liabilities	127	45
Losses from changes in financial assumptions	(22,228)	(18,444)
Total included in other comprehensive income	<b>(5,180)</b>	203

\* Charge to profit or loss includes £313,000 (2012: £163,000) in respect of member salary sacrifice contributions and costs ultimately borne by related parties.

The principal actuarial assumptions (expressed as weighted averages) were as follows:

	2013 %	2012 %
Discount rate	4.60	4.50
Inflation (RPI)	3.50	3.00
Inflation (CPI)	2.70	2.20
Future salary increases	5.00	4.50
Future increase in pensions in deferment	2.70	2.20
Future pension increases (linked to RPI)	3.50	3.00
Future pension increases (linked to CPI)	2.70	2.20

	2013	2012
Mortality rate		
The average life expectancy in years of a pensioner retiring at age 65, at the year end date, is as follows:		
Male	24.2	24.0
Female	26.3	26.2
The average life expectancy in years of a pensioner retiring at age 65, 20 years after the year end date, is as follows:		
Male	26.5	26.3
Female	28.7	28.6

	2013 %	2012 %
Plan assets are weighted as follows:		
Cash and cash equivalents	4	6
Equity instruments		
UK quoted	30	28
Overseas quoted	29	26
	<hr/> 59	<hr/> 54
Debt instruments		
UK public sector quoted - fixed interest	3	5
UK non-public sector quoted - fixed interest	15	12
UK quoted - index-linked	12	18
	<hr/> 30	<hr/> 35
Other	7	5
	<hr/> 100	<hr/> 100

The actual return on plan assets was a gain of £28,593,000 (2012: gain of £30,191,000).

# NOTES TO THE FINANCIAL STATEMENTS

## 18 Pension asset and retirement benefit obligations (continued)

The movements in the fair value of plan assets and the present value of the defined benefit obligation over the year are as follows:

	2013 £000	2012 £000			
<b>Plan assets</b>					
At 1 January	261,685	234,314			
Interest income	11,672	11,589			
Return on plan assets, excluding interest income	16,921	18,602			
Pension benefits paid and payable	(5,406)	(5,762)			
Contributions paid	2,932	3,040			
Exchange differences	88	(98)			
At 31 December	<b>287,892</b>	261,685			
<b>Defined benefit obligation</b>					
At 1 January	225,164	199,087			
Current service cost	3,441	3,305			
Administration cost	221	405			
Interest cost	9,971	9,846			
Pension benefits paid and payable	(5,406)	(5,762)			
Experience gains on liabilities	(127)	(45)			
Losses from changes in financial assumptions	22,228	18,444			
Exchange differences	112	(116)			
At 31 December	<b>255,604</b>	225,164			
<b>History of plan assets and liabilities</b>	<b>2013 £000</b>	2012 £000	2011 £000	2010 £000	2009 £000
Present value of defined benefit obligations	<b>(255,604)</b>	(225,164)	(199,087)	(213,740)	(190,985)
Fair value of plan assets	<b>287,892</b>	261,685	234,314	237,440	205,628
Surplus	<b>32,288</b>	36,521	35,227	23,700	14,643

The weighted average duration of the defined benefit obligation at the end of the reporting period is 21 years (2012: 21 years).

The contribution expected to be paid by the Group during the year ending 31 December 2014 is £3.1 million.

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, inflation, expected salary increases and mortality. The sensitivity analysis below has been determined on reasonably possible changes of the assumptions occurring at the end of the reporting period assuming that all other assumptions are held constant.

Assumption	Change in assumption	Impact on plan liabilities	
		2013	2012
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 10%/12%	Decrease/increase by 10%/12%
Inflation	Increase/decrease by 0.5%	Increase/decrease by 10%/10%	Increase/decrease by 11%/10%
Salary increase	Increase/decrease by 0.5%	Increase/decrease by 3%	Increase/decrease by 3%
Life expectancy	Increase/decrease by 1 year	Increase/decrease by 3%	Increase/decrease by 3%

### Post-employment medical benefits

The Parent operates a post-employment medical benefit plan, for which it chooses to self-insure. The method of accounting, assumptions and the frequency of valuation are similar to those used for the defined benefit pension plans.

The provision of the plan leads to a number of risks as follows:

- Interest rate risk: The reserves are assessed using market rates of interest to discount the liabilities and are therefore subject to volatility in the movement of the market rates of interest. A reduction in the market rate of interest would lead to an increase in the reserves required to be held.
- Medical expense assumption: Claims experience can be volatile, exposing the Company to the risk of being required to pay over and above the assumed reserve. If future claims experience differs significantly from that experienced in previous years this will increase the risk to the Company.
- Spouse and widows' contributions: The self-insured benefit includes a potential liability for members who pay contributions in respect of their spouse and for widows who pay contributions. There is the possibility that the contributions charged may not be sufficient to cover the medical costs that fall due.
- Mortality risk: If members live longer than expected the Company is exposed to the expense of medical claims for a longer period, with increased likelihood of needing to pay claims.

The amounts recognised in the statement of financial position are determined as follows:

Group and Parent	2013 £000	2012 £000
Present value of unfunded obligations and net obligations in the statement of financial position	11,744	14,810
<b>Movements in the net obligations recognised in the statement of financial position are as follows:</b>		
At 1 January	14,810	12,760
Total expense charged to profit or loss	783	760
Net actuarial (gains)/losses during the year, recognised in other comprehensive income	(3,654)	1,534
Benefits paid	(195)	(244)
At 31 December	11,744	14,810
<b>The amounts recognised through profit or loss are as follows:</b>		
Current service cost	116	122
Interest cost	667	638
Total, included in employee benefits expense	783	760

The weighted average duration of the net obligations at the end of the reporting period is 22 years (2012: 22 years).

The main actuarial assumptions for the plan are a long-term increase in medical costs of 12.0% (2012: 12.0%) and a discount rate of 4.6% (2012: 4.5%). The sensitivity analysis below has been determined on reasonably possible changes of the assumptions occurring at the end of the accounting period assuming that all other assumptions are held constant.

Assumption	Change in assumption	Impact on plan liabilities	
		2013	2012
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 10%/11%	Decrease/increase by 10%/12%
Medical expense inflation	Increase/decrease by 1.0%	Increase/decrease by 23%/18%	Increase/decrease by 24%/18%
Life expectancy	Increase/decrease by 1 year	Increase/decrease by 11%/8%	Increase/decrease by 11%/8%

# NOTES TO THE FINANCIAL STATEMENTS

## 19 Property, plant and equipment

Group	Land and buildings £000	Motor vehicles £000	Furniture, fittings and equipment £000	Computer equipment £000	Total £000
<b>Cost or valuation</b>					
At 1 January 2013	3,248	3,190	6,830	7,621	20,889
Additions	-	621	58	867	1,546
Disposals	-	(971)	(612)	(604)	(2,187)
Revaluation	(104)	-	-	-	(104)
Exchange differences	(79)	-	(119)	(354)	(552)
At 31 December 2013	3,065	2,840	6,157	7,530	19,592
<b>Depreciation</b>					
At 1 January 2013	-	1,259	5,296	5,920	12,475
Charge for the year	-	507	518	905	1,930
Disposals	-	(635)	(548)	(540)	(1,723)
Exchange differences	-	-	(89)	(293)	(382)
At 31 December 2013	-	1,131	5,177	5,992	12,300
<b>Net book value at 31 December 2013</b>	<b>3,065</b>	<b>1,709</b>	<b>980</b>	<b>1,538</b>	<b>7,292</b>
<b>Cost or valuation</b>					
At 1 January 2012	3,679	3,045	6,452	8,079	21,255
Additions	-	659	809	697	2,165
Disposals	-	(514)	(388)	(1,076)	(1,978)
Revaluation	(412)	-	-	-	(412)
Exchange differences	(19)	-	(43)	(79)	(141)
At 31 December 2012	3,248	3,190	6,830	7,621	20,889
<b>Depreciation</b>					
At 1 January 2012	-	1,055	5,045	6,122	12,222
Charge for the year	-	537	667	927	2,131
Disposals	-	(333)	(388)	(1,071)	(1,792)
Exchange differences	-	-	(28)	(58)	(86)
At 31 December 2012	-	1,259	5,296	5,920	12,475
<b>Net book value at 31 December 2012</b>	<b>3,248</b>	<b>1,931</b>	<b>1,534</b>	<b>1,701</b>	<b>8,414</b>

