

The background image shows the interior of a Gothic-style church. A spiral staircase with dark wooden steps and a black metal handrail leads upwards. The walls are white, and there are several large, arched windows with intricate tracery. The ceiling is high and vaulted, supported by large, dark wooden beams. The overall atmosphere is grand and historical.

Annual Report & Accounts  
**2014**

The logo for Ecclesiastical, featuring a stylized orange flame or bird icon to the left of the word "Ecclesiastical" in a bold, orange, sans-serif font.

**Ecclesiastical**

2014

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 ONE

## Introduction

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# Key Highlights of 2014

## Financial highlights

Profit/(Loss) before Tax £m

48  
2014

67  
2013

38  
2012

495  
2014

494  
2013

456  
2012

Shareholders' Funds £m

Donations £m

25.2  
2014

5.5  
2013

5.7  
2012

## Awards and recognition



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# Who We Are

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

In 1887, Ecclesiastical Insurance Office plc was established to provide fire protection to Anglican churches. Over the past 127 years, our business has evolved and we now offer a range of specialist financial products and services to customers in selected markets.

We are owned by a registered charity, Allchurches Trust Limited (ATL). A significant proportion of Ecclesiastical's profits are given to ATL as grants. Ultimately, these grants are distributed to charitable causes and local communities.

As a result of our company ethos and charitable giving, we are the UK's eighth largest corporate donor to charity.\*

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

## FINANCIALLY SECURE

We maintain a strong capital base at all times, with regulatory capital cover at 2.9 times the required level at the end of 2014.

## PROFESSIONAL

Our entire UK insurance operation is accredited with chartered status, making us one of the few CII Chartered Insurers who have achieved this recognition.

## STRONG EXPERTISE IN SPECIALIST MARKETS

We provide insurance for some of the most distinctive properties in the UK and abroad. These include castles, cathedrals, places of worship, heritage buildings, rural estates and stately homes. In the UK, we insure over 95% of Anglican churches.

We also insure almost all Anglican cathedrals and over half of the synagogues. We insure the highest number of Grade I listed buildings across all insurers.

We also insure 40,000 charities and community organisations.

## ETHICALLY DRIVEN

Over 26 years ago, we launched one of the UK's first socially responsible retail funds. During 2014, our funds won 14 awards including the Moneyfacts Best Ethical Investment Provider for the sixth consecutive year.

## TRUSTED TO DO THE RIGHT THING

According to independent research, 85% of brokers trust Ecclesiastical to do the right thing by its customers. This is significantly higher than the proportion of brokers (50%) who trust UK financial services to do the right thing.

## DEDICATED TO GIVING BACK

As the insurer of 40,000 charities and community organisations and because of our charitable ownership, we are dedicated to giving back to charitable causes.

In January 2014, we set ourselves a new and ambitious Group-wide goal to give £50m to charity over three years. This will be the most we have ever given back to the charity and community over a three-year period.

At the end of 2014, we had almost reached the halfway mark by donating £23.5m to our charitable owner ATL.

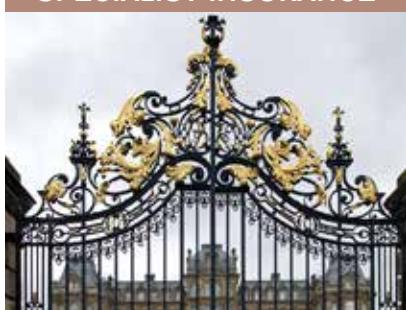
# What We Do

We are a specialist financial services group focusing on insurance, risk management, investment management, and broking and advisory services.

We have a distinctive ethical positioning supported by our reputation for delivering excellent services. Our products and services are marketed both directly and through intermediaries.

The Group comprises three business divisions, operating primarily from the UK:

## SPECIALIST INSURANCE



### Ecclesiastical UK | Ansva UK | Ansva Australia | Ecclesiastical Canada | Ecclesiastical Ireland

Our insurance businesses offer commercial insurance products and risk management services to customers in the charity, education, faith, heritage, and property investors markets.

We also provide a limited range of specialist products including household insurance for members of the clergy and fine art insurance to the high net worth market.

Our key expertise lies in valuing and protecting old and unusual properties, particularly those which are Grade I and Grade II listed.

## INVESTMENT MANAGEMENT



### Ecclesiastical Investment Management (EIM)

Our multi award-winning investment management team offers ethically screened and non-screened investment products to institutional customers (primarily in the charity and faith markets) and to retail customers.

EIM manages the majority of the Group's financial investments.

## BROKING AND ADVISORY



### South Essex Insurance Brokers (SEIB) | Ecclesiastical Financial Advisory Services (EFAS) | Lycetts\* \* Part of Ecclesiastical Insurance Group (EIG)

SEIB and Lycetts are specialist brokers who provide tailored insurance solutions to customers, particularly those who are in the high net worth, heritage, equine, farming, and specialist motor insurance sectors.

Lycetts and EFAS offer financial advice to businesses, customers and Church of England clergy.

Under the Perfect Choice brand, EFAS also markets and administers prepayment funeral plans.

# Chairman's Statement

2014 has seen Ecclesiastical transform its underlying results and rebuild the foundations for sustainable profit from its core business. Profit before tax of £48m is below that reported last year, but nevertheless a pleasing outcome with strong underwriting profits, the first reported for five years, supported by a more 'normal' investment return.



The underwriting profit of £9m generated a combined operating ratio (COR) of 95.9% and was driven by a turnaround in performance in each of our business units around the world, most of which delivered results ahead of our expectations for the year. In the UK, we have seen the reduction in liability claims frequency and severity that we expected and the property portfolio has continued to perform well.

While we have seen a return to underlying profitability in our liability book in the UK, we have taken the opportunity to strengthen further our reserves for physical and sexual abuse claims. We welcome the increase in transparency and openness that means victims of abuse feel able to come forward, and have taken the action we feel is necessary to ensure we are appropriately reserved for potential claims.

The transformation in Ireland's results has been faster than expected, and I thank the Irish team for the quality and speed of their decision-making in addressing the past drivers of poor underwriting performance. Our Australian business has also delivered a marked turnaround in underwriting performance and is starting to rebuild scale with good-quality new business wins.

Canada has continued to deliver controlled growth, increasing gross written premium (GWP) by 7% (in local currency) this year, and also reported a strong underwriting profit following the challenging weather events of 2013.

We have much to do to achieve our ambition to be the most trusted and ethical specialist financial services group, but I am pleased with the progress made during 2014. I would particularly like to thank Mark Hews and Jacinta Whyte for the work they have done to transform our business since their appointments into their new roles during 2013.

I also thank our staff for all they have achieved over the last two years. The actions we have had to take to address business performance have meant significant change to our structures and ways of working. We have also had to reduce headcount to ensure our cost base remains sustainable, and it is never easy to lose valued colleagues under these circumstances. Great credit should go to our staff for the way they have responded to these challenges.



I am committed to ensuring the effectiveness of the Board and as part of this process we have undertaken an external evaluation of the Board and its Committees.

In September 2014 we also appointed Caroline Taylor as a Non-Executive Director of the Group. Caroline brings 26 years' experience in financial services and a strong track record in investment management, including global markets, and risk management.

I am committed to ensuring the effectiveness of the Board and as part of this process we have undertaken an external evaluation of the Board and its Committees. More detail on this can be found in the Group Nominations Committee Report starting on page 82. The profits we delivered over the last two years, combined with our continued capital strength, have meant that we

During 2014 we have also strengthened our Board membership which has increased from nine members to eleven. In April 2014 we appointed Ian Campbell as Group Chief Financial Officer and Executive Director. Ian joined the Group in late 2012 as Group Finance Director and prior to that held senior finance roles at Cox Insurance, Aspen Insurance and Torus Insurance, focusing on property and casualty reinsurance and insurance.

have been able to pay a grant of £23.5m to our charitable owner, Allchurches Trust Limited, getting us almost halfway towards our goal of giving £50m to charity over three years.

The actions we have taken to address underwriting performance have meant a planned material reduction in GWP. We are content with this reduction, which has undoubtedly led to the increase in sustainable underlying underwriting results.

Looking ahead to 2015, there are a number of opportunities we wish to pursue and more information on these initiatives can be found in the Strategic Report which starts on page 11. We have significant headroom available in our core specialist areas and intend to pursue a disciplined approach to underwriting, maintaining our focus on the long-term stability and profitability of our business.

Last year I stated that the Board was satisfied that the Group's strategic approach would deliver steady and measurable performance against its objectives. The results we have seen during 2014 demonstrate that our strategy, and the way it is being implemented, is starting to work. My fellow Directors and I have confidence that Ecclesiastical is now well placed to pursue successfully the opportunities and challenges that lie ahead and give back more to good causes.

**Will Samuel**

Chairman





SECTION TWO

## Strategic Report

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# Group Chief Executive's Review

Just over one year ago, we set out a new vision for the Group. This was clear, stretching and inspirational. It was to work together to be the most trusted and ethical specialist financial services group, giving £50m to charity over three years.



That goal represented a step change for us, not just in terms of the quantum, but also in terms of clarity of focus. We are, in essence, underlining the benefits of being owned by a charity and emphasising the reason that so many of us work for and support Ecclesiastical Insurance Office plc. Put simply, this is to give help, support and money to those who need it most. This has been, and continues to be, a guiding light for every decision that we make.

Underpinning this ambitious goal has been a stretching set of business plans, alongside a radical Group-wide change programme, the main elements of which were set out in last year's report.

When we look back at where we were as a Group one year ago, and review performance against these plans, we can view the overall progress as nothing short of transformational. Our 2014 results are a profit before tax of £48.2m including an underwriting profit of £9.2m. The profits we have delivered have enabled us to pay grants of £23.5m to our charitable owner, Allchurches Trust Limited (ATL), as well as making other charitable donations directly to other great causes. Our progress in each of our strategic business divisions: Specialist Insurance; Investment Management; and Broking and Advisory, has also surpassed expectations for the year.

## Most trusted specialist insurer

Each of our core underwriting areas saw an improvement in performance with every territory making a positive contribution. Our underwriting results were the best they have been for over five years.

In the UK we restructured our business to a regional basis and re-engaged with brokers through nationwide roadshows and specialist events, supported by new collateral. These initiatives saw us win key accounts across our specialist areas including heritage, charity and property investors. Underlying customer retention rates also held up for our core business.

Focusing on our strengths saw our property account again perform well, while liability performance improved markedly, albeit this was offset by an anticipated increase in abuse claims. We have also addressed our cost base to ensure that it is aligned with the new size and structure of the organisation. In January and February 2014, many of our customers were badly affected by the winter storms in the southern parts of the UK, and this gave us an opportunity to show how our values are reflected in the way we support our customers when they need us most.



We thank all our employees for their enormous contribution and commitment throughout what has been a year of extensive and, at times, unsettling change. They complete the year knowing that their efforts are already reaping rewards for those in need.

As part of our ongoing weather monitoring, our claims teams identified the potentially affected areas in advance of the floods happening and contacted many customers to give them proactive advice to support them in case of flooding.

After the events had occurred, we fast-tracked smaller claims and helped get our customers back into their homes as quickly as possible. Overall, 99% of customers affected by flooding were happy with the claims service that they had received from Ecclesiastical.

We are proud of our claims teams for this achievement in dealing with losses after events have occurred, but we are equally proud of our UK and international risk management teams who seek to prevent losses occurring in the first place. As the largest insurer of Grade I listed buildings in the UK, many of which are irreplaceable, we recognise that it is even more important than ever to provide extensive risk advice and support to ensure that our nation's heritage is not endangered in the first place. We congratulate both teams on their work in 2014.

Turning to our overseas businesses, the Ireland team has instituted extensive change over the last two years after

the liability account drove significant losses in the territory. The early 2014 storms affected the profitability of the property account but due to the initiatives pursued, the Irish business has contributed consistent profits over the last three quarters and reported a positive return for the year. This is a remarkable achievement in such a short time for a territory that reported losses of £15.3m over the past two years.

Our Australian business achieved an underlying underwriting profit in the year, when excluding the impact of movements in discount rates. This is again a transformation given underwriting losses of £9.4m over the last two years and is testimony to the development and execution of a business-wide change programme by the new leadership team. Both the property and liability portfolios have performed as expected in 2014, and although falling discount rates led to a reported underwriting loss overall; this latter component was offset by corresponding positive asset growth.

In Canada we also saw a return to underwriting profits as the territory did not suffer the same level of weather events it experienced in 2013. Work to deliver a new administration platform continues at pace. Premiums grew 7% before translation as good-quality

business continues to be identified and won by the team.

Gross written premiums have fallen by 16% in the year across the Group following the actions we have taken to address underwriting performance. Retention of business in our core niches remained strong and we are strengthening our relationships with customers and brokers to support our aim for controlled profitable growth over the medium term.

## Best ethical investment provider

Our Investment Management division continues to go from strength to strength, with both our funds and our managers winning awards for investment performance and our ethical approach. Gross inflows for 2014 totalled £292m, a record figure for a single year. Our performance was strong within a volatile investment market and this has been demonstrated by our 2014 net inflows totalling close to £100m for a second year in a row. Funds under management have now passed £2.3 billion.

During 2014 we delivered a new IT back-office platform and also worked with our outsource partners to improve the way we work together. The cost and efficiency savings captured by these initiatives helped to drive the strong profit before tax of £3.2m in 2014, a new record. Our investment management team moved into new offices in the City of London at the start of 2015 which will provide a better environment for growing the business.

In parallel, the investment returns on our general insurance funds were £33m. This was down on last year (£65m), when world markets saw particularly strong returns (FTSE All Share Index return of 20.8% compared to 1.2% in 2014), and we believe this reflects a more normal return on our portfolio.

## Most trusted specialist adviser

South Essex Insurance Brokers (SEIB), our insurance broker, continued to grow and provide a stable flow of income for the Group. We acquired the specialist broking firm Lansdown Insurance Brokers, which has widened our broker proposition to include new specialist areas. Profit before tax grew to just over £3m for 2014, supported in part by this successful acquisition and the synergies that are starting to flow. Our team of fully independent advisors, Ecclesiastical Financial Advisory Services (EFAS), continues to review and refine their offering to the Anglican clergy, and closer operational links are being developed between our advisory and broking businesses.

For a more detailed analysis of our financial results, please see the Financial Performance section later on in this Strategic Report, starting on page 42.

## Working together for the greater good

Our vision, goals and how we intend to achieve them sets us apart from other financial services companies. We wish to work together, for the greater good, by living up to the highest standards of values and ethics. We share the same values as our charitable owner, which allows us to work towards these goals in a way that delivers real benefit to our colleagues, our customers, our charities and our communities. We are not driven by growth; we are driven by doing the right thing. In the long term, we believe this approach will drive ethical and sustainable growth. This belief is being encapsulated, for the first time in 2015, by including ethical conduct measures as a material element of our Group bonus calculation, as well as incorporating them into our long-term incentive plan (LTIP). We have set a high bar for the behaviour we expect from ourselves and our colleagues and recognise that achieving these standards should be rewarded.

We are also launching a 'Greater Giving Programme' in early 2015 to build on the best of what Ecclesiastical already does, to tie us more closely to our markets and to encompass our new approach to life. This framework will highlight and emphasise our giving to our charitable owner, our giving to good causes, our giving to our customers (in terms of the ethical and fair products

and services we provide), our giving to our communities (via opportunities for our employees to volunteer), and our giving to our employees (in terms of reward, training, development and our working environment). More information on our new Greater Giving Programme can be found in the Corporate Responsibility Report on page 65.