A certain property, held as an investment property by a subsidiary undertaking but occupied by the Group, was revalued at 31 December 2013. All others were revalued at 31 December 2012. Valuations were carried out by Cluttons, an external firm of Chartered Surveyors, using standard industry methodology to determine a fair market value. All properties are classified as level 2 assets.

The value of land and buildings on a historical cost basis is £3,019,000 (2012: £3,049,000).

Depreciation expense has been charged in other operating and administrative expenses.

Included within net book value of motor vehicles is £1,530,000 (2012: £1,719,000) in respect of assets held under finance leases.

Parent	Land and buildings £000	Motor vehicles £000	Furniture, fittings and equipment £000	Computer equipment £000	Total £000
<b>Cost or valuation</b>					
At 1 January 2013	2,360	3,051	5,762	5,239	16,412
Additions	-	621	29	820	1,470
Disposals	-	(971)	(23)	(389)	(1,383)
Exchange differences	-	-	(37)	(42)	(79)
At 31 December 2013	2,360	2,701	5,731	5,628	16,420
<b>Depreciation</b>					
At 1 January 2013	-	1,195	4,532	4,062	9,789
Charge for the year	-	487	464	722	1,673
Disposals	-	(635)	(36)	(389)	(1,060)
Exchange differences	-	-	(38)	(28)	(66)
At 31 December 2013	-	1,047	4,922	4,367	10,336
<b>Net book value at 31 December 2013</b>	<b>2,360</b>	<b>1,654</b>	<b>809</b>	<b>1,261</b>	<b>6,084</b>
<b>Cost or valuation</b>					
At 1 January 2012	2,747	2,913	5,125	5,628	16,413
Additions	-	631	789	591	2,011
Disposals	-	(493)	(137)	(969)	(1,599)
Revaluation	(387)	-	-	-	(387)
Exchange differences	-	-	(15)	(11)	(26)
At 31 December 2012	2,360	3,051	5,762	5,239	16,412
<b>Depreciation</b>					
At 1 January 2012	-	1,003	4,225	4,341	9,569
Charge for the year	-	510	456	691	1,657
Disposals	-	(318)	(137)	(964)	(1,419)
Exchange differences	-	-	(12)	(6)	(18)
At 31 December 2012	-	1,195	4,532	4,062	9,789
<b>Net book value at 31 December 2012</b>	<b>2,360</b>	<b>1,856</b>	<b>1,230</b>	<b>1,177</b>	<b>6,623</b>

The Company's land and buildings were revalued at 31 December 2012 by Cluttons, an external firm of Chartered Surveyors, using standard industry methodology to determine a fair market value. All properties are classified as level 2 assets.

The value of land and buildings on a historical cost basis is £2,484,000 (2012: £2,484,000).

Depreciation expense has been charged in other operating and administrative expenses.

Included within net book value of motor vehicles is £1,530,000 (2012: £1,719,000) in respect of assets held under finance leases.

# NOTES TO THE FINANCIAL STATEMENTS

## 20 Investment property

Group and Parent	2013 £000	2012 £000
Net book value at 1 January	27,315	27,473
Additions	17,894	1,982
Disposals	(1,453)	(961)
Fair value gains/(losses)	1,343	(1,179)
Net book value at 31 December	45,099	27,315

The Group's investment properties were last revalued at 31 December 2013 by Cluttons, an external firm of Chartered Surveyors. Valuations were carried out using standard industry methodology to determine a fair market value. All properties are classified as level 2 assets.

Investment properties are held for long-term capital appreciation rather than short-term sale. Rental income arising from the investment properties owned by both the Group and Parent amounted to £2,004,000 (2012: £1,783,000) and is included in net investment return. Other operating and administrative expenses include £350,000 (2012: £337,000) relating to investment property.

## 21 Financial investments

Financial investments summarised by measurement category are as follows:

	2013		2012	
	Group £000	Parent £000	Group £000	Parent £000
<b>Financial investments at fair value through profit or loss</b>				
Equity securities				
- listed	276,930	247,026	264,018	240,972
- unlisted	19,390	19,386	18,558	18,514
Debt securities				
- government bonds	225,413	147,418	266,300	172,700
- listed	416,445	299,954	355,733	237,138
- unlisted	205	205	6,176	5,703
Derivative financial instruments				
- futures	-	-	443	443
- options	158	158	1,403	1,403
	<b>938,541</b>	<b>714,147</b>	<b>912,631</b>	<b>676,873</b>
<b>Loans and receivables</b>				
Loans secured by mortgages	7,892	-	9,455	-
Other loans	19	14	23	14
	<b>7,911</b>	<b>14</b>	<b>9,478</b>	<b>14</b>
<b>Parent investments in subsidiary undertakings</b>				
Shares in subsidiary undertakings	-	49,765	-	49,765
Total financial investments	<b>946,452</b>	<b>763,926</b>	<b>922,109</b>	<b>726,652</b>
Current	<b>391,205</b>	<b>357,674</b>	<b>384,080</b>	<b>339,423</b>
Non-current	<b>555,247</b>	<b>406,252</b>	<b>538,029</b>	<b>387,229</b>

All investments in subsidiary undertakings are unlisted.

## 22 Derivative financial instruments

The Group utilises non-hedge derivatives to mitigate equity price risk arising from investments held at fair value and foreign exchange risk arising from insurance liabilities denominated in foreign currencies.

Group and Parent	2013			2012		
	Contract/ notional amount	Fair value asset £000	Fair value liability £000	Contract/ notional amount	Fair value asset £000	Fair value liability £000
	£000	£000	£000	£000	£000	£000
<b>Equity/Index contracts</b>						
Futures	-	-	-	53,075	443	-
Options	30,000	158	-	30,000	846	-
<b>Foreign exchange contracts</b>						
Options	-	-	-	25,000	557	-
	30,000	158	-	108,075	1,846	-

All balances are current.

The notional amounts above reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of the derivative transaction. They do not reflect current market values of the open positions.

The derivative fair value assets are recognised within financial investments (note 21).

Amounts pledged as collateral in respect of derivative contracts are disclosed in note 24.

# NOTES TO THE FINANCIAL STATEMENTS

## 23 Other assets

	2013		2012	
	Group £000	Parent £000	Group £000	Parent £000
<b>Receivables arising from insurance and reinsurance contracts</b>				
- due from contract holders	25,474	25,456	31,027	30,792
- due from agents, brokers and intermediaries	43,287	31,727	53,695	38,080
- due from reinsurers	8,808	8,051	13,356	7,820
<b>Other receivables</b>				
- accrued interest and rent	7,876	5,821	7,251	5,123
- other prepayments and accrued income	3,268	2,868	3,236	3,086
- amounts owed by related parties	17,566	31,006	17,241	35,327
- other debtors	18,185	3,342	19,908	4,297
	124,464	108,271	145,714	124,525
Current	107,206	78,015	128,462	97,973
Non-current	17,258	30,256	17,252	26,552

The Group has recognised a credit of £77,000 (2012: charge of £47,000) in other operating and administrative expenses in the statement of profit or loss for the impairment of its trade and other receivables during the year. The Parent has recognised a charge of £17,000 (2012: credit of £18,000).

The Group balance due from reinsurers comprises £11,728,000 (2012: £15,121,000) receivable net of £2,920,000 (2012: £1,765,000) payable. The Parent balance comprises £10,971,000 (2012: £9,585,000) receivable net of £2,920,000 (2012: £1,765,000) payable.

The Group balance owed by related parties comprises £17,584,000 (2012: £17,549,000) receivable net of £18,000 (2012: £308,000) payable. The Parent balance comprises £31,610,000 (2012: £36,401,000) receivable net of £604,000 (2012: £1,074,000) payable.

There has been no significant change in the recoverability of the Group's trade receivables, for which no collateral is held. The Directors consider that the amounts are recoverable at their carrying values, which are stated net of an allowance for doubtful debts for those debtors that are individually determined to be impaired.

	2013		2012	
	Group £000	Parent £000	Group £000	Parent £000
<b>Movement in the allowance for doubtful debts</b>				
Balance at 1 January	882	553	666	384
Movement in the year	(559)	(364)	216	169
Balance at 31 December	323	189	882	553

Included within trade receivables of the Group is £2,964,000 (2012: £4,165,000) overdue but not impaired, of which £2,558,000 (2012: £3,665,000) is not more than three months overdue at the reporting date. Included within trade receivables of the Parent is £2,115,000 (2012: £3,579,000) overdue but not impaired, of which £1,887,000 (2012: £3,079,000) is not more than three months overdue at the reporting date.

## 24 Cash and cash equivalents

	2013		2012	
	Group £000	Parent £000	Group £000	Parent £000
Cash at bank and in hand	48,298	30,715	60,154	42,576
Short-term bank deposits	58,943	49,715	52,430	46,387
	<b>107,241</b>	<b>80,430</b>	<b>112,584</b>	<b>88,963</b>

Included within cash at bank and in hand of the Group is £4,948,000 (2012: £nil) pledged as collateral in respect of an insurance liability.

Included within short-term bank deposits of the Group and Parent are cash deposits of £nil (2012: £2,257,000) pledged as collateral by way of cash margins on open derivative contracts and cash to cover derivative liabilities.

## 25 Called up share capital

	Issued, allotted and fully paid	
	2013 £000	2012 £000
Ordinary shares of 4p each	14,027	14,027
8.625% Non-Cumulative Irredeemable Preference shares of £1 each	<b>106,450</b>	<b>106,450</b>
	<b>120,477</b>	<b>120,477</b>
<b>Movements in the number of shares in issue during the year were as follows:</b>		
Ordinary shares		
At 1 January	350,678	140,270
Sub-division of shares	-	210,408
At 31 December	<b>350,678</b>	<b>350,678</b>
8.625% Non-Cumulative Irredeemable Preference shares of £1 each		
At 1 January and 31 December	<b>106,450</b>	<b>106,450</b>

During the prior year each of the issued Ordinary shares of 10 pence in the capital of the Company was sub-divided into 2.5 Ordinary shares of 4 pence with each sub-divided share having the rights and being subject to the restrictions attaching to Ordinary shares under the Articles of Association.

On winding up, the assets of the Company remaining after payment of its liabilities are to be applied to holders of the Irredeemable Preference shares in repaying the nominal capital sum paid up on the shares and an amount equal to all arrears of accrued and unpaid dividends up to the date of the commencement of the winding up. The residual interest in the assets of the Company after deducting all liabilities belongs to the Ordinary shareholders.

Holders of the Irredeemable Preference shares are not entitled to receive notice of, or to attend, or vote at any general meeting of the Company unless at the time of the notice convening such meeting, the dividend on such shares which is most recently payable on such shares shall not have been paid in full, or where a resolution is proposed varying any of the rights of such shares, or for the winding up of the Company.

# NOTES TO THE FINANCIAL STATEMENTS

## 26 Insurance liabilities and reinsurance assets

	2013		2012	
	Group £000	Parent £000	Group £000	Parent £000
<b>Gross</b>				
Claims outstanding	569,179	498,705	565,937	485,778
Unearned premiums	186,642	164,483	219,798	190,009
Long-term business provision	92,446	-	92,956	-
Total gross insurance liabilities	848,267	663,188	878,691	675,787
<b>Recoverable from reinsurers</b>				
Claims outstanding	89,472	78,610	94,902	83,551
Unearned premiums	43,121	42,880	46,109	43,921
Total reinsurers' share of insurance liabilities	132,593	121,490	141,011	127,472
<b>Net</b>				
Claims outstanding	479,707	420,095	471,035	402,227
Unearned premiums	143,521	121,603	173,689	146,088
Long-term business provision	92,446	-	92,956	-
Total net insurance liabilities	715,674	541,698	737,680	548,315
<b>Gross insurance liabilities</b>				
Current	372,878	328,088	421,048	358,929
Non-current	475,389	335,100	457,643	316,858
<b>Reinsurance assets</b>				
Current	105,451	97,058	100,035	89,323
Non-current	27,142	24,432	40,976	38,149

### (a) General business insurance contracts

#### (i) Reserving methodology

Reserving for non-life insurance claims is a complex process and the Group adopts recognised actuarial methods, and, where appropriate, other calculations and statistical analysis. Actuarial methods used include chain ladder, the Bornhuetter-Ferguson and average cost methods.

Chain ladder methods extrapolate paid amounts, incurred amounts (paid claims plus case estimates), the number of claims or average cost of claims, to ultimate claims based on the development of previous years. This method assumes that previous patterns are a reasonable guide to future developments. Where this assumption is felt to be unreasonable, adjustments are made or other methods such as Bornhuetter-Ferguson or average cost are used. The Bornhuetter-Ferguson method places more credibility on expected loss ratios for the most recent loss years. For smaller portfolios the materiality of the business and data available may also shape the methods used in reviewing reserve adequacy.

The selection of results for each accident year and for each portfolio depends on an assessment of the most appropriate method. Sometimes a combination of techniques is used. The average weighted term to payment is calculated separately by class of business and is based on historic settlement patterns.

#### (ii) Calculation of uncertainty margins

To reflect the uncertain nature of the outcome of the ultimate settlement cost of claims an uncertainty margin is added to the best estimate. The addition for uncertainty is assessed primarily by the Thomas Mack actuarial method, based on at least the 75th percentile confidence level for each portfolio. For smaller portfolios where the Thomas Mack method cannot be applied, provisions have been calculated at a level intended to provide an equivalent probability of sufficiency. Where the standard methods cannot allow for changing circumstances then additional uncertainty margins are added and are typically expressed as a percentage of outstanding claims. This approach generally results in a favourable release of provisions in the current financial year, arising from the settlement of claims relating to previous financial years, as shown in part (c) of the note.

#### (iii) Calculation of provisions for latent claims

The Group adopts commonly used industry methods including those based on claims frequency and severity and benchmarking.