In addition, it was pleasing to see that our Canadian business was recognised as being one of Canada's Top 100 Employers for Young People for the third successive year. This highlights the Group's philosophy of seeking to invest heavily in the development and training of our employees, ensuring we have a high calibre professional workforce aligned behind our goals. Our doors are always open to talented like-minded individuals who share these aspirations.

## Looking ahead to 2015

Our capital strength has been maintained throughout the challenges of the last few years and our net assets have ended the year at £495m, after payment of grants to ATL. Available capital relative to our regulatory capital requirements remains very strong.

This financial strength, alongside our committed ethical approach, gives us robust foundations upon which we can build and invest, as well as face challenges from the competitive environment in which we operate.

The transformation delivered in 2014 represents an important step in Ecclesiastical's history. It is a moment where the Group has successfully changed the course of its underwriting performance, and there is increasing energy and passion around our new vision, both from within and outside the Group.

In 2015 we wish to build on this success and increase our momentum. We have clear and consistent business plans. We have an ambitious Group-wide change programme part implemented, and we have an increasingly high-performing, aligned team, with ethics running through their bloodstream, working hard to make a difference. We thank all our employees for their enormous contribution and commitment throughout what has been a year of extensive and, at times, unsettling change. They complete the year knowing that their efforts are already reaping rewards for those in need. Equally, we thank our customers and our business partners whom we seek to serve, and serve extremely well. It is only with their ongoing loyal support that we can give so much to good causes and build our combined momentum, working together for the greater good.

### Mark Hews

Group Chief Executive



# Trends in Financial Services

As a Group with a number of different operations across a number of sectors, we have a unique perspective on the trends across the financial services industry. The trends we believe will affect our business going forward and our response to these are discussed below. More detailed information can be found on a number of these topics within the strategic report that follows.

Trend	Our perspective	Our response
<b>Regulation</b>	<p>Regulation will continue to have a significant impact on the financial services sector. It is expected that the regulators' focus will increasingly be on transparency and governance.</p> <p>Customer centricity will be key to ensure successful navigation of these regulatory requirements. Achieving success will require businesses to increase further the level of management focus; invest in developing the right organisational culture; and ensure they have the necessary systems and processes in place.</p>	<ul style="list-style-type: none"><li>With the Solvency II deadline approaching, delivery of our plans is well advanced and they include an enhanced reporting suite and sophisticated capital model.</li><li>We have an eye on future regulatory requirements and preparations have begun for the EU Insurance Mediation Directive (IMD2), and the planned update to Markets in Financial Instruments Directive (MiFID2). We are also well placed to respond to any regulatory developments concerning the distribution model in our Broking and Advisory division.</li><li>Customers are already at the centre of our business. We believe that the culture, ethics and values of our Group mean that we are ready to respond to the growing regulatory demands for greater transparency and increased customer focus in financial services.</li></ul>
<b>Continuing developments in information technology and data analytics</b>	<p>Across the industry, businesses are seeking to improve their understanding of customer data. These insights could include behaviour, business mix and risk performance. They are expected to lead to enhanced risk selection and better risk pricing.</p> <p>In addition, businesses will continue to invest in systems and technology to improve their operational cost-effectiveness.</p>	<ul style="list-style-type: none"><li>We are actively reviewing our IT strategy for core systems and our investment team has begun to replace its core operating platform.</li><li>Enhancements are being made to our pricing capabilities, including increased sophistication of risk pricing and the recruitment of a new team.</li><li>Work is ongoing to understand the further opportunities that analytics could offer. Other initiatives include enhancing survey capability and enriched management information in our Broking and Advisory division.</li></ul>

### Changing demographic and social trends and increased customer expectations

Across our key markets, demographics and social profiles are changing. Customers are increasingly sophisticated and expect their financial services providers to offer tailored products that meet their particular needs. Increasing ethnic diversity will provide further opportunities in our core faith segments.

- We will further deepen our insights into distributor and customer needs in all our businesses through comprehensive customer and market insight programmes.
- We will continue to implement customer and broker engagement and retention programmes across all businesses. These include a newly launched enhanced proposition for our 'Select Brokers' and a new offering for not-for-profit organisations and social enterprises.
- Our broker businesses will continue to look at developing opportunities in new and emerging markets.

### Consistently low trust in financial services

Consumer trust of financial services is expected to stay low. Businesses are looking for ways to build trusted relationships with their customers - according to PwC research, only 27% of customers trust insurance companies.

In a recent survey, Ecclesiastical was trusted to do the right thing by 75% of brokers, compared to 50% of brokers who thought UK financial services businesses would do the right thing.

- Our vision is to become the most trusted and ethical specialist financial services group, which we aim to achieve by building on the strong ethics, values and culture that exist within the business.
- We take corporate responsibility very seriously, and are already a Top 10 UK corporate donor. Recently we established our Greater Giving Programme and have publicly announced our intention to give £50m to charity over three years.

### Climate change

Over the past few decades, the world's climate has continued to change with greater weather instability and an increased incidence of major events.

Alternative energy sources are being sought and businesses' carbon footprints are coming under scrutiny.

- As a Group we are seeking to understand the longer-term impact of the changing global climate, including disruptions to weather patterns and the implications for our property business.
- Our immediate response to climate change is designed to support our customers, offering proactive assistance as needed. This includes deepening our understanding of flood risks, and increased risk detection including proactive monitoring in high-risk areas.
- Our broker businesses have developed expertise in renewable energy across many sources, including anaerobic digestion, biomass, geothermal and wind.

# Our Business Model

As a result of our charitable ownership and our provenance in protecting the nation's churches, Ecclesiastical has a unique position in the UK financial services sector. This charitable ethos underpins the culture and ethics of our business, enhancing the Group's reputation as a brand that can be trusted by customers and business partners alike.

Together with our excellent customer service, this leads to high levels of customer loyalty which is a key driver for the profit generated for our owner, ATL.

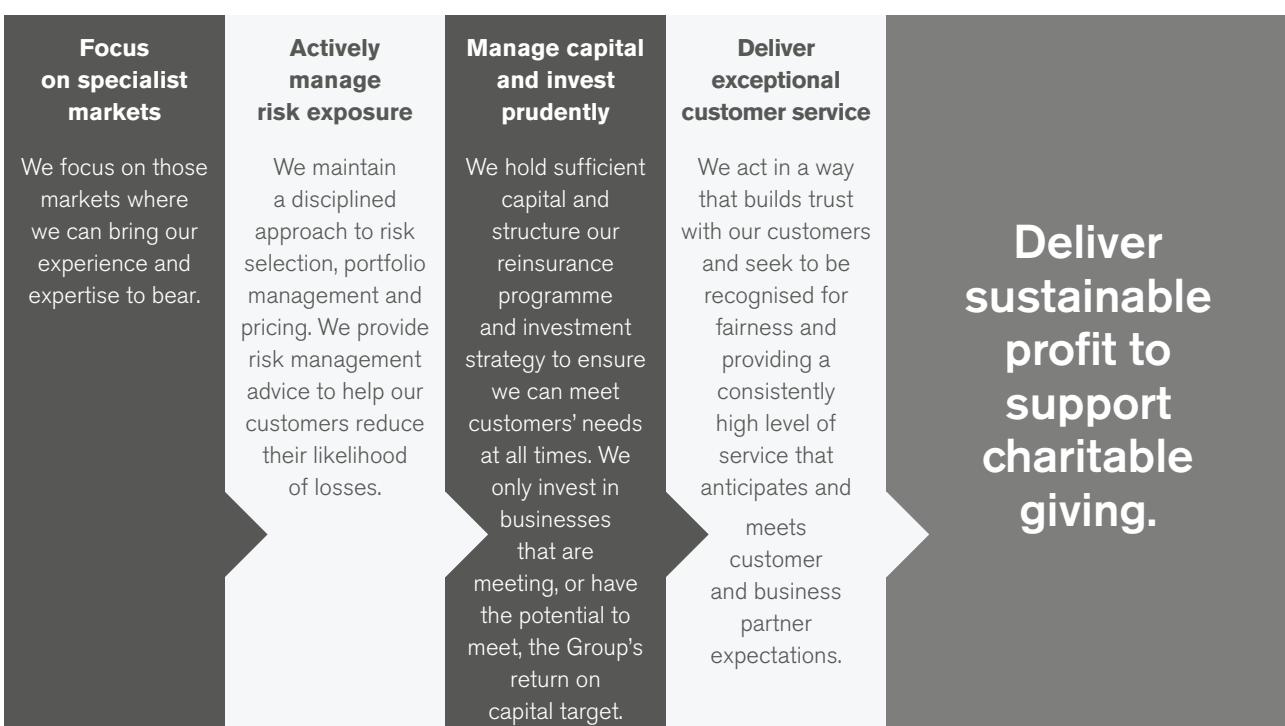
Across the Group, Ecclesiastical aims to create value, taking advantage of the factors which differentiate us from our competitors.

**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.



## 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.**



# Our Strategy

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

The Group is a distinctive commercial organisation with an ethical dimension to its business operations.

Our ambition is to be:



The Most Trusted Specialist Insurer



The Most Trusted Specialist Adviser



The Best Ethical Investment Provider

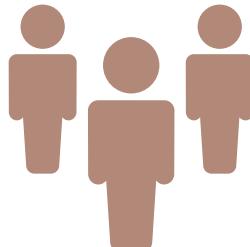
This will be achieved by delivering a number of initiatives to leverage and further strengthen our strategic assets:

The deep expertise and experience in each of the Group's business divisions

The strength of our relationship with the Church of England

Our ethics and culture which underpin our thinking and business approach

Our brand and reputation that is trusted by customers and business partners alike



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

Together our strategic assets enable the Group's businesses to build strong relationships with customers and business partners.

# 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:

- Keep customers' interests at the heart of the way we do business
- Retain our focus on profitable business lines, leveraging the reshaped business model across the Australian, Irish and UK operations while continuing to build the Canadian business
- Continue to focus on building stronger relationships with brokers through a range of initiatives including joint activities to retain significant business
- Continue to invest in our skills and capabilities, particularly in the key areas of risk management, underwriting and claims management.

## Strategy in action

- We have continued to focus on our core sectors with a refreshed risk appetite, underpinning our efforts to enhance profitability across our general insurance businesses. More information can be found on our risk appetite in the Risk Management Report on page 47.
- During the year we appointed a new CEO, Warren Hutcheon, to Ansvar Australia.
- Despite Australia having experienced a number of severe weather events, the business has significantly improved its underwriting performance as a result of improvements in the skills and capabilities of the Australian team and the implementation of new reinsurance arrangements on the property account. Further information on how we manage our reinsurance risk can be found in the Credit and Reinsurance Risk sections of the Risk Management Report which starts on page 49.
- In Canada, we have emphasised trilateral relationships with our brokers and customers, the benefits of which can be seen through the 94% retention rate achieved across our key market segments.
- A programme of corrective actions together with a refreshed risk appetite has delivered a return to profitability ahead of schedule for Ecclesiastical Ireland.
- During 2014 we have delivered a number of strategic initiatives to transform our UK business. We now have a new leadership team in place, supported by a reshaped business model and regional underwriting hubs.

## Highlights



Our campaign to reduce theft of metal - '**Hands Off Our Church Roofs**' - won the inaugural CII Public Interest Award for the best campaign in the public interest.



We won the **2014 Post Magazine Awards** in the Training category for our specialist property claims training.



**Ecclesiastical Canada** was named one of Canada's 2014 Top Employers for Young People for the third successive year.



In a survey of brokers (carried out by research agency FWD), we were considered **Best Insurer for charity, education and commercial heritage**. We have retained this position for the eighth consecutive year.





## Strengthening our position in heritage

In late 2014 the Group secured a new long-term deal for the insurances of the Royal Albert Hall in London.

The Royal Albert Hall was to be the centrepiece of the vision of Prince Albert (Queen Victoria's consort) to establish an area promoting understanding and appreciation of the Arts and Sciences. Since opening in 1871, this Grade I listed building has been in continuous use.

Retaining this prestigious building was achieved as a result of strong relationships with both the broker and customer; our risk management, underwriting and claims expertise; and delivering an exemplary service. Through trilateral dialogue between the Royal Albert Hall, their broker Willis Group Holdings and our expert teams of surveyors and underwriters, we were able to offer a number of enhancements that better reflected the nature of the business and its exposures.

## Case study



## Helping our customers to cope with the winter storms

In January and February 2014, many of our customers were badly affected by the winter storms in the southern parts of the UK.

Throughout 2014 our claims teams handled over five times as many claims as the previous year. As part of our ongoing weather monitoring, our claims teams identified the potentially affected areas in advance of the floods happening and contacted many customers to give them proactive advice to support them in case of flooding.

We fast-tracked smaller claims and helped get our customers back into their homes as quickly as possible and 99% of our customers affected by flooding were happy with the claims service that they had received from Ecclesiastical.

*"The mass flooding of the Somerset Levels highlighted 'The Good, The Bad and The Ugly' of insurance companies in how they dealt with flood victims... We are delighted to say that, in our opinion, Ecclesiastical was excellent. From the moment we called, you dealt with our claim in a most efficient and understanding way. We thank you, once again, for giving us back our home and our lives after what was a fairly traumatic experience."*

**John and Lesley Parker**



## Rebuilding after fire damage

Cholderton House is a large privately-owned detached Grade II listed manor house which was built in 1690.

In March 2012, a fire was discovered in a ground floor room. Despite the presence of 12 fire engines, the blaze destroyed most of the house and caused extensive smoke damage. The occupants of the house escaped unhurt.

The rebuilding programme took two years to complete due to the need for a lengthy drying out period, the extensive nature of the damage and the intricacies of the restoration work. Several original features of the property were salvaged for use in the restored property including fireplaces.

*"On the fateful day of the devastating fire at Cholderton House, I was frankly amazed at the response of Ecclesiastical. I wanted to be able to take the strain away from my bewildered mother, who was in a state of complete shock... In turn, my hand was held by Ecclesiastical, and over the coming months, I was guided by the most compassionate team." **David Cornelius-Reid***

*"For us, managing a claim like this is not just about getting a house rebuilt, but also about supporting our customer through a tragedy with as much care and compassion as possible."*

**Sarah Cox, Technical Property Claims Manager at Ecclesiastical**



# 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:

- Provide an excellent service to our customers and their insurers by building long-term sustainable relationships
- Strengthen our proposition through further deepening of our expertise in our chosen segments, cementing our position as market leaders in these areas
- Build our business for growth through the development of new offerings and schemes which complement our existing niche markets and also give us the opportunity to enter into new market segments
- Identify opportunities for non-organic growth including potential acquisition targets
- Develop closer operational links between our businesses within the wider Group in order to offer solutions to meet our customers' needs
- Continue enhancing our processes in order to achieve CII Chartered Status for our broking businesses.

## Strategy in action

- SEIB has been in business for over 50 years. From January 2015 we have rebranded to SEIB Insurance Brokers to reflect our national reach.
- Significant progress has been made in integrating SEIB and Lansdown Insurance Brokers with the completion expected to finish during 2015. Joint sales and marketing planning has been underway since mid-2014.
- A new scheme has been launched focusing on country pubs with restaurants.
- Our fully independent advisory team, EFAS, continues to review and refine their offering to the Anglican clergy.
- Closer operational links are being developed between our broking businesses; for example EFAS Funeral Plans (using the Perfect Choice brand) now reports into SEIB, thus providing a more integrated offering to the National Association of Funeral Directors.

## Highlights



During April 2014, we acquired the specialist broking firm Lansdown Insurance Brokers, which has widened our broker proposition to include new specialist areas including a scheme for Michelin-starred restaurants.



In the 2014 UK Broker Awards, SEIB was highly commended in the Schemes Broker of the Year category and was shortlisted in the Claims Service category.



SEIB was shortlisted for Fleet Provider of the Year in the 2014 Commercial Insurance Awards.



Community activity is very important to SEIB, with regular fundraising and participation in charity events. This commitment has been recognised as SEIB has been shortlisted for the Post Magazine's Community Award.





## Supporting the needs of the equestrian community for almost 50 years

We began arranging horse insurance almost 50 years ago when the Managing Director of SEIB was unable to find cover for his new show horse. The depth of expertise we now possess enables us to offer the full range of equine cover: from horses to individuals such as grooms, farriers and blacksmiths, through to riding clubs, equine charities, livery yards plus equine shows and events.

We staff an in-house 24-hour support line which gives our clients the ability to receive immediate claims advice or insure a new horse anytime. We understand the needs of the equine community, whether the horses are seen as an asset or as a member of the family. The SEIB team includes many horse owners and riders thus they understand fully the emotional investment owning a horse entails.

Our expertise has allowed us to provide advice on the complexities of liability cover for equestrians. We have raised awareness of liability management, including the creation of risk management packs for businesses such as riding schools and livery yards. Many customers were unaware of how to put a risk management programme in place to protect their business against claims for liability and have said that they have benefited from our expertise and deep knowledge of both horses and businesses.

SEIB is able to offer products that provide reassurance to thousands of equestrians and equestrian businesses. Our market-leading position in the equine community is underpinned by our role as the equine insurance partner for many groups including the British Horse Society, World Horse Welfare and the British Equestrian Trade Association.



# 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:

- Maintain the industry-leading reputation of our socially responsible investment funds
- Continue to deliver strong and above average long-term investment performance for all our funds
- Develop and deepen our institutional fund offering, with a focus on the charity funds segment
- Continue the upgrade of our IT capabilities to provide a platform for growth
- Further refine our customer service, in readiness for the changing needs of the regulator and our customers.

## Strategy in action

- Our investment team has a depth of knowledge in the socially responsible investment market, with over 25 years' experience. Our team was one of the first to launch a socially responsible investment fund for retail.
- Our pooled funds total exceeded £1 billion at the end of 2014, reaching a new milestone for our investment management business.
- The growth in our pooled funds was achieved as a result of sustained outperformance across many of our funds, combined with our leading profile in the socially responsible investment market.
- 2014 saw a further strengthening of the capabilities within the investment business and this was demonstrated by greater investment in front-office people, processes and IT systems. This increased investment will continue into 2015.

## Highlights



Gross inflows for 2014 totalled £291.5m, a record figure for a single year in our investment management business.



**£97.5m**

Our performance was strong within a volatile investment market and this has been demonstrated by our 2014 net inflows totalling £97.5m.

**£97.5m**



During 2014, our funds and fund managers continued to achieve industry recognition, receiving 14 awards and accolades, most notably:

The MoneyFacts Best Ethical Investment Provider of the Year Award for a remarkable sixth consecutive year  
Investment Week's UK Growth Fund Manager of the Year for Andrew Jackson and his UK Equity Growth Fund



We received the highest recognition across all players in ethical investments in NMG Consulting's 2014 survey.



Our investment management team moved into new offices in the City of London during 2015, thus providing a further platform for growing the business.





## Consistent quality performance

The Higher Income Fund was launched just over 20 years ago in November 1994.

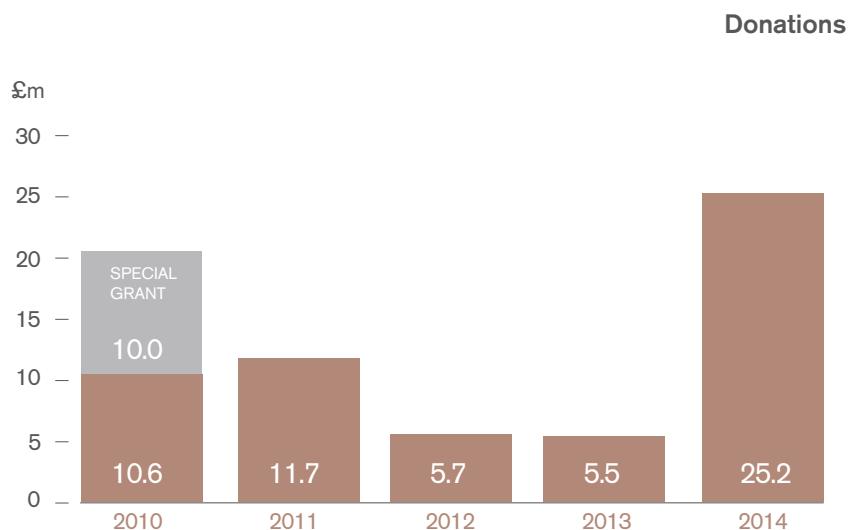
Since its inception, the fund has been adeptly managed by Robin Hepworth. It has achieved consistent top quartile performance over its lifetime and continues to outperform the market. In 2014, our Higher Income Fund was our largest selling fund.



# Key Performance Indicators

## Financial

### Donations

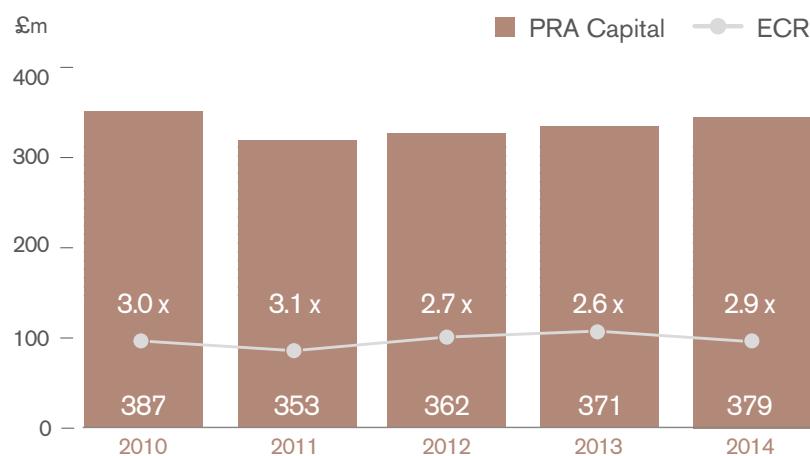
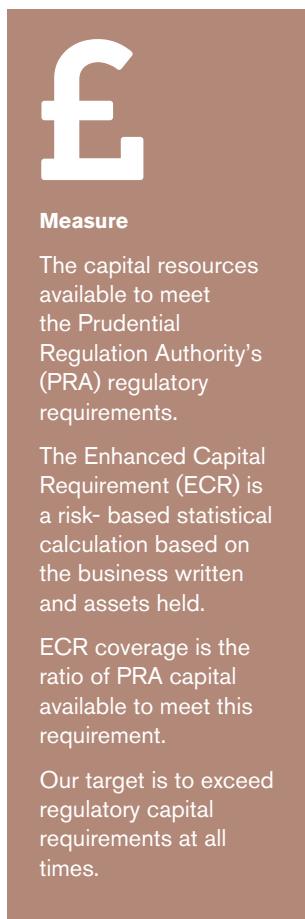


### Performance

The ordinary grant to ATL in 2013 reflected challenging underwriting performance. In 2014, a grant of £8.5m was made in relation to 2013 and a further £15m in response to the improved underwriting performance and continued investment return this year. The remaining £1.7m of donations was made to other charitable causes.



## PRA capital and ECR cover\*



### Performance

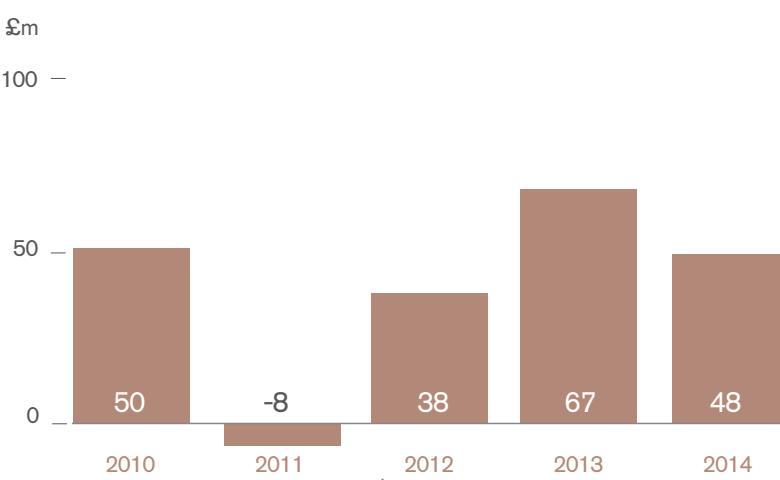
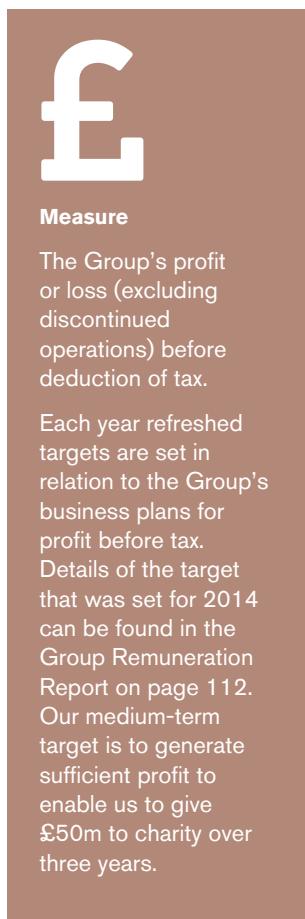
PRA capital has increased during the year due to a reduction in assets deemed inadmissible for PRA solvency purposes, together with an increase in the net asset value for a number of our subsidiary holdings.

Our ECR coverage has increased due to a reduction in our capital requirement. This was mainly due to a decrease in our exposure to insurance risk because of the reduction in gross written premiums during the year.

Ecclesiastical continues to maintain its capital strength, despite the recent period of economic instability and volatility for the insurance industry.



## Profit/(loss) before tax\*



### Performance

The Group's profit in 2013 was a result of strong investment returns, supporting an underwriting loss.

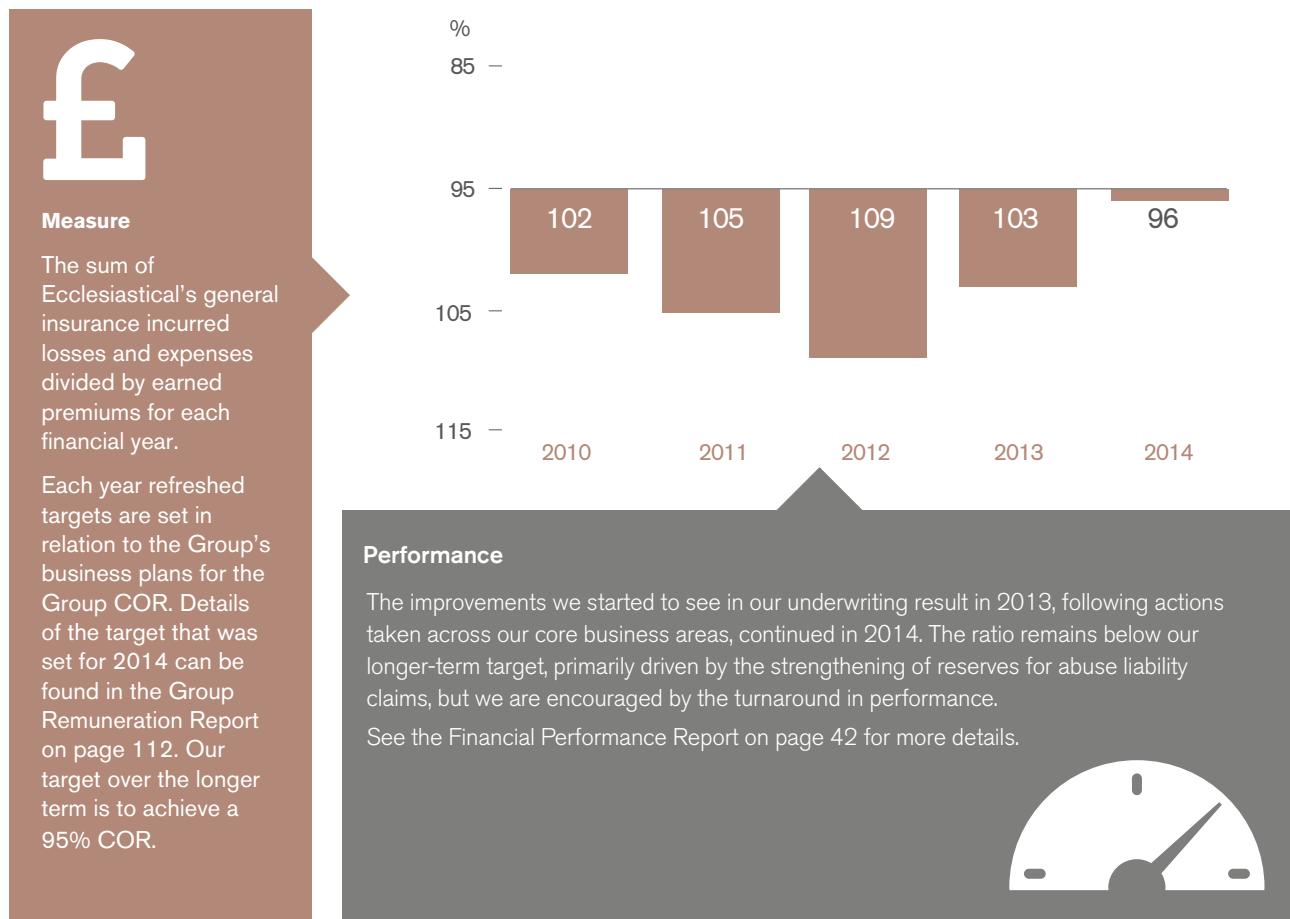
Total profit fell in 2014 but it was underpinned by a return to underwriting profit, supported by another good year of investment returns and continued contributions from our Broking and Advisory division.

More information on underwriting performance is given below.