#### (iv) Discounting

General insurance outstanding claims provisions are undiscounted, except for certain designated long-tail classes of business for which discounted provisions are held in the following territories:

Geographical territory	Discount rate		Mean term of discounted liabilities	
	2013	2012	2013	2012
UK and Ireland	0.4% to 3.8%	0.3% to 3.4%	15	15
Canada	1.1% to 3.2%	1.1% to 2.5%	14	9
Australia	3.3%	2.8%	5	5

Parent consists of UK, Ireland and Canada. Group also includes Australia.

The applied rates of interest are based on government bond yield curves of the relevant currency and term at the reporting date, adjusted where appropriate to reflect portfolio assets held and to allow for future investment expenses. At the year end the undiscounted gross outstanding claims provision was £626,418,000 for the Group (2012: £582,674,000), and £540,739,000 for the Parent (2012: £496,255,000).

At 31 December 2013, it is estimated that a fall of 1% in the discount rates used would increase the Group's net outstanding claims provisions by £12,402,000 (2012: £11,541,000). Financial investments backing these liabilities are not hypothecated across general insurance classes of business. The sensitivity of Group profit or loss and other equity reserves to interest rate risk, taking into account the mitigating effect on asset values is provided in note 4 (h).

#### (v) Unexpired risks liability

In the prior year, the unearned premium of the Group's Australia business was found to have a deficiency of £6,464,000. This deficiency was reflected in the Group statement of financial position as a write-down against deferred acquisition costs. In the current year this has been released as a credit against deferred acquisition costs.

#### (vi) Assumptions

The Group follows a process of reviewing its reserves for outstanding claims on a quarterly basis. This involves an appraisal of each portfolio with respect to ultimate claims liability for the recent exposure period as well as for earlier periods, together with a review of the factors that have the most significant impact on the assumptions used to determine the reserving methodology. The work conducted on each portfolio is subject to an internal peer review and management sign-off process.

The most significant assumptions in determining the undiscounted general insurance reserves are the anticipated number and ultimate settlement cost of claims, and the extent to which reinsurers will share in the cost. Factors which influence decisions on assumptions include legal and judicial changes, significant weather events, other catastrophes, subsidence events, exceptional claims or substantial changes in claims experience and developments in older or latent claims. Significant factors influencing assumptions about reinsurance are terms of the reinsurance treaties, the anticipated time taken to settle a claim and the incidence of large individual and aggregated claims.

#### (vii) Changes in assumptions

There are no significant changes in assumptions.

#### (viii) Sensitivity of results

The ultimate amount of claims settlement is uncertain and the Group's aim is to reserve to at least the 75th percentile confidence level.

If final settlement of insurance claims reserved for at the year end turns out to be 10% higher or lower than the reserves included in these financial statements, the following pre-tax Group loss or profit will be realised:

		2013		2012	
		Gross £000	Net £000	Gross £000	Net £000
Liability	- UK	28,300	25,500	24,800	22,600
	- Overseas	12,000	9,900	11,600	5,700
Property	- UK	6,900	4,100	6,700	4,000
	- Overseas	5,200	3,200	5,900	3,000
Motor	- UK	2,900	2,500	3,100	2,500
	- Overseas	-	-	100	100

# NOTES TO THE FINANCIAL STATEMENTS

## 26 Insurance liabilities and reinsurance assets (continued)

### (ix) Claims development tables

The nature of liability classes of business is that claims may take a number of years to settle and before the final liability is known. The tables below show the development of the undiscounted estimate of ultimate gross and net claims cost for these classes across all territories.

Estimate of gross ultimate claims											
Group	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	Total £000
At end of year	42,503	46,155	45,688	50,840	56,420	74,742	84,476	82,095	100,612	81,725	
One year later	40,075	32,998	45,900	47,307	53,552	59,807	75,550	76,371		88,046	
Two years later	35,645	35,001	40,092	43,270	47,643	55,250	62,239	71,543			
Three years later	33,431	30,365	36,168	35,510	44,658	57,134	66,422				
Four years later	31,870	26,835	30,791	35,556	40,433	55,695					
Five years later	25,912	25,860	28,470	34,925	37,546						
Six years later	25,713	25,893	27,154	34,036							
Seven years later	25,685	25,312	27,377								
Eight years later	25,112	25,753									
Nine years later	24,814										
Current estimate of ultimate claims	24,814	25,753	27,377	34,036	37,546	55,695	66,422	71,543	88,046	81,725	512,957
Cumulative payments to date	(21,360)	(21,696)	(22,262)	(26,119)	(28,621)	(33,097)	(28,259)	(17,008)	(8,193)	(1,719)	(208,334)
Outstanding liability	3,454	4,057	5,115	7,917	8,925	22,598	38,163	54,535	79,853	80,006	304,623
Effect of discounting											(21,899)
Present value											282,724
Discounted liability in respect of earlier years											88,932
Total discounted gross liability (for liability classes) included in insurance liabilities in the statement of financial position											371,656
Parent	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	Total £000
At end of year	36,590	39,338	38,332	41,927	46,882	60,810	69,230	66,864	84,511	71,798	
One year later	34,683	27,128	37,518	38,967	43,344	46,660	60,202	63,770	77,629		
Two years later	30,998	28,917	33,711	33,464	37,204	43,853	50,834	62,587			
Three years later	28,394	24,960	30,329	28,093	37,669	49,444	53,390				
Four years later	26,669	21,643	24,731	28,569	34,514	47,970					
Five years later	21,919	21,095	24,821	28,679	33,384						
Six years later	21,166	20,919	24,450	29,217							
Seven years later	21,047	20,348	24,710								
Eight years later	20,898	21,434									
Nine years later	21,341										
Current estimate of ultimate claims	21,341	21,434	24,710	29,217	33,384	47,970	53,390	62,587	77,629	71,798	443,460
Cumulative payments to date	(18,103)	(17,694)	(20,281)	(22,850)	(25,795)	(30,354)	(24,999)	(15,301)	(7,400)	(1,502)	(184,279)
Outstanding liability	3,238	3,740	4,429	6,367	7,589	17,616	28,391	47,286	70,229	70,296	259,181
Effect of discounting											(15,094)
Present value											244,087
Discounted liability in respect of earlier years											75,176
Total discounted gross liability (for liability classes) included in insurance liabilities in the statement of financial position											319,263

**Estimate of net ultimate claims**

Group	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	Total £000
At end of year	35,349	39,528	41,007	46,235	51,795	64,476	73,218	75,302	88,247	76,729	
One year later	34,867	32,780	40,976	43,107	48,432	53,700	64,796	72,336	79,272		
Two years later	29,447	31,287	35,783	38,979	44,498	50,805	57,758	68,057			
Three years later	28,486	28,641	33,145	34,180	42,524	50,168	59,353				
Four years later	27,840	25,665	30,283	35,004	39,321	50,062					
Five years later	24,560	25,391	28,230	34,688	37,208						
Six years later	24,482	25,150	26,926	33,702							
Seven years later	24,435	24,024	27,150								
Eight years later	23,892	24,534									
Nine years later	23,697										
Current estimate of ultimate claims	23,697	24,534	27,150	33,702	37,208	50,062	59,353	68,057	79,272	76,729	479,764
Cumulative payments to date	(20,332)	(20,714)	(22,116)	(25,939)	(28,424)	(31,458)	(27,160)	(16,897)	(8,158)	(1,712)	(202,910)
Outstanding liability	3,365	3,820	5,034	7,763	8,784	18,604	32,193	51,160	71,114	75,017	276,854
Effect of discounting											(19,094)
Present value											257,760
Discounted liability in respect of earlier years											72,832
Total discounted net liability (for liability classes) included in insurance liabilities in the statement of financial position											330,592