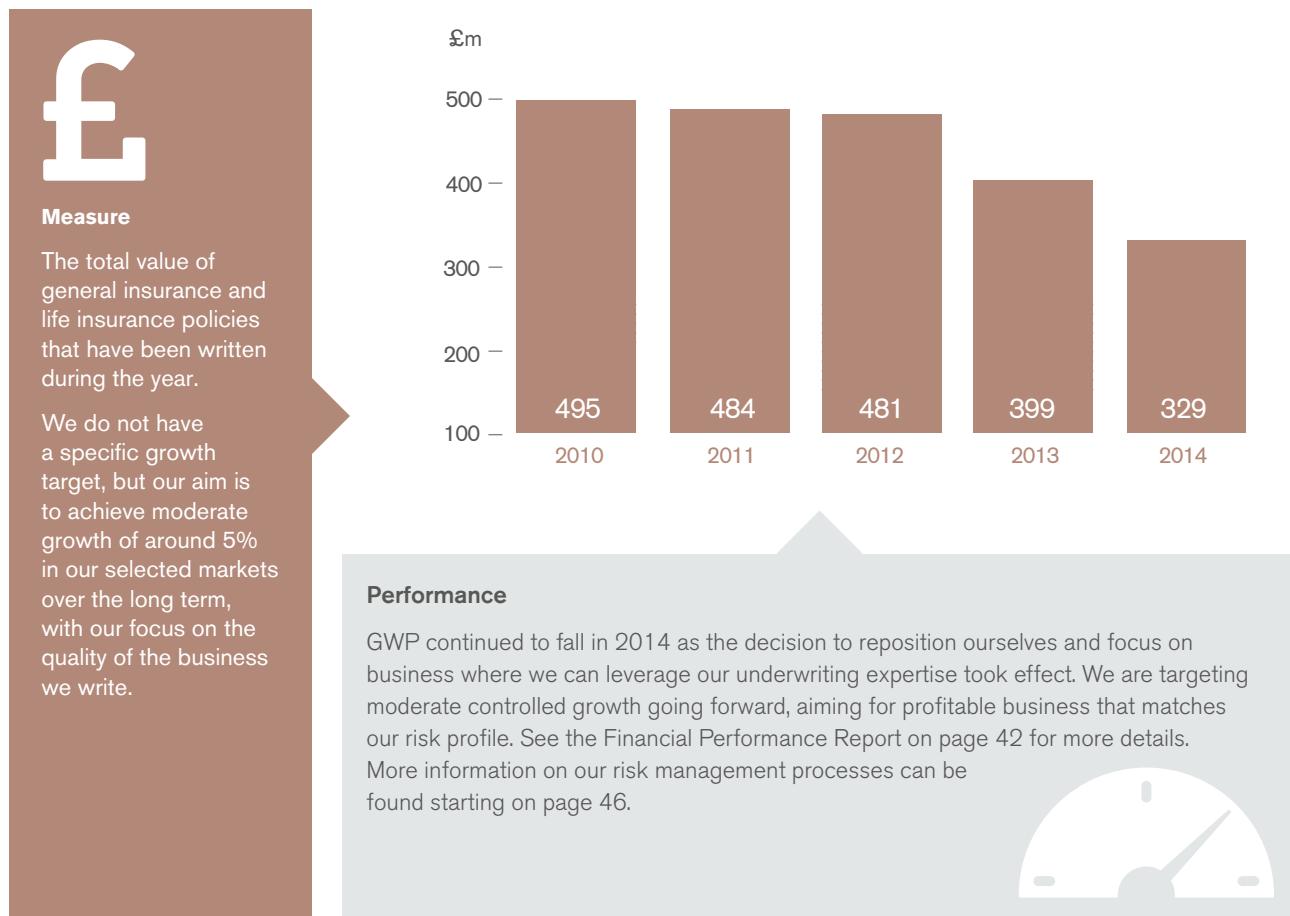
See the Financial Performance Report on page 42 for more details.



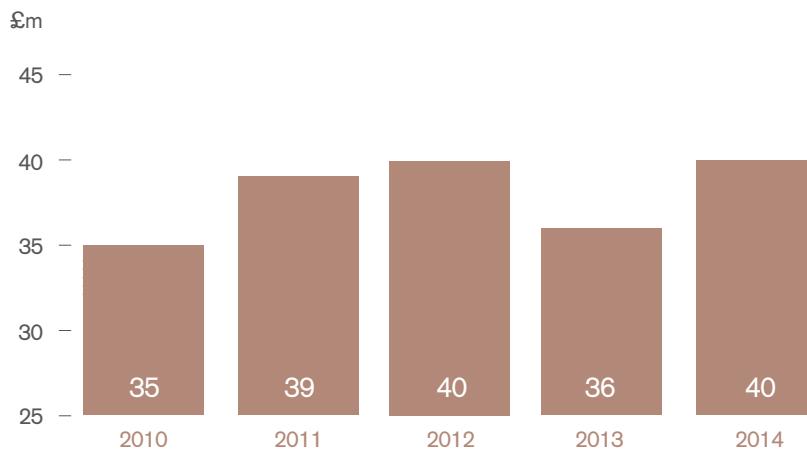
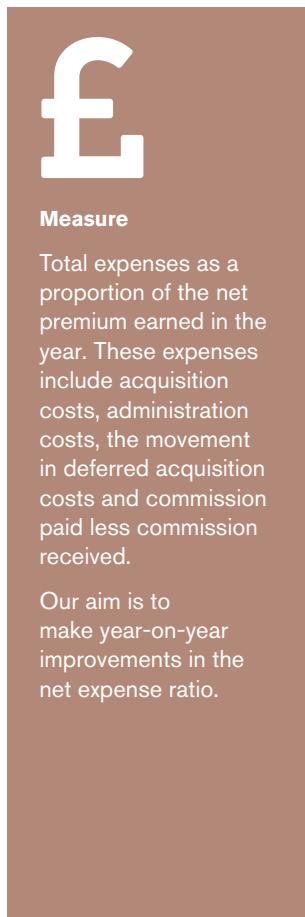
## Combined operating ratio (COR)\*



## Gross written premium (GWP)\*



## Net expense ratio\*



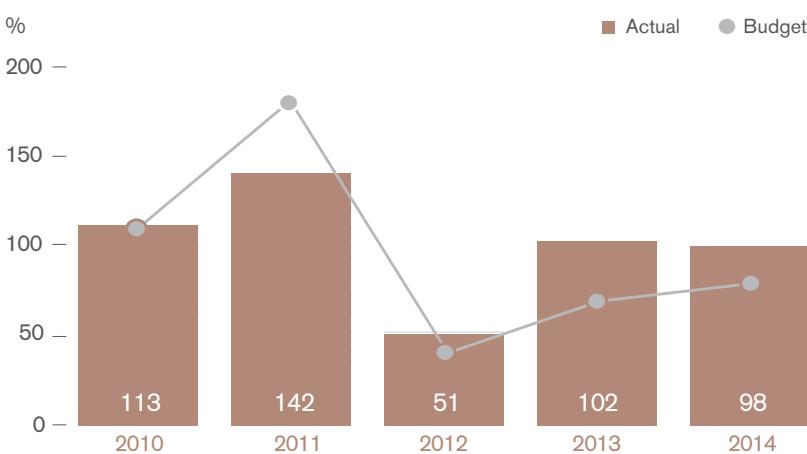
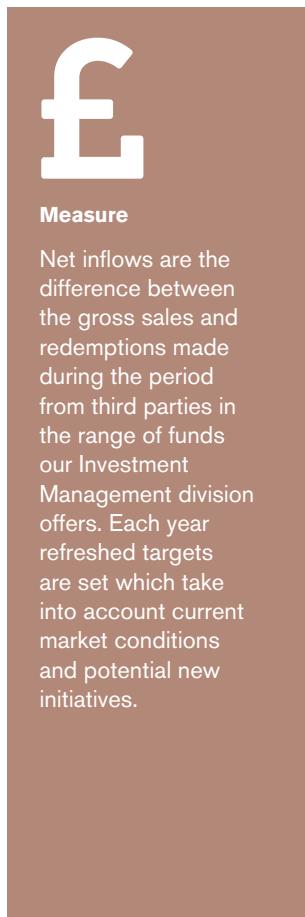
### Performance

Our net expense ratio increased in 2014 to 40%, with a 22% fall in earned premium offsetting a 13% decrease in net expenses. The impact of recent efficiency programmes and improved commission agreements was seen in the lower expense base.

Continued expense management and achieving the expected controlled growth in premiums should result in the net expense ratio starting to fall going forward.



## Net inflows (investments)\*



### Performance

In the context of a volatile investment market, EIM was able to meet and surpass net new money targets for the year based on a number of large well-established intermediary relationships who further committed to us as an organisation and our product range.

The Higher Income Fund had its 20th anniversary and continued to show exceptional fund performance over all time frames.

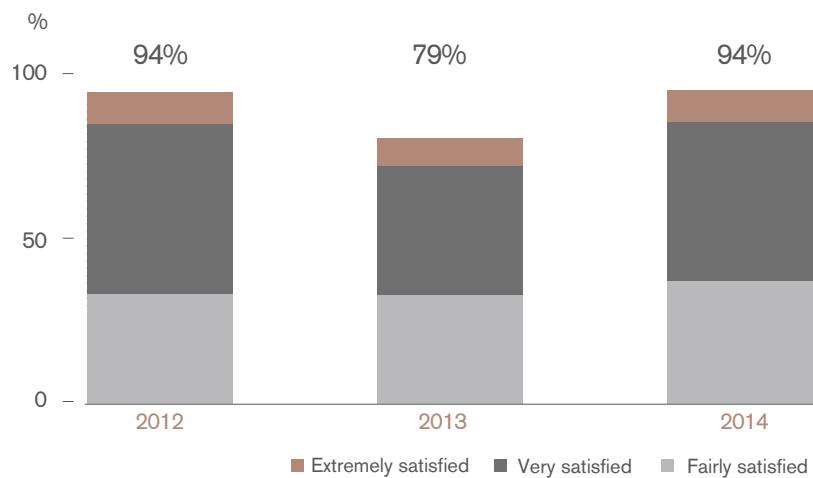
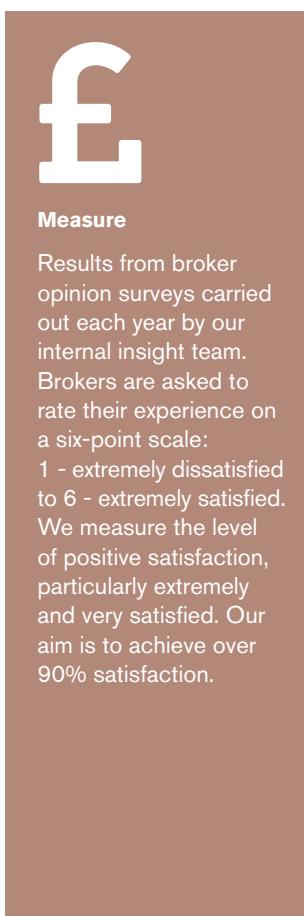
When combined with the 'at retirement' pension changes, which will come into effect in April 2015, from which the Higher Income Fund will benefit, this fund took in by far the largest percentage of new money inflows in 2014.



\* These figures have not been restated, they are as reported in the appropriate year's report and accounts

# Non-Financial

## Broker satisfaction



### Performance

Ecclesiastical's broker service results have been good over the last three years. For 2014, 94% of our brokers were satisfied with the service we provided, 57% of these were very or extremely satisfied. A 15% improvement in broker satisfaction over the prior year reflects the increased effort and focus on engaging with our brokers and refreshing our risk appetite. After a period of significant change in the Group the themes coming from brokers were to communicate more and be consistent in our approach. This became a key focus in the year with this result standing testament to its impact.



## Direct customer satisfaction



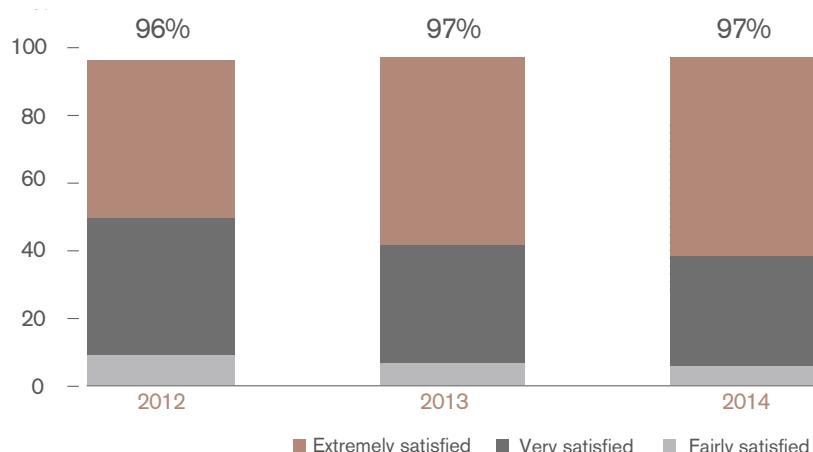
### Measure

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% very or extremely satisfied.



### Performance

Ecclesiastical prides itself on maintaining very high levels of satisfaction, particularly in relation to claims when customers need us most. In 2014, 92% of customers were either extremely or very satisfied with the way their claim was handled and a further 5% were fairly satisfied.

Similar results were also seen for customer surveys on general satisfaction levels. In particular, 99% of our home and 98% of our commercial customers were satisfied with their new business experience with us.

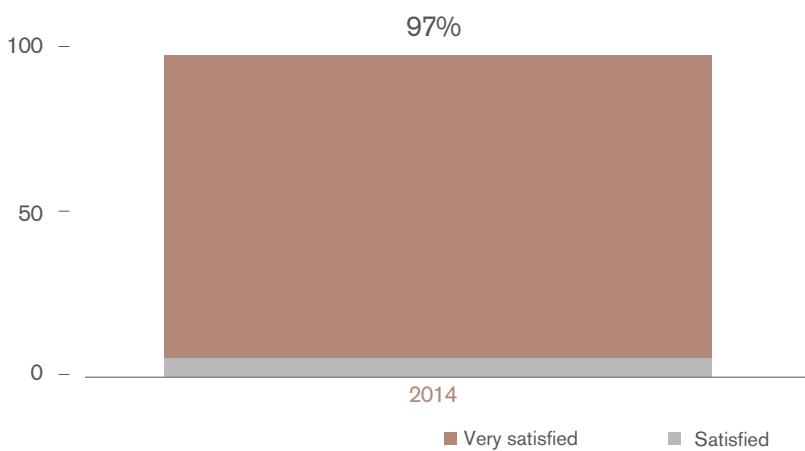


## SEIB customer satisfaction



### Measure

Results from an internal customer satisfaction survey which was carried out for our broker SEIB. The survey covered the Administration, Claims, Commercial Client and New Business departments and related to how satisfied SEIB's customers were with the service they received. Customers were asked to rate their service experience on a 10-point scale: 10 - very satisfied to 0 - not satisfied. We measured the level of positive satisfaction using the Net Promoter Score Model. We based the results on scores of 7-8 being satisfied and scores of 9-10 being very satisfied. Our target is to achieve at least 90% of customers being satisfied or very satisfied with the service they receive.



### Performance

This was the first year that a customer satisfaction survey was carried out for SEIB and the results were very pleasing with 97% of SEIB's customers being either very satisfied or satisfied. From these results a staggering 90.5% of SEIB's customers fell into the very satisfied category rating the service they received as a 9 or 10.

This is well above our target for 90% satisfaction.



# Financial Performance

In 2014 we achieved a pre-tax profit of £48.2m (2013: £66.9m). We saw the benefit of the actions taken over the last two years to turn around our general insurance business performance and report our first underwriting profit since 2009. Our investment and broker businesses also continued to grow their contribution to our profits.

## General insurance

Our underwriting performance for the year was a profit of £9.2m (2013: £8.2m loss), resulting in a Group COR of 95.9% (2013: 102.9%). As already discussed in the Group Chief Executive's Review on page 12, each of our core underwriting areas saw an improvement in performance this year with every territory making a positive contribution to the turnaround in performance.

## United Kingdom

Our insurance businesses in the UK reported an underwriting profit of £9.8m (2013: £9.8m).

Refocusing on our core niches and putting into place our new regional structure has seen the core UK business improve its performance over recent years, and this performance was sustained in 2014.

The storms and floods that hit the UK at the start of 2014 had a net cost to our property account of £8m. However, with no further significant weather events during 2014, the profitability of our property account exceeded expectations over the year as a whole.

Having withdrawn from the non-charitable care sector and focused on pricing risks appropriately, the performance of the non-abuse related liability account has improved considerably. However, we have taken the opportunity to strengthen reserves in respect of physical and sexual abuse claims during the year. We recognise and welcome the increase in transparency and openness that means victims of abuse feel able to come forward, and believe we are now appropriately reserved for potential claims. This action has, however, resulted in the overall liability account remaining loss-making despite the turnaround in underlying performance.