Parent	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	Total £000
At end of year	29,839	32,394	33,318	36,959	41,631	51,226	57,135	59,011	74,361	67,690	
One year later	29,328	26,772	32,547	34,656	38,270	39,841	49,060	59,873	69,805		
Two years later	24,552	25,279	29,284	29,650	33,814	40,198	48,250	59,997			
Three years later	24,061	23,304	27,449	26,905	34,983	43,879	51,827				
Four years later	23,622	20,929	24,103	28,322	34,458	44,064					
Five years later	21,399	20,551	24,707	28,670	33,366						
Six years later	20,828	20,811	24,407	29,203							
Seven years later	20,877	20,100	24,696								
Eight years later	20,744	21,119									
Nine years later	21,131										
Current estimate of ultimate claims	21,131	21,119	24,696	29,203	33,366	44,064	51,827	59,997	69,805	67,690	422,898
Cumulative payments to date	(17,951)	(17,583)	(20,281)	(22,850)	(25,795)	(28,846)	(24,444)	(15,288)	(7,399)	(1,501)	(181,938)
Outstanding liability	3,180	3,536	4,415	6,353	7,571	15,218	27,383	44,709	62,406	66,189	240,960
Effect of discounting											(15,093)
Present value											225,867
Discounted liability in respect of earlier years											63,867
Total discounted net liability (for liability classes) included in insurance liabilities in the statement of financial position											289,734

# NOTES TO THE FINANCIAL STATEMENTS

## 26 Insurance liabilities and reinsurance assets (continued)

### (b) Long-term insurance contracts

#### (i) Assumptions

The most significant assumptions in determining long-term business reserves are as follows:

##### **Mortality**

An appropriate base table of standard mortality is chosen depending on the type of contract. Where prudent, an allowance is made for future mortality improvements based on trends identified in population data.

##### **Investment returns**

Projected investment returns are based on actual yields for each asset class less an allowance for credit risk, where appropriate. The risk adjusted yields after allowance for tax and investment expenses for the current valuation are as follows:

	2013	2012
UK government bonds: non-linked	2.76%	2.13%
UK government bonds: index-linked	-0.31%	-0.50%
Corporate debt instruments: index-linked	0.42%	0.29%

The investment return assumption is determined by calculating an overall yield on all cash flows projected to occur from the portfolio of financial assets which are assumed to back the relevant class of liabilities. This is in accordance with a modification to PRA Rule INSPRU 3.1.35R, which was granted in September 2011. For index-linked assets, the real yield is shown.

##### **Funeral plans renewal expense level and inflation**

Numbers of policies in force and both projected and actual expenses have been considered when setting the base renewal expense level. The unit renewal expense assumption for this business is £2.70 per annum (2012: £13.20 per annum).

Expense inflation is set with reference to the index-linked UK government bond rates of return, and published figures for earnings inflation, and is assumed to be 4.05% per annum (2012: 3.39%).

##### **Tax**

It has been assumed that tax legislation and rates applicable at 1 January 2014 will continue to apply. All in-force business is classed as protection business and is expected to be taxed on a profits basis.

#### (ii) Changes in assumptions

Projected investment returns have been revised in line with the changes in the actual yields of the underlying assets. As a result, liabilities have decreased by £1.9 million (2012: £0.7 million increase).

The effect on insurance liabilities of the changes to unit renewal expense assumptions (described in (i) above), was a £0.4 million increase (2012: £1.3 million decrease).

#### (iii) Sensitivity analysis

The sensitivity of profit or loss before tax to changes in the key assumptions used to calculate the long-term business insurance liabilities is shown in the following table. No account has been taken of any correlation between the assumptions.

Variable	Change in variable	Potential increase/ (decrease) in the result	
		2013	2012
	£000	£000	
Deterioration in annuitant mortality	-10%	100	400
Improvement in annuitant mortality	+10%	(100)	(500)
Increase in fixed interest/cash yields	+1% pa	(1,400)	-
Decrease in fixed interest/cash yields	-1% pa	(1,100)	(1,300)
Worsening of base renewal expense level	+10%	(500)	(500)
Improvement in base renewal expense level	-10%	500	500
Increase in expense inflation	+1% pa	(700)	(600)
Decrease in expense inflation	-1% pa	600	500

**(iv) Available capital resources**

	Non-profit life fund £000	Share- holders' fund £000	Total life business £000	Other activities £000	Group total £000
<b>2013</b>					
Shareholders' equity	(1,136)	41,515	40,379	413,385	494,143
Adjustments to assets/liabilities	7,500	(7,500)	-	(123,040)	(123,040)
Total available capital resources	<b>6,364</b>	<b>34,015</b>	<b>40,379</b>	<b>290,345</b>	<b>371,103</b>
Policyholder liabilities					
- life insurance business	<b>92,446</b>	-	<b>92,446</b>		
Net actuarial liabilities on statement of financial position	<b>92,446</b>	-	<b>92,446</b>		
<b>2012</b>					
Shareholders' equity	(1,814)	35,770	33,956	421,701	455,657
Adjustments to assets/liabilities	10,500	(10,500)	-	(92,508)	(92,508)
Adjustments to actuarial liabilities	(1,188)	-	(1,188)	-	(1,188)
Total available capital resources	<b>7,498</b>	<b>25,270</b>	<b>32,768</b>	<b>329,193</b>	<b>361,961</b>
Policyholder liabilities					
- life insurance business	<b>92,956</b>	-	<b>92,956</b>		
Net actuarial liabilities on statement of financial position	<b>92,956</b>	-	<b>92,956</b>		

Shareholders' equity/(deficit) in the non-profit fund represents the net profit or loss generated by this fund not transferred, to date, to the shareholders' fund. The life shareholders' fund is the balance of shareholder equity in the life business. Available capital resources of the life business include an allowance for solvency reserves which do not meet the recognition criteria in the accounts.

Other activities include the general insurance business of the Parent and its subsidiaries, and consequently all Group capital not required to meet the solvency requirements of the general business is available to meet the solvency requirements of the life business.

The available capital resources in the non-profit life fund, subject to the regulatory capital requirements of the fund itself, are available to meet requirements elsewhere in the Group. The capital requirements of the life business are based on the PRA capital requirements.

The Group uses both its Individual Capital Assessment and its Individual Capital Guidance as a tool for determining capital requirements and their sensitivity to various risks. The Group manages these risks by means of its underwriting strategy, reinsurance strategy, investment strategy, and management control framework.