As expected, following our exit from the motor business, non-charity care and schemes not aligned to our niches, GWP decreased in the year, falling by 20% to £234.0m (2013: £291.3m). While we recognise that GWP has fallen significantly we are satisfied that we have taken the correct decisions, as demonstrated by the more consistent underwriting profitability in the UK over the last two years. Moderate sustainable profitable growth is being targeted as we build on our strengths and continue to position ourselves as the insurer of choice in our chosen segments.



## Ireland

Our operations in Ireland generated an underwriting profit of £0.6m, a significant improvement on the 2013 loss of £9.1m, which was driven by performance in the liability portfolio. The team identified and implemented a series of corrective actions, commencing in late 2013 and continuing throughout 2014.

These actions included lapsing unprofitable business in selected niches and, while they resulted in a 12% fall in GWP, before translation, to £11.5m (2013: £13.6m), the quality of the portfolio was improved and there were notable new business wins during the year. Retention was in line with expectations and the team was strengthened by proactive recruitment across all areas.

## Australia

Australia reported an underwriting loss of £1.1m (2013: £4.2m loss). The improvement in the underwriting performance was mainly due to the impact of new property reinsurance arrangements and a reduction in operating expenses. The Australian business delivered an underlying profit before discount rate movements relating to reductions in market interest rates. The negative reserve movements were more than offset by corresponding market gains in Ansvar Australia's investment portfolio which are not included within the underwriting result.

A new Chief Executive Officer, Warren Hutcheon, was appointed on 1 May 2014. Following a review of the business, a new operating model was announced on 1 September 2014. The key objective of the model is to better align the business with our specialist insurer strategy and the needs of our broker partners.

In 2014, GWP reduced by 12% to £40.1m (2013: £45.7m), primarily due to a 12% weakening of the Australian dollar against sterling during the year. Retention rates improved significantly in 2014 following the completion of the remediation of the business's property portfolio in mid-2013 and increasing focus on retaining core business.

## Canada

Our Canadian branch reported an underwriting profit of £1.7m (2013: £1.1m loss), as the territory did not suffer the same levels of catastrophe weather events that had driven the losses in the previous year.

The 12% fall in the value of the Canadian dollar against sterling meant that the branch's contribution to Group GWP fell to £39.4m (2013: £41.2m) but GWP grew by 7% before translation, with strong retention rates of 94%, continuing a trend that has seen its premiums more than double since 2008.

## Central operations

Profits from internal reinsurance arrangements in this segment were offset by corporate costs and a further modest strengthening of reserves in respect of adverse development reinsurance cover sold to ACS (NZ) Limited in 2012, resulting in an overall loss of £1.7m (2013: £3.7m loss).

## Investments

The effects of persistent weak global economic activity and muted inflation were offset by the monetary policy measures deployed by the world's major central banks which helped to support positive returns across most asset classes during the year. Over the course of 2014, the FTSE All Share Index produced a return of 1.2% while the FTSE 100 Index generated a return of 0.7%. Our UK equity portfolio increased by 2.7%, outperforming both indices, reflecting its lower weighting in poorly performing sectors such as oil and mining.

Government bond yields decreased across the developed world over the course of the final quarter and gilts followed the global trend. The prospect of the Bank of England raising base rates has been pushed further into the future as inflation pressures have diminished, with wage inflation remaining restrained and falling commodity prices placing downward pressure on prices. Yields on corporate bonds reached record lows at the end of the year, although they failed to keep pace with gilts as credit spreads widened, reflecting both the deteriorating economic picture globally and the move towards gilts as risk aversion increased.

Longer dated gilts performed strongly while shorter dated gilts (<5 years) produced total returns of 2.9%. Our UK bond portfolio produced a total return of 3.6% in 2014, reflecting good performance of corporate bonds and preference shares which helped achieve returns above the shorter dated index.

## Investment management

EIM's funds under management grew again in 2014, as new business inflows and positive market movements saw a 5% growth to £2.3bn.

For a second year in succession EIM attracted nearly £100m net new flows from third parties into Ecclesiastical investment funds. A further £5m was invested into our special charity investment vehicle. Overall fee income for EIM increased by 11% to £14.3m and pre-tax profits increased to £3.2m.

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 a sixth consecutive year, with it and its funds continuing to win awards, as shown earlier in the Strategic Report on page 33. EIM was rated Platinum by Citywire and Andrew Jackson was awarded Fund Manager of the Year for the UK Growth sector. Across the team our fund managers continue to be highly rated, with Robin Hepworth, Sue Round and Chris Hiorns all holding Citywire ratings.

## Long-term insurance

As reported last year, Ecclesiastical Life Limited ceased writing new business from the end of April 2013. The result for 2014 was a small loss of £0.2m (2013: £0.4m profit) as pressure on index linked bond yields offset the underlying expected favourable run-off of the business.

## Broking and Advisory

SEIB continued to provide a steady income stream to the Group, with the acquisition of the business of Lansdown Insurance Brokers widening its offering to a number of specialist areas and further building its capacity and expertise. The acquisition and SEIB's operations in niche markets saw commission and fee income grow by 25% to £9.1m (2013: £7.3m). Net profit before tax increased to £3.0m (2013: £2.5m).

EFAS, our small financial advisory business, has reported a loss before tax of £1.0m. The continuing business improved its performance following the rationalisation of its independent financial advisers business, reducing its loss from £0.8m to £0.4m. The company agreed to sell its mortgage book as part of the rationalisation of its operations. This sale completed on 20 January 2015 and a loss on disposal of £0.7m was recognised in 2014.

**Ian Campbell**

Group Chief Financial Officer

# Risk Management

## Introduction

The core business of Ecclesiastical is general insurance. Thus, risk selection, pricing, reinsurance strategy, portfolio management and regulatory compliance play an important part in our business model which can be found on page 18.

An enterprise-wide risk management framework has been embedded across the Group, with the purpose of providing the tools, guidance, policies, standards and defined responsibilities which will enable us to achieve our strategy and objectives, and ensure that all individual and aggregated risks to our objectives are identified and managed on a consistent basis.

The risk management process is integrated into the culture of the Group and is led by the Group Management Board (GMB), which is supported by three Executive Risk Management Committees:

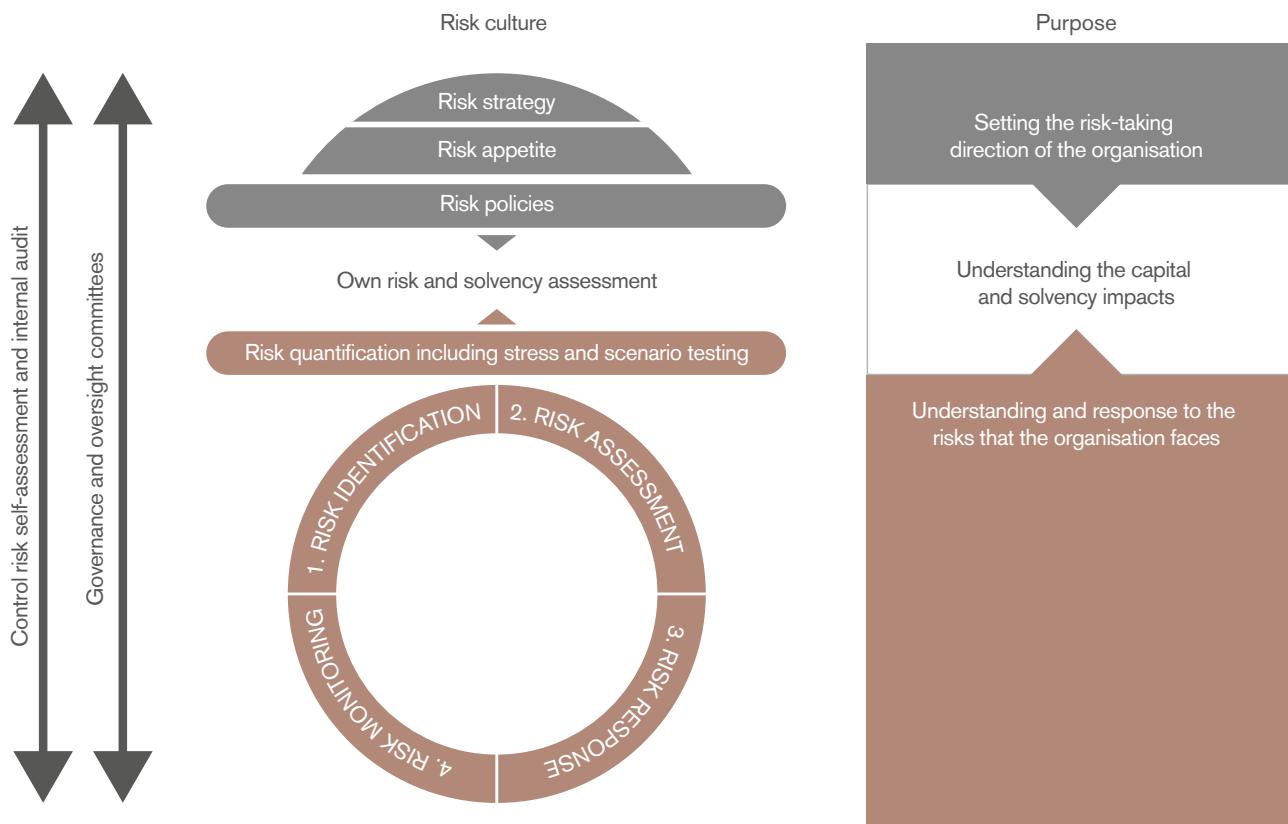
- The (Non-Life) Insurance Risk Committee which has

- 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 Group Operational Risk Committee which has oversight of the operational risks of the Group.

The risk management process supports accountability, performance measurement and reward, thus promoting operational efficiency at all levels.

On an annual basis the GMB 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:

- The first line (Business Management) is responsible for strategy, performance and managing risks arising;
- The second 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 third 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 continuously evolving approach to Enterprise Risk Management and use emerging experience to refine our approach. During 2014 key improvements included:

- Strengthening of the Risk function with increased technical knowledge and actuarial capability;
- Improved embedding of the risk framework within the first line of defence which included establishing local risk committees;
- Commencement of risk oversight visits that are being conducted by the second line;
- Enhancement of the qualitative risk profiles including an increased focus on business plans and emerging risks;
- Continued development of quantitative risk profiling capabilities;
- A refreshed Group-wide risk appetite proposal which was approved by the Group Risk Committee, and included strategic business units' (SBUs) risk appetites;
- Improved reporting to the Group Risk Committee; and
- Refinements to the Own Risk Solvency Assessment (ORSA) process which were approved by the Board and submitted to the PRA.

## Risk appetite

The risk appetite defines the level of risk-taking that the Board feel is appropriate for the Group as we pursue our business objectives. It has been defined in line with the different categories of risk that the Group faces, and provides the backdrop against which the business plan is developed and validated. This ensures that the risk profile resulting from the business plan is in line with the risk-taking expectations of the Board. Compliance with the risk appetite is reported to the Group Risk Committee at each meeting. A formal escalation process exists for activities outside of risk appetite.

The risk appetite is refreshed annually and is signed off and approved by the Board.

The principles that underpin our risk appetite are based on the overall ambition of Ecclesiastical to operate as an independent and successful financial services group, operating with the highest standards of integrity to deliver financial products and services for the benefit of the church and community. As such, the Board takes the reputation of the Group seriously and will not undertake any activity whose outcome might reasonably be expected to have a sufficiently negative reputational impact on the Group and undermine the sustainability of the business model.

At the highest level of our risk appetite there are strategic statements which set the minimum levels of capital and solvency that the Group wishes to maintain, and they contain broad ranges of the magnitude of exposure to different risk types that are desirable. This includes 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 (S&P) and A.M. Best.

## Quantitative risk measures and stress testing framework

The primary tool used to measure aggregate risk is our internal model, which has been calibrated to estimate the capital resources required to deliver our business plan and meet UK regulatory risk-based capital requirements.

Over the last year we have improved both the scope and methodology of our internal model to better reflect the risk profile. The model has become further embedded in our strategic decision-making processes. For example, the internal model was used to inform the setting of the refreshed risk appetite and as an input to the development of our reinsurance strategy and pricing decisions.

We have continued to refine a comprehensive stress testing and scenario analysis framework to complement our quantitative risk measures and meet regulatory requirements.

This framework seeks to stress the business plan and identifies potential outcomes generated in the scenarios other than those in the central plan assumptions, providing evidence to the Board that the plan is robust. This is also used to identify additional actions that can be taken, including contingency plans, to mitigate any risks or potential adverse experiences identified. As such the company uses stress and scenario testing as a key component of its business planning process.

## 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.

### Insurance risks

Business mix, underwriting and pricing risk	Why we have it	How we mitigate it
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. Significant investment in underwriting and pricing capabilities across the Group has continued into 2014, and a revised structure has been implemented within the UK general insurance business. A strict risk appetite has been adopted to ensure there is a clear focus on our chosen niches and classes of business. Concentration risk is a key consideration and limits are established within the risk appetite.  The size of this risk has fallen over the year due to underwriting actions taken to improve the quality of the business we write coupled with the investment in our underwriting capabilities.
Claims reserving risk	Why we have it	How we mitigate it
The risk of actual claims payments exceeding the amount we are holding in relation to our long-tail liability risks.	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 Group Reserving Actuary and the Group Audit Committee.  Further information on this risk is given in notes 2, 3 and 27 to the financial statements in section 4 of this annual report and accounts.  This risk has not changed materially over the year.

Reinsurance risk	Why we have it	How we mitigate it
The risk of failing to access and manage reinsurance capacity at a reasonable price.	<p>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 appetite for our strategic exposure to the reinsurance market is well established.</p> <p>The global reinsurance market is beginning to see a reshaping of the market, with diversification by territory and/or class seen as the way forward. As a consequence, merger and acquisition activity is now beginning to take place. Not all reinsurers have been prepared to follow pricing down and accept wider terms and conditions and have actively scaled back their portfolios including breaking long-standing relationships with insurers or standing firm on terms.</p>	<p>This risk is managed by taking a long-term relationship view towards reinsurance purchases to deliver sustainable capacity rather than opportunistic results. Strict criteria exist which relate to the ratings of the reinsurers and a Reinsurance Security Forum approves all of our reinsurance partners.</p> <p>The size of this risk has remained broadly similar over the year.</p>
Concentration and model error risk	Why we have it	How we mitigate it
This is the failure to manage risk concentrations across our different business and risk areas and includes the reliance on models which if found to be wrong could give rise to significant unplanned losses.	<p>Exposure measures are fundamental to determining our reinsurance purchases. Errors within the models could fail to identify significant concentrations of risk and lead to the Group having net retentions which are in excess of our risk appetite.</p>	<p>Risk appetite limits have been established to manage our concentration of risk and these are reviewed regularly by the Group Risk Committee.</p> <p>The risk is mitigated through the use of industry recognised models alongside our scenario and stress testing framework.</p>

# Market risks

Market risk	Why we have it	How we mitigate it
The risk of adverse movements in net asset values arising from a change in interest rates, equity and property prices and foreign exchange rates.	<p>Market risk principally arises from investments held by the Group. We accept such risks to seek enhanced returns on these investments.</p> <p>Our investment strategy for assets backing reserves is primarily focused on fixed income stocks. This gives us exposure to interest rate risk. We also hold some of our investments in corporate bonds, which expose us to credit spread risk, for which higher expected yields are obtained.</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. This gives us exposure to wider investment opportunities and diversified returns, but also introduces currency risk.</p>	<p>A robust investment risk management framework is in place to mitigate the impact of changes in financial markets.</p> <p>Our fund manager, EIM, manages our funds in accordance with the investment strategy and guidelines agreed by the Finance and Investment Committee of the Board.</p> <p>Interest rate risk is partly managed through selecting stocks of an appropriate duration that will match the expected cash flows from longer-term liabilities, and partly through holding stocks with a relatively short period to maturity, that are not exposed to significant volatility upon changes in interest rates.</p> <p>Credit spread risk is risk is controlled through the investment strategy and guidelines agreed by the Finance and Investment Committee of the Board. It is managed by our investment manager's assessments of risk and by limiting our exposure to both non-rated and lower rated bonds and ensuring that we adhere to the limits set for exposure to any single issuer.</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 we feel it is appropriate we will use derivatives to reduce equity exposure. A small amount of hedging of equity risk was in place during the first half of 2014.</p> <p>We manage our exposure to liabilities in our overseas businesses by holding appropriate levels of cash and investments in local currencies. We ensure that currency risk is appropriately monitored and controlled and is overseen by our Group Finance function to try and reduce the impact of fluctuating currency rates. Currency risk arising from holding overseas equities is accepted as part of the decision to invest in such assets.</p> <p>Further information on this risk is given in note 4 to the financial statements on page 138.</p> <p>This risk has not changed materially over the year.</p>

## Credit risk

Credit risk	Why we have it	How we mitigate it
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>Reinsurer credit risk is controlled by the Group Reinsurance Security Committee, principally through careful selection and monitoring of reinsurance partners. All reinsurers on the 2014 reinsurance programme had a minimum rating of A minus from S&amp;P 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 S&amp;P to A minus in February 2014 and then to A in May 2014 with a stable outlook.</p> <p>Reliance on a single counterparty increased during 2014 due to the reinsurance arrangement that Ansvar Australia has with National Indemnity, who are part of the Berkshire Hathaway Group; however, they have a very strong S&amp;P rating of AA+.</p> <p>Investment credit risk is managed using the same processes as for credit default risk as noted above.</p> <p>We utilise robust agency and collection procedures to ensure that our credit and bad debt risk through our intermediaries and policyholders is minimised.</p> <p>The level of this risk increased during the year due to market developments but this was tightly monitored and controlled.</p> <p>Further information on this risk is given in note 4 to the financial statements starting on page 138.</p>

## Operational risks

IT systems, data quality and business intelligence risk	Why we have it	How we mitigate it
The risk of shortfalls in the quality or availability of management information for decision-making, inadequate or unsupported systems and system failure impacting on processing efficiency.	<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>Efficient and reliable systems are paramount to delivering excellent customer service and business processing.</p>	<p>Over the last five 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 level of this risk has remained the same this year.</p>
Regulatory and legal risk	Why we have it	How we mitigate it
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. This includes the conduct elements of failing to deliver fair outcomes for consumers or those that result in consumer detriment.	<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>The Compliance function which is headed up by our Group Compliance Officer has been further strengthened during 2014 in response to the continued increasing importance of regulatory compliance and the evolution of regulation through the separate and independent PRA and Financial Conduct Authority (FCA) regimes.</p> <p>The size of this risk has increased during the year given the increasing regulatory obligations and expectations and also the pace of change particularly as we move towards the implementation date for Solvency II.</p>

Other operational risks	Why we have it	How we mitigate it
The risk of unexpected loss or cost arising from the operation of the business or due to external impacts not covered above; this will include both Information Security and Staff Risks.	We have a relatively complex business which operates in a number of specialist markets and territories. While considerable attention to detail is paid, errors and non-controllable external events do occur.	<p>There has been significant effort during 2014 on developing the Operational Risk Profiles capturing risks and management actions within each of our business areas. These profiles are specifically focused on the delivery of individual business areas plans and objectives. Risks are managed to ensure they comply with the levels set by the Board and detailed within the risk appetite. Stress and scenario testing is undertaken and the results are taken into account in 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>	<b>Why we have it</b>	<b>How we mitigate it</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.	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>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. Our Group's ambition is to be the most trusted and ethical specialist financial services group and this is reflected in all our business activities. More information on our Group's ambitions can be found in our Business Model and Our Strategy sections starting on page 18 and 21, respectively.</p> <p>Reputational risk is overseen by the GMB together with the Group Risk Committee. Our reputation is fundamental to our business and we will not accept risks that will materially damage our reputation. We monitor a variety of communication channels and proactively gather feedback to ensure there is no detriment to our reputation.</p> <p>The size of this risk is largely unchanged over the year.</p>
<b>Competition</b>	<b>Why we have it</b>	<b>How we mitigate it</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 and the impact to the Group of a loss of a key account or niche market.	General insurance is a highly competitive business. There are a number of companies operating within the same niche markets which means that competitor activity remains a significant threat to our strategic objectives.	<p>The GMB and SBUs monitor 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 to ensure diversification of risk.</p> <p>The size of this risk is largely unchanged over the year.</p>

## Strategic risks

Increasing expense base	Why we have it	How we mitigate it
The risk of failing to maintain the expenses base within targets.	Controlling expenses relative to the size of the Group is key to ensuring the continued profitability of our business model.	Expense analysis and forecasting is undertaken with regular monitoring, reporting and challenge by senior management. Any material spend has to be approved and signed off by the GMB.  The level of this risk has remained similar over the year.
Strategic execution and business plan delivery	Why we have it	How we mitigate it
The risk of failing to deliver our business plan and a failure to meet stakeholder expectations resulting in negative reaction from the regulator or rating agencies.	Delivering our business plan is key to ensuring financial stability and the confidence of key stakeholders, including the regulator and rating agencies. This is used to prevent the failure to define appropriate strategies and execute them to enable us to deliver on those expectations.	A number of strategic initiatives were identified and grouped into three waves which are to be delivered over the next three years. The first wave largely completed during 2014.  The size of this risk has remained similar over the year.

## Group risks

Governance and oversight of SBUs	Why we have it	How we mitigate it
The risk of failing to effectively manage the different parts of the Group across different territories and regulatory regimes.	The Group consists of a number of different business divisions which operate across a number of territories and regulatory regimes. Failure to effectively manage our operations in line with Group expectations could lead to sub-optimal business performance or damage to our reputation.	The expectations of the SBUs have been defined and they have all confirmed the adoption of the required standard. Alongside this all SBUs have locally adopted risk appetites, which have been approved at Group level and are regularly monitored with formal escalation processes in place for potential breaches.  Annual Risk Reviews and Control Risk Self-Assessments are undertaken. Additionally, Group Internal Audit (GIA) reviews are carried out.  The size of this risk is largely unchanged over the year.



## CR Highlights in 2014



**£25,000**

donated to support the  
**DEC EBOLA APPEAL**

Christmas donations made to  
**GREAT ORMOND STREET  
HOSPITAL CHILDREN'S  
CHARITY**

**£5,000**



**£16,000**

**COMPANY MATCHING  
PROVIDED**

**ANSVAR UK** raised

**£9,000**

for **CHESTNUTS TREE HOUSE  
CHILDREN'S HOSPICE**,

which equates to one day's running  
costs for the charity

Annual Charity Carol Concert

**£4,700**

raised at **GLOUCESTER CATHEDRAL** for

Gloucestershire-based charity partners

**WINSTON'S WISH, AGE UK**

**GLOUCESTERSHIRE AND GLOUCESTER  
CIVIC TRUST**

**ECCLESIASTICAL CANADA**

**760hrs**

donated to charity 1.5 x more  
than in the previous year



**ANSVAR AUSTRALIA**

**\$18,500**

raised for various charities  
throughout the year



**ECCLESIASTICAL IRELAND**

**€22,000**

raised for selected charity  
partners **SOAR** during 2014



**£23.5 million**

Total charitable grants made to ATL



# Corporate Responsibility Report

Ecclesiastical is committed to supporting the communities it operates in. Doing the right thing and giving back to the communities around us have been a part of our corporate DNA since the Group's early days in the 19th century. Our first charitable donation of £1,000 was made in 1890 and the amount of donations and charitable activities that the Group has been involved in has grown ever since.

## A new Group-wide business vision

In January 2014 Ecclesiastical's management team launched a new Group-wide vision and goals for the business covering the next three years. This is the first time that all of our Group companies, including our international territories, have been set a unified vision which clearly links the Group's business ambitions and a charitable giving target. In addition to setting out our aim to become the most trusted and ethical financial services group, the new vision has also established a clear and ambitious charitable giving target which is to give £50m to charity over three years.

The £50m target specifically encompasses our grants made to our charitable owner, ATL, and excludes any additional donations and funds raised by both the Group and our staff through our corporate responsibility (CR) programme. During 2014 we donated £23.5m to ATL towards this target as a result of strong business performance.

## Establishing a way forward

Although we have achieved a great deal over the years with our CR programme, we have recognised that there is much more we could do and our CR activities will continue to develop over time. Therefore, during 2014, we undertook a detailed review of our existing CR programme and looked at how we could devise and implement a refreshed CR strategy that will support the achievement of our new vision and goals. The new CR strategy entitled the 'Greater Giving Programme' was agreed in late 2014 and will be introduced throughout the Group during 2015. A high level overview of the Greater Giving Programme is included at the end of this CR Report on page 65.

# CR at Ecclesiastical in 2014

At Ecclesiastical, CR is embedded in our values and culture and drives the way we generate profits. CR encompasses everything we do and ranges from the products and services we provide; to our claims ethos; the research we fund and technical advice we produce to protect customers; the way we look after our employees; our ethical investment principles; our community campaigns, donations and volunteering; the decisions we make affecting our supply chain and the environment; and the impact we have by giving a proportion of our profits to our charitable owner ATL for distribution to charities and local communities.

Although all of these elements above form part of our comprehensive CR programme, the main focus of the Group's CR activities in 2014 was predominantly on charity and community support, and included:

- Our international, national and local charity and community partnerships
- Helping Hands – our UK employee volunteering programme
- Payroll Giving – a scheme that enables our employees to donate to any charity, church or charitable association
- Company matching which gives additional money to funds raised from staff fundraising activities.

## Employee diversity

Diversity is important to Ecclesiastical and we recognise that diversity at all levels in the business will enhance our business performance. In 2014, our employee survey, 'My Say', showed 71% of employees felt that the company they were part of respected individual differences such as cultures and backgrounds. During 2015, we will develop a plan to increase levels of engagement in this area and enhance our reporting in this regard.

	Gender	Numbers
<b>Directors<sup>1</sup></b>	Male	7
	Female	4
<b>Leadership Team<sup>2</sup></b>	Male	26
	Female	12
<b>Employees</b>	Male	454
	Female	562

<sup>1</sup> This includes Non-Executive and Executive Directors for Ecclesiastical Insurance Office plc only

<sup>2</sup> This includes the direct reports and Leadership Team who report to the Group Chief Executive.

## Core issues at the heart of our CR programme

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

We have used our understanding of our customers within the charity, heritage, faith and education sectors and the challenges they face, to focus on three core issues which community investment projects have helped to tackle in some way during 2014 and include:

- 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 CR within the Group is attributed as follows:

Director of Group  
Strategy and  
Corporate Affairs

Responsible for providing the overall strategic framework for CR within the Group; reporting on progress and achievements in CR to the Group Management Board and Board of Directors

Group Management  
Board

Responsible for reviewing policies and directing CR strategy and objectives

Strategic  
Business Units

Responsible for the local development and implementation of the Group CR strategy, monitoring and reporting on CR activities

Employee  
Community Panel

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

# Our contribution to the communities around us in 2014

## Overview of CR activities by Group territory

### GROUP ACTIVITY

#### **DEC Ebola appeal**

In the autumn of 2014, as the humanitarian crisis of Ebola in Africa significantly escalated, the UK-based Disasters Emergency Committee launched a national appeal to raise funds to manage the crisis. We made an immediate one-off £25,000 donation to the appeal. The UK Government had announced that it would match the first £5m of donations made by the public to the DEC appeal.

#### **Christmas donation to Great Ormond Street Children's Hospital**

During December we chose Great Ormond Street Children's Hospital as our Christmas charity for 2014 and made a one-off £5,000 donation to the charity. The charity was selected due to its excellent work helping vulnerable children and families and we also wanted to offer support to one of the charities we insure.

#### **Award shortlist for corporate partnership with Carers Trust**

In 2012 we chose Carers Trust as our national charity partner for 2012–2013 due to the organisation's strong links with a number of the Group's core business areas. Our partnership with the charity ended in December 2013. However, the work we had carried out with the charity over this two-year period was shortlisted for the 2014 Charity Times Awards in the Corporate National Partnership of the Year with a Financial Institution category which recognised the impact that our contribution had on the sector during the partnership period.

### UNITED KINGDOM

#### **Just some of the activities undertaken by our UK staff to support charities in 2014**

- Charity weight-loss challenge
- Broker charity quiz
- Bake sales
- Decorating the home of a young disadvantaged family
- Donating Easter eggs for disadvantaged children
- Donating beds, toys and food to a dog's home.

Our regional hubs and businesses are all encouraged to engage with the communities around them and to support charitable causes local to them. In 2014 our UK regions and businesses worked with and supported the following charities and good causes by raising funds for them or offering practical volunteering support through the Group's Helping Hands programme:

London	Manchester	Gloucester	Birmingham	Ansvar UK	SEIB
Haven House Children's Hospice	The River Manchester	Winston's Wish	<b>Birmingham Dogs Home</b>	<b>coram</b> <small>British children's charity since 1709</small>	
		Age UK Gloucestershire		UK Rock Challenge	Mud N Madness Charity Challenge an event for Cancer Research UK and a number of equine charities
					
					

Dear Mark,

I am writing on behalf of Winston's Wish to thank you and Ecclesiastical Insurance Group so much for fundraising for bereaved children. We really appreciate the effort and hard work everybody put into organising the carol concert at Gloucester Cathedral which raised an amazing £1,431.14! It was a lovely evening with great singing.

With contributions like this, Winston's Wish can continue to be there for children and families after the death of a loved one. This is one of the most devastating and sometimes traumatic situations a child can face, and can go on to have a detrimental effect on choices they make as they grow up. We believe that with the right support at the right time, we can tackle difficult feelings of isolation, anger and confusion so they can continue their lives with confidence and hope.

### BITC Business Class programme

The BITC Business Class programme has been set up by the UK Government to provide a systematic framework for businesses to support young people facing social disadvantage by forming long-term partnerships with the schools that these young people attend. Business in the Community, the organisation behind the programme, believes that these partnerships are one of the most effective ways for businesses to support young people.

This framework is designed to develop partnerships that are rooted in the needs of the school and underpinned by strategic support and collaborative action. There are currently over 290 partnerships throughout the UK.

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

**During 2014 we worked closely with Millbrook Academy for the final year of the partnership and this resulted in:**

- A collaborative event with two other schools to equip students with employability skills;
- Collaborative work with business areas and students; and
- Nomination and award of Business in the Community South West Community Champion for one of the teachers instrumental to the partnership.

### Annual charity carol concert in aid of Gloucestershire charities

- Our annual charity carol concert held at Gloucester Cathedral for Gloucestershire-based charity partners Winston's Wish, Age UK Gloucestershire and Gloucester Civic Trust raised £4,700.

## IRELAND

### SOAR partnership

In 2014 Ecclesiastical Ireland continued to partner with SOAR - a local 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.

Our support for SOAR included the following fundraising activities:

- **Green for St Patrick's Day:** staff were encouraged to wear green and make a €2 donation
- **Women's Mini Marathon:** one employee ran the Dublin Women's Mini Marathon (10km)
- **Rough Diamond Challenge in Connemara:** four employees (plus one partner) took part in the 21km introductory level route comprising a bike ride, assault course and run
- **Cake sale:** employees baked and sold their goodies to other colleagues and to other building tenants
- **Half-day Holiday raffles:** quarterly raffle was run to win a half-day holiday
- **Broker Quiz Night:** a real team effort with over 20 employees helping to organise this event (from getting raffle prizes, wrapping the quiz prizes, selling raffle tickets, marking answer sheets, meeting and greeting, to generally ensuring everyone had a great night) with over 100 attendees including brokers, solicitors and loss adjusters.