**(v) Movements in life capital**

	Non-profit life fund £000	Share- holders' fund £000	Total life business £000
Published capital resources as at 31 December 2012	<b>7,498</b>	<b>25,270</b>	<b>32,768</b>
Effect of new business	(734)	-	(734)
Variance between actual and expected experience	388	-	388
Change in methodology	20	-	20
Effect of changes to valuation interest rates	724	-	724
Effect of change to expense assumption	(365)	-	(365)
Effect of change in inflation assumption	4	-	4
Transfers between funds	(3,000)	3,000	-
Other movements	<b>1,829</b>	<b>5,745</b>	<b>7,574</b>
Capital resources as at 31 December 2013	<b>6,364</b>	<b>34,015</b>	<b>40,379</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 26 Insurance liabilities and reinsurance assets (continued)

### (c) Movements in insurance liabilities and reinsurance assets

Group	Gross £000	Reinsurance £000	Net £000
<b>Claims outstanding</b>			
At 1 January 2013	565,937	(94,902)	471,035
Cash (paid)/received for claims settled in the year	(214,817)	38,888	(175,929)
Change in liabilities/reinsurance assets			
- arising from current year claims	238,818	(37,309)	201,509
- arising from prior year claims	(3,519)	764	(2,755)
Exchange differences	(17,240)	3,087	(14,153)
At 31 December 2013	569,179	(89,472)	479,707
<b>Provision for unearned premiums</b>			
At 1 January 2013	219,798	(46,109)	173,689
Increase in the period	191,426	(43,370)	148,056
Release in the period	(218,631)	45,983	(172,648)
Exchange differences	(5,951)	375	(5,576)
At 31 December 2013	186,642	(43,121)	143,521
<b>Long-term business provision</b>			
At 1 January 2013	92,956	-	92,956
Effect of new business during the year	6,291	-	6,291
Effect of claims during the year	(7,569)	-	(7,569)
Changes in assumptions	(1,335)	-	(1,335)
Change in methodology	(21)	-	(21)
Other movements	2,124	-	2,124
At 31 December 2013	92,446	-	92,446
<b>Claims outstanding</b>			
At 1 January 2012	935,253	(481,889)	453,364
Cash (paid)/received for claims settled in the year	(318,749)	140,988	(177,761)
Change in liabilities/reinsurance assets			
- arising from current year claims	302,155	(67,933)	234,222
- arising from prior year claims	(16,114)	(14,265)	(30,379)
Disposal of business	(337,489)	333,745	(3,744)
Exchange differences	881	(5,548)	(4,667)
At 31 December 2012	565,937	(94,902)	471,035
<b>Provision for unearned premiums</b>			
At 1 January 2012	221,087	(58,884)	162,203
Increase in the period	220,820	(46,231)	174,589
Release in the period	(220,416)	58,673	(161,743)
Exchange differences	(1,693)	333	(1,360)
At 31 December 2012	219,798	(46,109)	173,689
<b>Long-term business provision</b>			
At 1 January 2012	81,714	-	81,714
Effect of new business during the year	20,857	-	20,857
Effect of claims during the year	(6,151)	-	(6,151)
Changes in assumptions	(5,455)	-	(5,455)
Change in methodology	199	-	199
Other movements	1,792	-	1,792
At 31 December 2012	92,956	-	92,956

Parent	Gross £000	Reinsurance £000	Net £000
<b>Claims outstanding</b>			
At 1 January 2013	485,778	(83,551)	402,227
Cash (paid)/received for claims settled in the year	(185,169)	34,935	(150,234)
Change in liabilities/reinsurance assets			
- arising from current year claims	208,488	(37,164)	171,324
- arising from prior year claims	(5,964)	6,105	141
Exchange differences	(4,428)	1,065	(3,363)
At 31 December 2013	498,705	(78,610)	420,095
<b>Provision for unearned premiums</b>			
At 1 January 2013	190,009	(43,921)	146,088
Increase in the period	166,342	(43,097)	123,245
Release in the period	(190,182)	43,957	(146,225)
Exchange differences	(1,686)	181	(1,505)
At 31 December 2013	164,483	(42,880)	121,603
<b>Claims outstanding</b>			
At 1 January 2012	467,588	(99,420)	368,168
Cash (paid)/received for claims settled in the year	(197,830)	44,595	(153,235)
Change in liabilities/reinsurance assets			
- arising from current year claims	258,345	(51,619)	206,726
- arising from prior year claims	(38,901)	21,812	(17,089)
Exchange differences	(3,424)	1,081	(2,343)
At 31 December 2012	485,778	(83,551)	402,227
<b>Provision for unearned premiums</b>			
At 1 January 2012	180,746	(43,081)	137,665
Increase in the period	190,367	(43,963)	146,404
Release in the period	(180,533)	43,049	(137,484)
Exchange differences	(571)	74	(497)
At 31 December 2012	190,009	(43,921)	146,088

# NOTES TO THE FINANCIAL STATEMENTS

## 27 Provisions for other liabilities and contingent liabilities

### (a) Provisions

	Regulatory and legal provisions £000	Restructuring and other provisions £000	Total £000
<b>Group</b>			
At 1 January 2013	6,569	704	7,273
Additional provisions	329	2,767	3,096
Used during year	(1,344)	(97)	(1,441)
Not utilised	(2,092)	(102)	(2,194)
Exchange differences	-	(24)	(24)
At 31 December 2013	3,462	3,248	6,710
Current	3,462	3,090	6,552
Non-current	-	158	158
<b>Parent</b>			
At 1 January 2013	6,364	575	6,939
Additional provisions	329	2,722	3,051
Used during year	(1,344)	(97)	(1,441)
Not utilised	(1,887)	(96)	(1,983)
At 31 December 2013	3,462	3,104	6,566
Current	3,462	3,044	6,506
Non-current	-	60	60

### Regulatory and legal provisions

The Group operates in the financial services industry and is subject to regulatory requirements in the normal course of business, including contributing towards any levies raised on UK general and life business. The provisions reflect an assessment by the Group of its share of the total potential levies.

In addition, from time to time the Group receives complaints from customers and, whilst the majority relate to cases where there has been no customer detriment, we recognise that we have provided, and continue to provide, advice and services across a wide spectrum of regulated activities. We therefore believe that it is prudent to hold a provision for costs of customer complaints relating to services provided. The Group continues to re-assess the ultimate level of complaints expected and the appropriateness of the provision, which reflects the potential redress and associated administration costs that would be payable in relation to any complaints we may uphold. Further administration costs in relation to invalid claims are also included in the provision.

### Restructuring and other provisions

The provision for restructuring and other costs relates to costs in respect of redundancies, onerous leases and dilapidations.

### (b) Contingent liabilities

The Company is in correspondence with HM Revenue and Customs regarding the treatment of its preference share capital for group tax purposes. Whilst it is possible that this will lead to an additional tax cost to the Group, we do not consider it probable that a further charge will arise and so have not made any provision in respect of this issue. In the unlikely event the issue is not settled as expected, the Group's best estimate is that the additional tax cost would be in the range of £0.3m to £7.6m.

## 28 Deferred tax

An analysis and reconciliation of the movement of the key components of the net deferred tax liability during the current and prior reporting period is as follows:

Group	Net				
	Unrealised gains on investments £'000	retirement benefit assets £'000	Equalisation reserve £'000	Other differences £'000	Total £'000
At 1 January 2012	26,525	5,694	5,680	(6,637)	31,262
Charged to profit or loss	5,053	128	660	1,656	7,497
(Credited)/charged to profit or loss					
- resulting from reduction in tax rate	(2,095)	(407)	(454)	89	(2,867)
Credited to other comprehensive income	-	(306)	-	(87)	(393)
Credited to other comprehensive income					
- resulting from reduction in tax rate	-	(111)	-	(7)	(118)
Exchange differences	2	(5)	-	73	70
At 31 December 2012	29,485	4,993	5,886	(4,913)	35,451
Charged/(credited) to profit or loss	6,721	72	49	(630)	6,212
(Credited)/charged to profit or loss					
- resulting from reduction in tax rate	(3,795)	(525)	(768)	199	(4,889)
Credited to other comprehensive income	-	(305)	-	(31)	(336)
Credited to other comprehensive income					
- resulting from reduction in tax rate	-	(126)	-	(22)	(148)
Exchange differences	(60)	-	-	625	565
At 31 December 2013	32,351	4,109	5,167	(4,772)	36,855
<b>Parent</b>					
At 1 January 2012	25,888	5,694	5,680	(1,718)	35,544
Charged to profit or loss	4,652	128	660	395	5,835
(Credited)/charged to profit or loss					
- resulting from reduction in tax rate	(2,071)	(407)	(454)	89	(2,843)
Credited to other comprehensive income	-	(306)	-	(87)	(393)
Credited to other comprehensive income					
- resulting from reduction in tax rate	-	(111)	-	(7)	(118)
Exchange differences	1	(5)	-	3	(1)
At 31 December 2012	28,470	4,993	5,886	(1,325)	38,024
Charged/(credited) to profit or loss	6,701	72	49	(77)	6,745
(Credited)/charged to profit or loss					
- resulting from reduction in tax rate	(3,713)	(525)	(768)	198	(4,808)
Credited to other comprehensive income	-	(305)	-	-	(305)
Credited to other comprehensive income					
- resulting from reduction in tax rate	-	(126)	-	(22)	(148)
Exchange differences	-	-	-	3	3
At 31 December 2013	31,458	4,109	5,167	(1,223)	39,511