In 2014, the Irish team raised over €22,000 (including company matching) in support of the work that SOAR does to make a difference to the lives of young people in Ireland.

Three employees also supported SOAR by attending a number of their school workshops to observe the work that SOAR does first hand. More employees plan to attend SOAR workshops in 2015.

Other community activities and support

- **Irish Heart Foundation** – static cycle challenge (13 employees) and Croagh Patrick Climb (two employees)
- **Irish Cancer Society** – daffodil day collection
- **Laura Lynn Foundation** – Easter egg donations and sponsoring a radio interview
- **Focus Ireland (Homeless Charity)** – Christmas presents and pre-loved clothes were donated and a corporate donation was also made in lieu of sending Christmas cards.

In November 2014 Ecclesiastical Ireland undertook a local CR survey to ask employees to nominate a charity that they would like to support during 2015 and were asked to help shape the CR agenda for the year ahead. As a result, 70% of respondents agreed that they should continue to support SOAR in 2015, and therefore this partnership will continue in the year ahead.



Broker Quiz Night - SOAR



Static Cycle Challenge - Irish Heart Foundation



Rough Diamond Challenge - SOAR

## AUSTRALIA

In 2014 the team in Australia increased its community involvement significantly with the appointment of an internal committee. The committee, aptly named the 'Ansvar Superheroes', aims to build team participation in, and increase satisfaction from, the contribution to their giving programme, while increasing involvement with the wider community and Community Education Program (CEP) grant recipients.

Throughout the year the team held several charity fundraising initiatives, including themed dress-up days, morning teas, trivia nights, competitions and raffles - raising a total of \$7,100 for Australian charities.

They also collaborated with the CEP grant recipients and other not-for-profit partners and increased team volunteering by 300%. Activities included guiding vision impaired people on a charity walk around the city for White Cane Day with Vision Australia, supervising and helping disadvantaged youth complete a wall mural painting as part of Youth Week with Mission Australia, a backyard blitz for two families in need with the 20th Man Fund and one team member travelling to northern Queensland and the Northern Territory to deliver an impactful presentation to schools in remote and rural areas with Motivational Media. Grants of \$240,000 were given to the CEP during 2014.

Volunteering efforts during 2014 equated to a monetary value of \$11,400, and meant that Ansvar Superheroes contributed a total of \$18,500 to the Australian community.



Basketball Event



Ansvar Superheroes



White Cane Day Challenge - Vision

## CANADA

During 2014 Ecclesiastical Canada staff continued to exemplify and uphold our values of social responsibility, giving back to our communities and getting involved in philanthropic activities by giving time and resources to a variety of worthy causes, charities and fundraising activities.

Ecclesiastical Canada became a national sponsor of 'Kids Help Phone' (KHP) in 2013, a counselling, information and referral service that provides professional support to children and young people who are experiencing various types of challenges. Funds raised have helped to create an innovative and customised online information and interactive tool for Lesbian, Gay, Bisexual, Transgendered and Questioning (LGBTQ) youth. Canadian staff once again lent their support by raising funds and participating in the second annual KHP's 'Walk So Kids Can Talk' event which is Canada's largest annual walk in support of youth mental health and wellbeing.

For the third consecutive year the Toronto-based staff got involved in fundraising activities to support the Heart and Stroke Foundation's 'February is Heart Month' campaign. Riding a bike built for 30 and pedalling around the 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.

As part of Ecclesiastical Canada's Business Internship programme, Interns were placed at the Heart and Stroke Foundation and KHP as part of their Customer Development placements.

During the Thanksgiving holiday, Toronto-based staff volunteered their time to the Daily Bread Food Bank to support the fight against hunger in Toronto. Leading up to this event, the staff ran a food drive to donate non-perishable items to the Food Bank. As a result of this more than 230lbs of food items and \$485 in cash donations were collected.

Other causes where regional employees lent their time and support included 'Feed Nova Scotia' campaign in support of The Great Canadian Food Fight, the 'Calgary Adopt a Family Society' where a needy family was sponsored during the holiday season, Yonge Street Mission by creating hygiene kits for disadvantaged adults and youth, and the Scott Mission's annual Christmas meal to help poor and homeless people.

In total Ecclesiastical Canada employees donated 757 hours of their time to good causes throughout the year which equates to more than one-and-a-half times that given in 2013.



Walk so kids can talk event - Canada

## THE GREATER GIVING PROGRAMME

A strategic review of our CR programme was carried out in 2014 and a framework has been developed which ties us in to an overall set of Group principles, goals and societal causes and will utilise our expertise, support our vision and link our CR activities more closely with our core business objectives and the markets we operate in.

Our Greater Giving Programme has been launched in early 2015 and will build on the best of what Ecclesiastical already does. The programme will introduce a Group-wide framework for CR that covers all parts of the Group and will enable the individual business units and territories to develop CR activity and practice that is relevant to their local markets.

Programme overview:



The four pillars of our Greater Giving Programme are:

- **Community** - giving back to local and national communities: volunteering, fundraising, corporate donations, campaigning across our three themes. Individual, joint and national giving
- **Workplace** - giving opportunities to our employees, helping young people into employment, supporting diversity, staff development and positive working environments
- **Marketplace** - giving back to customers through fair and ethical products and services, transparency and regulatory compliance – not just doing the bare minimum, but seeking to go beyond what is expected
- **Sustainability** - helping to protect the environment through green initiatives.

Our Community activities will focus on three core themes which **build on the Group's strengths** and are **relevant to its target markets** and include:

### 1. Preserving heritage

we will support initiatives that protect heritage buildings, iconic art, heritage crafts, rural practices and cultural traditions.

### 2. Supporting vulnerable groups in our market niches

we will provide support to groups where there is an alignment with our expertise and/or target markets.

### 3. Promoting ethics in financial services

we will seek opportunities to influence and improve ethical practice within financial services.

The ways in which we will be able to give back are through:

#### MY GIVING

- Volunteering – every employee receives one paid day a year to volunteer for a charity of their choice
- When the business outperforms, a personal grant of £125 per employee will be available for any charity, or £250 per employee if the charity is aligned to one of our core themes
- The Group will 100% match individual fundraising efforts on causes linked to its core themes and will donate up to £100 to supplement individual fundraising for other good causes. In addition, the Group will encourage staff to support charities by matching payroll giving by 50%

#### JOINT GIVING

- An additional paid volunteering day per year will be available for employees and teams when collaborating alongside customers and business partners to benefit charity
- Customers and business partners will be able to shape our programme by voting for shortlisted charities/causes and by contributing ideas

#### NATIONAL GIVING

- We will increase our impact by working with fewer selected charity partners on a regional and national basis to support causes that relate to our themes
- Corporate donations for international crisis appeals and to match staff donations made to these appeals
- Support for national fundraising days (e.g. 'Children in Need' in the UK)

#### ECCLESIASTICAL FOUNDATION

- As part of our 125th anniversary celebrations in 2012, the Group set up the '125 Fund' to support causes within the Gloucester community where its head office is located. The Group intends to build on this community initiative to expand the fund's remit to support our three themes on a UK national basis. We anticipate that there will be opportunities to involve our staff, customers and business partners to generate ideas and support good causes.

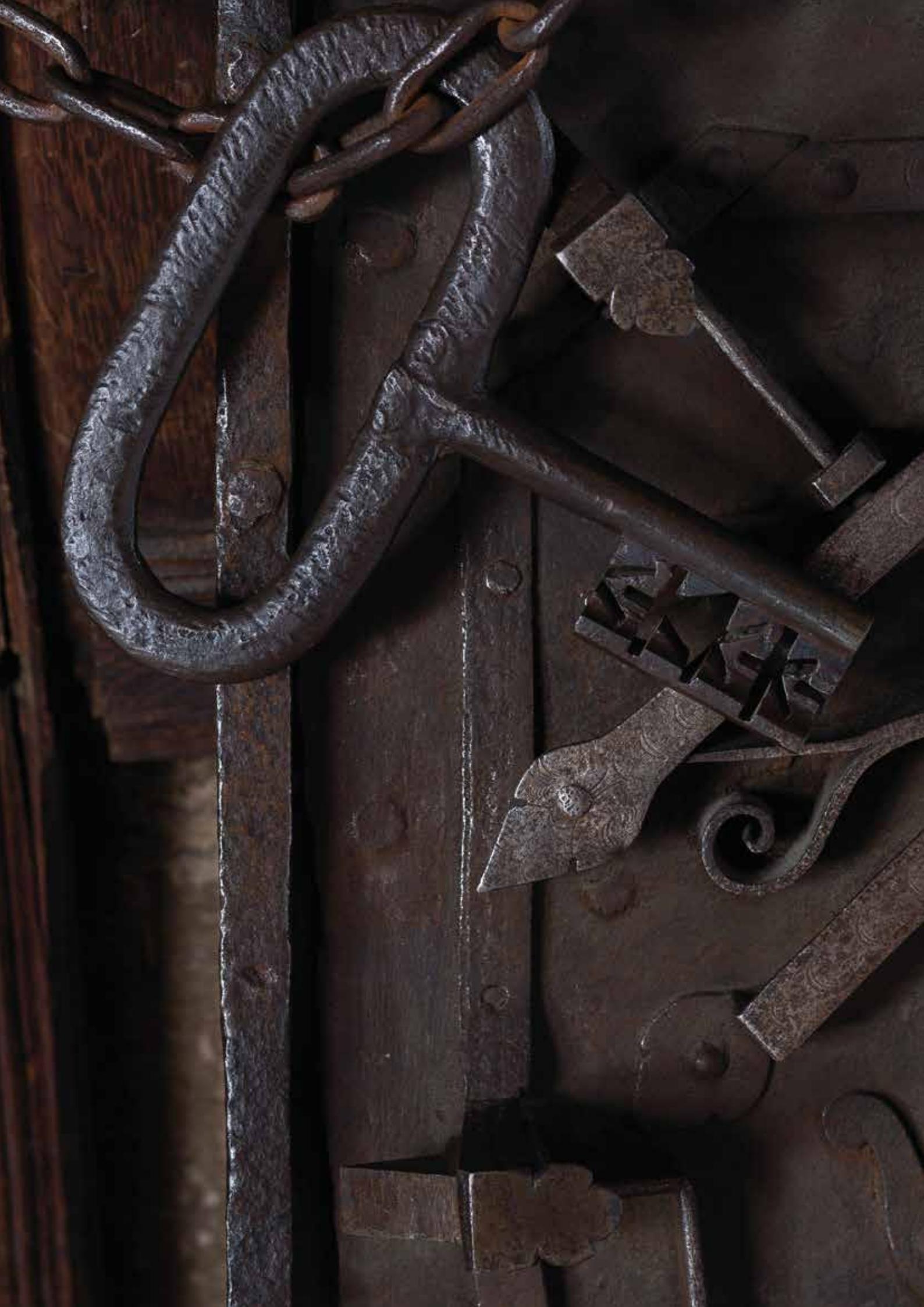
The Strategic Report, outlined on pages 12 to 66, incorporates the Chief Executive's Review, the Business Model and Strategy, the Key Performance Indicators, reviews of Financial Performance and Position and Risk Management and the Corporate Social Responsibility Report and when taken as a whole, is considered by the Directors to be fair, balanced and understandable.

*By order of the Board*

**Mark Hews**

Group Chief Executive  
24 March 2015







## SECTION THREE

# Corporate Governance

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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 News BSc**  
**(Hons), FIA**  
**Group Chief**  
**Executive**

**Jacinta Whyte**  
**MC Inst. M,**  
**ACII (c) Deputy**  
**Group Chief**  
**Executive**

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

**Tony Latham**  
**ACII\* (a) (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 Galliform 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. 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, is the Interim UK Managing Director and was also appointed to the Ansva Australia Board during 2013. She joined Ecclesiastical in 2003 as a General Manager and Chief Agent of the Group's Canadian business a role which she continues to do. 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.

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.



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

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

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

**Ian Campbell,  
BSc (Econ)  
Hons, ACA,  
Group Chief  
Financial  
Officer**

**Caroline Taylor  
BSc (Hons)\* (e)**

Appointed to the Board in June 2012 and has served for 15 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 and Chairman of the Friends Board at the Royal Academy of Arts. 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 April 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 Canopus 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.

Appointed to the Board in April 2014. He is a Chartered Accountant with more than 27 years' experience in the financial services sector. His career started at KPMG where he spent 13 years in their Insurance and Consulting Practice covering a wide range of projects for Lloyd's, London market and life insurance companies. Since then he has held executive positions at a number of insurance companies. Before joining Ecclesiastical in 2012, he was Group Chief Financial Officer for Torus Insurance where his role included acquisitions, finance, investment and tax management, capital raising, actuarial and reinsurance.

Appointed to the Board in September 2014. Until May 2012 she was an Executive Director of Goldman Sachs Asset Management International. She is currently a Non-Executive Director of Brewin Dolphin Holdings plc.

#### **\*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 2014. 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 179 and details of international branches are shown on page 185.

## 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 (ATL), the ultimate parent of the Group.

## Board of Directors

The Directors of the Company at the date of this report are stated on page 70 and 71.

Ian Campbell was appointed as Group Chief Financial Officer on 30 April 2014. Caroline Taylor was appointed as a NED of the Group on 8 September 2014.

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 Caroline Taylor and Ian Campbell 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 2014. 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 Group, and their connected persons, held Preference shares in the capital of the Company at 31 December 2014:

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 (2013: £9,181,000).

The Directors do not recommend a final dividend on the Ordinary shares (2013: £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 £25.2 million (2013: £5.5 million).

During the last 10 years, a total of £115.1 million (2013: £95.3 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 Directors have carried out a robust assessment of the principal risks facing the Group including those that threaten its business model, future performance, solvency and liquidity. The principal risks and uncertainties, together with the financial risk management objectives and policies of the Group, are included in the Risk Management section of the Strategic Report and can be found starting on page 46.

## Going concern

The Financial Performance section on page 42 and Risk Management section of the Strategic Report starting on page 46 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 £892.4m (including current assets classified as held for sale), 98% of which are liquid (2013: financial investments of £946.5m, 97% liquid); cash and cash equivalents of £107.5m and no borrowings (2013: cash and cash equivalents of £107.2m and no borrowings); and a regulatory enhanced capital cover of 2.9 (2013: 2.6). 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.

## 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 Group'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 Group Audit Committee Report starting on page 88.

In accordance with Section 489 of the Companies Act 2006, a resolution proposing that Deloitte LLP be reappointed as auditor of the Group 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 (IFRS) 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 IFRS 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 IFRS 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 Group'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 Group 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 position and performance, business model and strategy.