# NOTES TO THE FINANCIAL STATEMENTS

## 28 Deferred tax (continued)

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2013		2012	
	Group £000	Parent £000	Group £000	Parent £000
Deferred tax liabilities	40,116	39,548	38,653	38,024
Deferred tax assets	(3,261)	(37)	(3,202)	-
	<b>36,855</b>	<b>39,511</b>	<b>35,451</b>	<b>38,024</b>

The Group has unused tax losses of £22,138,000 (2012: £27,686,000) arising from life business and capital transactions, which are available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

## 29 Other liabilities

	2013		2012	
	Group £000	Parent £000	Group £000	Parent £000
Creditors arising out of direct insurance operations	656	323	929	32
Creditors arising out of reinsurance operations	13,578	10,015	15,999	14,878
Other creditors	11,801	6,008	12,693	7,460
Amounts owed to related parties	117	218	3,988	4,876
Accruals	11,816	8,448	10,584	6,527
	<b>37,968</b>	<b>25,012</b>	<b>44,193</b>	<b>33,773</b>
Current	<b>37,682</b>	<b>25,012</b>	<b>43,725</b>	<b>33,773</b>
Non-current	<b>286</b>	<b>-</b>	<b>468</b>	<b>-</b>

The Group creditors arising out of reinsurance operations comprises £39,745,000 (2012: £43,346,000) payable net of £26,167,000 (2012: £27,347,000) receivable. The Parent balance comprises £36,182,000 (2012: £42,225,000) payable net of £26,167,000 (2012: £27,347,000) receivable.

The Group amounts owed to related parties comprises £117,000 (2012: £4,002,000) payable net of £nil (2012: £14,000) receivable. The Parent balance comprises £398,000 (2012: £5,020,000) payable net of £180,000 (2012: £144,000) receivable.

## 30 Commitments

### Capital commitments

At the year end, the Group and Parent had capital commitments of £1,685,000, relating to computer software (2012: £nil).

### Operating lease commitments

The Group leases premises and equipment under non-cancellable operating lease agreements.

The future aggregate minimum lease rentals receivable under non-cancellable operating leases are as follows:

	2013		2012	
	Group £000	Parent £000	Group £000	Parent £000
Within 1 year	2,780	2,780	1,711	1,711
Between 1 & 5 years	9,241	9,241	5,458	5,458
After 5 years	19,044	19,044	9,554	9,554
	31,065	31,065	16,723	16,723

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2013		2012	
	Group £000	Parent £000	Group £000	Parent £000
Within 1 year	2,901	1,623	2,839	1,861
Between 1 & 5 years	5,181	3,550	5,226	3,695
After 5 years	1,072	1,065	1,573	1,557
	9,154	6,238	9,638	7,113
Operating lease rentals charged to profit or loss during the year	3,671	1,969	3,723	2,209
Total future minimum sublease payments expected to be received under non-cancellable subleases	68	68	107	107

## 31 Parent and subsidiary undertakings

### Ultimate parent company and controlling party

The Company is a wholly-owned subsidiary of Ecclesiastical Insurance Group plc. Its ultimate parent and controlling company is Allchurches Trust Limited. Both companies are incorporated and operate in Great Britain and copies of their financial statements are available from the registered office as shown on page 153. The parent companies of the smallest and largest groups for which group financial statements are drawn up are Ecclesiastical Insurance Office plc and Allchurches Trust Limited, respectively. All the subsidiaries listed are included within the consolidated financial statements. Voting rights are in line with the holdings of Ordinary shares.

The Company's interest in Group undertakings at 31 December 2013 is as follows:

Subsidiary undertakings	Share capital	Holding of shares by Parent      Subsidiary	
<b>Incorporated and operating in Great Britain, engaged in investment, insurance and financial services or other insurance-related business</b>			
Ecclesiastical Financial Advisory Services Limited	Ordinary shares	100%	-
Ecclesiastical Investment Management Limited	Ordinary shares	100%	-
Ecclesiastical Life Limited	Ordinary shares	100%	-
South Essex Insurance Brokers Limited	Ordinary shares	-	100%
<b>Incorporated and operating in Australia, engaged in insurance business</b>			
Ansvar Insurance Limited	Ordinary shares	100%	-

Additionally, at the year end there were three other wholly-owned subsidiary undertakings of which the assets and contributions to Group income are not significant.

# NOTES TO THE FINANCIAL STATEMENTS

## 32 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not included in the Group analysis, but are included within the Parent analysis below.

The Parent related party transactions below relate to Ecclesiastical Insurance Group plc, the Group and Parent's immediate parent company. Group and Parent other related parties include the Group's pension plans, fellow subsidiary undertakings and the ultimate parent undertaking.

	Parent £000	Subsidiaries £000	Other related parties £000
<b>2013</b>			
<b>Group</b>			
Trading, investment and other income, including recharges	191	-	1,732
Trading, investment and other expenditure, including recharges	113	-	3,616
Amounts owed by related parties	15,539	-	2,027
Amounts owed to related parties	106	-	11
<b>Parent</b>			
Trading, investment and other income, including recharges	191	9,270	803
Trading, investment and other expenditure, including recharges	113	8,423	3,616
Amounts owed by related parties	15,539	13,445	2,022
Amounts owed to related parties	106	101	11
<b>2012</b>			
<b>Group</b>			
Trading, investment and other income, including recharges	7,596	-	2,372
Trading, investment and other expenditure, including recharges	6,348	-	6,587
Amounts owed by related parties	15,260	-	1,981
Amounts owed to related parties	-	-	3,988
<b>Parent</b>			
Trading, investment and other income, including recharges	7,596	16,441	1,502
Trading, investment and other expenditure, including recharges	6,348	9,657	6,269
Amounts owed by related parties	15,260	18,096	1,971
Amounts owed to related parties	-	888	3,988

During the year, the Company received premiums, commission and reinsurance recoveries via a related party insurance agency amounting to £7,096,000 (2012: £11,158,000) and paid reinsurance protection, commission and claims amounting to £11,608,000 (2012: £16,877,000).

Transactions and services within the Group are made on commercial terms. Amounts outstanding between Group companies are unsecured, are not subject to guarantees, and will be settled in cash. No provisions have been made in respect of these balances.

The remuneration of the Directors, who are the key management personnel of the Group, is disclosed in the Group Remuneration Report in the Corporate Governance section of this report.



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## Section 5/Other Information

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# DIRECTORS AND EXECUTIVE MANAGEMENT

<b>Directors</b>	<ul style="list-style-type: none"><li>* W. M. Samuel BSc, FCA <i>Chairman</i></li><li>* D. Christie BA, BSc (Econ) Dip. Ed. <i>Deputy Chairman and Senior Independent Director</i></li><li>* T. J. Carroll FCII, BA, MBA M. C. J. Hews BSc (Hons), FIA <i>Group Chief Executive</i></li><li>* J. F. Hylands FFA</li><li>* A. P. Latham ACII S. J. Whyte MC Inst. M, ACII, Chartered Insurer <i>Deputy Group Chief Executive</i></li><li>* The Venerable C. L. Wilson</li><li>* D. P. Wilson BA (Hons), FCII</li></ul>
<b>Group Management Board</b>	M. C. J. Hews BSc (Hons), FIA <i>Group Chief Executive</i> S. J. Whyte MC Inst. M, ACII, Chartered Insurer <i>Deputy Group Chief Executive</i> I. Campbell BSc (Econ) (Hons), ACA R. Cox FCII, DMS K.S. Jones MA (Oxon), MSc, MBA J. Schofield CFIIA C. M. Taplin BSc (Hons), MSc, MBA
<b>Company Secretary</b>	Mrs R. J. Hall FCIS
<b>Registered and Head Office</b>	Beaufort House, Brunswick Road, Gloucester GL1 1JZ Tel: 0845 777 3322
<b>Company Registration Number</b>	24869
<b>Investment Management Office</b>	19-21 Billiter Street, London EC3M 2RY Tel: 0845 604 4840
<b>Auditor</b>	Deloitte LLP, London
<b>Legal advisors</b>	Addleshaw Goddard LLP, Leeds
	DAC Beachcroft LLP, Leeds
	Matheson, Dublin
	McDowell Purcell Solicitors, Dublin
	Harrison Clark Rickerbys LLP, Cheltenham
	Speechly Bircham LLP, London
<b>Registrar</b>	Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS13 8AE

\* Non-Executive Directors

## UNITED KINGDOM REGIONAL CENTRES

<b>Central and South West</b>	Office:	7th Floor, 9 Colmore Row, Birmingham B3 2BJ 0845 605 0209
	Tel:	
<b>London and South East</b>	Office:	19-21 Billiter Street, London EC3M 2RY
	Tel:	0845 608 0069
<b>North</b>	Office:	St Ann's House, St Ann's Place, Manchester M2 7LP
	Tel:	0845 603 7554

# UNITED KINGDOM BUSINESS DIVISION AND INTERNATIONAL BRANCHES

## Ansva Insurance Business Division

Managing Director:  
Office:  
  
Tel: R. Lane TD, BA, FCII, MCMI, MCGI  
Ansva House,  
St Leonards Road,  
Eastbourne, East Sussex BN21 3UR  
01323 737541

## Canada branch

Deputy Group Chief Executive,  
Ecclesiastical Insurance and  
General Manager and Chief Agent:  
Chief Office: S. J. Whyte MC Inst M, ACII  
20 Eglinton Avenue West, Suite 2200,  
P.O. Box 2004,  
Toronto, Ontario M4R 1K8

### - Eastern Region:

Regional Vice President: M. Thornhill BA, CRM, FCIP  
1969 Upper Water Street, Suite 2106,  
Purdy's Wharf, Tower 2,  
Halifax, Nova Scotia B3J 3R7

### - Western Region:

Regional Vice President: K. Webster CRM, FCIP  
Suite 630, Box 20,  
Bow Valley Square 1,  
202-6th Avenue S.W.,  
Calgary, Alberta T2P 2R9

### - Pacific Region:

Regional Vice President: E. M. Mak BA, BSc, FCIP  
Suite 1795, Two Bentall Centre,  
555 Burrard Street, Box 239,  
Vancouver, British Columbia V7X 1M9

### - Central Region:

Acting Regional Vice President: C. Robertson, ACII  
20 Eglinton Avenue West, Suite 2200,  
P.O. Box 2004,  
Toronto, Ontario M4R 1K8

### - Risk Managed and National Accounts:

Vice President: J. Wleugel BA, CRM  
20 Eglinton Avenue West, Suite 2200,  
P.O. Box 2004,  
Toronto, Ontario M4R 1K8

## Ireland branch

Managing Director:  
Office: D. G. Lane B.Comm (Hons)  
1st Floor,  
Kilmore House,  
Spencer Dock,  
Northwall Quay,  
Dublin 1

## INSURANCE SUBSIDIARIES AND AGENCIES

<b>Ansvar Insurance Limited</b>	Acting Chief Executive Officer: Head Office:	D. F. Blythe BSc, FCA, FAICD Ansvar House, Level 12, 432 St Kilda Road, Melbourne VIC 3004
<b>Ecclesiastical Life Limited</b>	Head Office:	Beaufort House, Brunswick Road, Gloucester GL1 1JZ
<b>Ecclesiastical Underwriting Management Limited</b>	Office: Tel:	19-21 Billiter Street, London EC3M 2RY 020 7283 0666
<b>South Essex Insurance Brokers Limited</b>	Director: Office: Tel:	B. W. Fehler South Essex House, North Road, South Ockendon, Essex RM15 5BE 01708 850000

# NOTICE OF MEETING

NOTICE is hereby given that the annual general meeting of Ecclesiastical Insurance Office plc will be held at Beaufort House, Brunswick Road, Gloucester, GL1 1JZ on Tuesday, 24 June 2014 at 12:15pm for the following purposes:

## Ordinary business

1. To receive the report of the Directors and accounts for the year ended 31 December 2013 and the report of the auditor thereon.
2. To re-elect Mr W. M. Samuel as a Director.\*
3. To re-elect Mr D. Christie as a Director.\*
4. To re-elect Mr T. J. Carroll as a Director.\*
5. To re-elect Mr M. C. J. Hews as a Director.\*
6. To re-elect Mr J. F. Hylands as a Director.\*
7. To re-elect Mr. A. P. Latham as a Director.\*
8. To re-elect Ms D. P. Wilson as a Director.\*
9. To re-elect The Venerable C. L. Wilson as a Director.\*
10. To elect Ms. S. J. Whyte as a Director.\*
11. To consider the declaration of a dividend.
12. To re-appoint Deloitte LLP as auditors and authorise the Directors to fix their remuneration.

## By order of the Board

**Mrs R. J. Hall, Secretary**

25 March 2014

\* Brief biographies of the Directors seeking election or re-election are shown on pages 50 to 51 of the 2013 Annual Report. All Non-Executive Directors seeking re-election have been subject to formal performance evaluation by the Chairman who is satisfied that the performance of each Non-Executive Director is effective and sufficient time has been spent on the Company's affairs.

Only a member holding Ordinary shares, or their duly appointed representative(s), is entitled to attend, vote and speak at the annual general meeting.

A member holding Ordinary shares is entitled to appoint a proxy or proxies (who need not be a member of the Company) to exercise all or any of their rights to attend, speak and vote on their behalf at the annual general meeting. Such a member may appoint more than one proxy in relation to the annual general meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member.

Any corporation which is a member holding Ordinary shares can appoint one or more corporate representatives who may exercise, on its behalf, all of the same powers as that corporation could exercise if it were an individual member, provided that they do not do so in relation to the same share or shares and that they act within the powers of their appointment.

This notice is sent purely for information to the holders of 8.625% Non-Cumulative Irredeemable Preference shares who are not entitled to attend and vote at the annual general meeting.

Annual Report & Accounts 2013  
Ecclesiastical Insurance Group plc.  
Beaufort House, Brunswick Road, Gloucester, GL1 1JZ