### By order of the Board

#### Will Samuel

Chairman

24 March 2015

#### Mark Hews

Group Chief Executive

24 March 2015

# 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

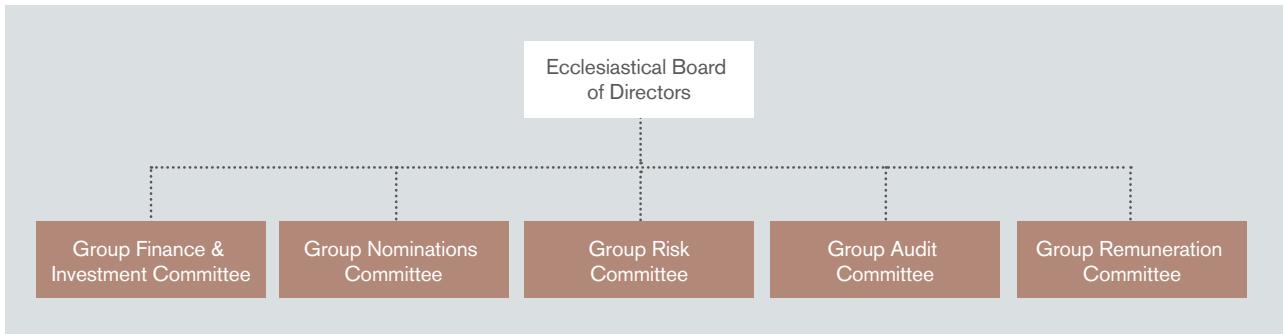
### **The Board**

#### *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 GMB.

#### *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 shareholders 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 in the diagram above:

Details of all the Board Committees are contained within their respective reports that follow: the Group Finance and Investment Committee Report on page 80; the Group Nominations Committee Report on page 82; the Group Risk Committee Report on page 86; the Group Audit Committee Report on page 88; and the Group Remuneration Report on page 94.

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.eccllesiastical.com/general/investorrelations/corporategovernance/termsofreferenceofcommittees](http://www.eccllesiastical.com/general/investorrelations/corporategovernance/termsofreferenceofcommittees)

### Attendance at meetings

Directors are required to attend all Board meetings and strategy days as well as Committee meetings where they are members. In 2014, five scheduled Board meetings and two off-site strategy days were held. In addition, five 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.

Below is a record of the Directors' attendance for the Board meetings (including off-site strategy days) during 2014:

**Board attendance table**

<b>Executive Directors:</b>	<b>Director since</b>	<b>Meetings eligible to attend</b>	<b>Meetings attended</b>
Mark Hews	June 2009	7	7
S. Jacinta Whyte	July 2013	7	7
Ian Campbell	April 2014	5	5
<b>Non-Executive Directors</b>	<b>Director since</b>	<b>Meetings eligible to attend</b>	<b>Meetings attended</b>
Will Samuel (Chairman)	January 2006	7	7
David Christie (SID)	January 2001	7	7
Tim Carroll	April 2013	7	7
John Hylands	September 2007	7	7
Denise Wilson	December 2010	7	7
Tony Latham	March 2008	7	7
Christine Wilson	June 2012	7	7
Caroline Taylor	September 2014	2	2

During 2014, the Board made decisions on the following business issues and routine matters:

Routine matters	<ul style="list-style-type: none"> <li>▪ Board's annual objectives</li> <li>▪ Financial performance and statements</li> <li>▪ Risk management, appetite, and registers</li> <li>▪ Overview of compliance and audit work undertaken for the Group Audit Committee</li> <li>▪ Dividends, charitable donations and Gift Aid</li> <li>▪ Setting and reviewing budgets</li> <li>▪ Committee reports and recommendations</li> <li>▪ Health &amp; Safety</li> </ul>
Operational matters	<ul style="list-style-type: none"> <li>▪ Performance, strategic and business plans for Group businesses</li> <li>▪ Group reinsurance arrangements</li> <li>▪ General insurance claims reserves</li> <li>▪ Sales and claims</li> <li>▪ Treating Customers Fairly and complaints handling</li> <li>▪ Review of staff pension arrangements</li> <li>▪ Determining NEDs' fees for recommendation at a general meeting</li> <li>▪ Stakeholder relationships</li> <li>▪ Review of UK general insurance business including niches</li> <li>▪ Review of overseas businesses</li> </ul>
Projects	<ul style="list-style-type: none"> <li>▪ Review of Group structure</li> <li>▪ Proposition review</li> <li>▪ Review of IT strategy</li> <li>▪ Change programme and Group vision</li> <li>▪ Review of broker strategy</li> <li>▪ Rebranding of Investment Management division</li> <li>▪ Review of corporate responsibility (CR) strategy</li> </ul>
Governance and regulatory matters	<ul style="list-style-type: none"> <li>▪ Changes to Executive and NEDs</li> <li>▪ Taxation matters</li> <li>▪ Evaluation of the Board</li> <li>▪ Capital requirements, solvency position and Own Risk Solvency Assessment (ORSA)</li> </ul>

## 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 the responsibility of all management and believes that, for the period in question, the Group 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 46.

The Group 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. More detail on how the internal audit function operates can be found in the Group Audit Committee Report which starts on page 88.

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 are embedded into the culture of the Group and are 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

24 March 2015

# Group Finance and Investment Committee Report

## Chairman's introduction

I am pleased to present my first Group Finance and Investment Committee report describing the work we have undertaken during the past year.



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 2014.

## Tim Carroll

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
Tim Carroll (Chairman)	August 2013*	4	4
David Christie	September 2010	4	4
Will Samuel	March 2006	4	4
Tony Latham	February 2009	4	4

*\*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. 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 borrowing monies, 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 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 2014, the Committee's main activities were in line with its remit above and included:

- Review of the annual investment strategy;
- 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;
- Consideration of a potential sale of business by a subsidiary; and
- Consideration of the lease of a new office building.

### By order of the Board

**Tim Carroll**

Chairman of the Group Finance and Investment Committee

24 March 2015

# 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 2014. 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	3	3
David Christie	January 2001	3	3
John Hylands	May 2013	3	3

The Committee held three scheduled meetings 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 and its Committees;
- 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 2014 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;
- Commencement of a selection process for a new NED;
- Selection and recommendation of the appointment of Caroline Taylor as a new NED to the Board;
- Review of diversity trends across the Group;
- Board evaluation at the end of 2014: selection of an external evaluator for the Board and Committee evaluations and approval of the bespoke questionnaires;
- 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, seven other NEDs and three Executive Directors. The Group 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 36%, with four women members in a current membership of 11. The Board will take the opportunity, as and when appropriate, to improve further its gender balance. An external search consultancy, Russell Reynolds Associates (who had no other connection with the Group) 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), the Group Chairman, the Deputy Chairman and 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 Group's commercial and regulatory environment and attendance on relevant external CPD opportunities, funded by the Company. In 2014, five internal training sessions took place and covered Solvency II, Ethical Investments, Conduct Risk and PSA Reserves.

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 2014, the Committee led an external evaluation of the Board and its five Board Committees, assisted by the Company Secretariat. An external board evaluation provider, Lintstock Limited, conducted this evaluation, and is not connected with the Group. All Board and Committee members were required to complete bespoke Board and Committee assessments. The outcome of the evaluations was considered by the Board and Group Nominations Committee in February 2015. The Group Nominations Committee will monitor the implementation of the agreed recommendations.

A full external evaluation of the Board will be undertaken every two years as recommended by the Code. The next external evaluation is expected to take place at the end of 2016.

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 who have served their initial term. 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.

The Chairman is satisfied that the performance of each NED is effective and sufficient time has been spent on the Group's affairs.

By the end of 2014, four NEDs, Will Samuel, David Christie, Tony Latham, and John Hylands, had all served for more than six years on the Board. The Committee 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 Board believes that all the NEDs were independent throughout 2014. 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 Group.

## Non-Executive Directors' commitments

The Committee evaluates the time NEDs spend on the Company's business annually and is satisfied that in 2014 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 the Group Nominations Committee

24 March 2015

# Group Risk Committee Report



## Chairman's introduction

I am pleased to present the Group Risk Committee's report describing the work done by the Committee 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 46.

## 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
S. Jacinta Whyte	February 2014*	4	3
Tim Carroll	August 2013	4	4
John Hylands	September 2010	4	4

*\*S. Jacinta Whyte was appointed to the Committee 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 Group Chief Risk Officer reports to the Committee and has direct access to the Chairman of the Committee and the NEDs. The Committee ensures that they meet with the Group Chief Risk Officer at least once a year without the Executives present.

The remit of the Committee is to:

- Recommend to the Board the Group's overall risk appetite tolerance and strategy in the context of the current and prospective macroeconomic and financial environment and monitor compliance with it;
- Recommend to the Board the Group's strategy, policy and processes for risk management, and monitor compliance;
- 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 material findings of Compliance and Internal Audit reports carried out for the Group Audit Committee and their effect on the Group's risks;
- Recommend to the Board the Individual Capital Assessment (ICA);
- Approve the appointment or removal of the Group Chief Risk Officer;
- Ensure 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 2014, the Committee held four meetings. In addition to the routine matters highlighted above, it also considered specifically:

- The Group's risk profile, ensuring that this reflected the Group's key risks during the year;
- 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;
- A 'dry run' Own Risk and Solvency Assessment (ORSA) at Group level;
- The risk impact of remuneration proposals and approval of the Group Chief Risk Officer's reports to the Group Remuneration Committee;
- Property insurance concentrations by business unit;
- The discussion and approval of reverse stress test results and recommendations arising there from;
- The capital requirements across the Group, and recommendation of the Group's ICA as at the end of 2013;
- Amendments to and implementation of the Control and Risk Self-Assessment (CRSA) process at Group level;
- The implementation of Solvency II and the implications for the Group;
- Continuing development of the Group's internal model;
- The governance and overarching policy framework;
- A report on a crisis management scenario exercise undertaken at the Group's head office;
- Reports on technical pricing and outstanding risk;
- Reports from Group Compliance;
- The Group's relationship with its regulators including reviewing the output from PRA and FCA visits; and
- In conjunction with the Group Audit Committee, further enhancing the Group's approach in long-tail liability claims reserving.

#### By order of the Board

**Tony Latham**

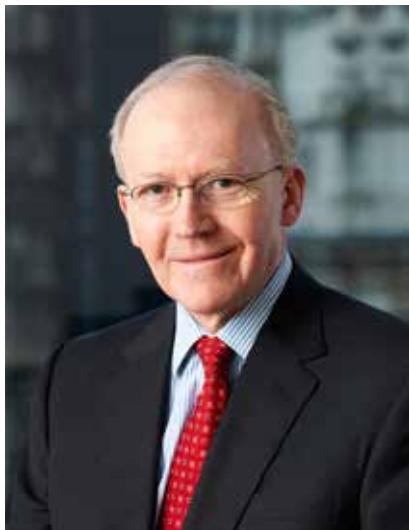
Chairman of the Group Risk Committee

24 March 2015

# Group Audit Committee Report

## Chairman's introduction

The Group Audit Committee is responsible for the appropriateness of the Group's financial reporting, the rigour of the external and internal audit processes and the Group's management of its system of internal controls.



The Committee discusses a broad range of topics, raises challenges and questions to support understanding and ensures that all appropriate considerations have been made. Additional information and reporting has been provided on request and there has been an open dialogue between the Committee, the Group's management team, the Director of Group Internal Audit and the external auditors throughout the year. The most significant matters discussed over the course of the year are described in this report.

## 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	6	6
Tony Latham	December 2008	6	6
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 Chief Financial Officer and the Director of Group Internal Audit 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 our meetings, and during 2014 they attended five of the six meetings held.

The Committee also meets with the Director of Group Internal Audit on an annual basis, without management present, to discuss the 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 to:

- Ensure the integrity of the financial statements;
- Review and assess audit arrangements, both externally and internally; and
- Review the Group's systems of internal controls and risk management.

The full terms of reference of the Committee are available on Ecclesiastical's website at:

<http://www.ecclesiastical.com/general/investorrelations/corporategovernance/termsofreferenceofcommittees/index.aspx>

## 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, among 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 position and performance, business model and strategy; and
- Any correspondence from regulators in relation to financial reporting.

To aid this review, the Committee considered reports from the Group Management Board, the Group Chief Financial Officer and 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.

A particular focus of the Committee during 2014 was the appropriateness of the Group's general insurance liability claims reserves and the reserves held in respect of PSA claims. The work undertaken by the Committee during the year is described in more detail in the first of the significant issues set out in the table opposite.

### Audit planning

The Committee oversees the plans for the external audit to ensure it is comprehensive, risk based and cost-effective. Deloitte and each component auditor draft initial audit plans 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 Group Audit Committee meetings to present the reports and answer questions from Committee members. Senior members of staff from Deloitte who have had day-to-day involvement in the conduct of the audit also attend.

The Committee considered the following significant issues during 2014 which can be found in the table on the next page.

## 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>As part of its normal duties, the Committee considered detailed reports provided by the Group's Reserving Actuary and the Actuarial Function Director on the adequacy of the Group's general insurance reserves at both the half year and the full year. The Committee also had two separate sessions with management outside of normal Committee meetings in order to understand and challenge how the reserves are set and the internal approval process and to review the reserving model structure and output in detail with the Group Reserving Actuary. This gave the members of the Committee the opportunity to question and challenge key judgements proposed by management at a detailed level. Following these sessions and the discussions which took place as normal during the November 2014 and February 2015 meetings, the Committee was satisfied that the reserving process and outcomes were robust and well managed and that the reserves set are reasonable.</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.</p> <p>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. There were no such items referred to the Committee in 2014, and there were no changes made to the methodology previously applied to this closed portfolio. The key 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 main defined benefit pension scheme remains in surplus, the liabilities of the scheme 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. The Group changed its actuarial adviser during 2014 and the Committee considered this additional risk when reviewing management's proposed assumptions. The approach to setting assumptions remained consistent with previous years, but the new adviser has used different sources for the data in some instances (for example using a wider population of AA-rated corporate bonds to develop a market-specific yield curve in order to determine a discount rate matching the plan liabilities).</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. The Group is in correspondence with HM Revenue and Customs regarding the treatment of its preference share capital for group tax purposes. This brought additional uncertainty and judgement to setting tax provisions, particularly at the half year. The Committee considered the tax provisions proposed by management and the material judgements management had applied, particularly in relation to the ongoing discussions with HMRC. Following their review, the Committee concluded that tax provisions were appropriate at both the half year and full year reporting periods.</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 Group 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 considers whether the external audit should be tendered. Changes made to the Code in 2012 recommended that the external audit is put out to tender at least every ten years. Given the long period since the external audit was last tendered, the Committee has considered the timing of the next audit tender very carefully, and in particular has considered the longer-term implications of the recently adopted EU legislation requiring mandatory audit firm rotation which will apply from June 2016. As a result of their considerations, the Committee has determined that an external audit tender will commence in April 2015 for the 2015 year-end 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;
- The Group's requirements 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 Group 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 gives best value for money. The policy is shared with the external auditor of the Group. Adherence to the policy and non-audit fees incurred is regularly reviewed by the Committee.

For the year ended 31 December 2014, the Group was charged £349,000 (exc VAT) by Deloitte LLP and its associates for audit services. The fees for other assurance services amounted to £90,000, making total fees from Deloitte LLP of £439,000. 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 151.

## 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 76. In reviewing the effectiveness of the system of internal control and risk management during 2014 the Committee has:

- Reviewed the findings and agreed management actions arising from both external and internal audit reports issued during the year;
- Monitored management's responsiveness to the findings and recommendations of the Director of GIA;

- Met with the Director of GIA once during the year without management being present to discuss any issues arising from internal audits carried out;
- Commissioned an independent external review of the effectiveness of the GIA function; and
- Monitored the implementation of recommendations arising from this independent external review.

As explained in the Corporate Governance Report on page 76, the reporting lines for GIA and Group Compliance have now changed, having previously reported to the same individual. With effect from 1 January 2014, the Director of GIA continues to report to the Chairman of the Group Audit Committee whereas the Group Compliance Officer reports via the Group Chief Risk Officer to the Chairman of the Group Risk Committee.

## 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 Group's assets that could have a material effect on the financial statements is detected on a timely basis;
- Transactions are recorded as required to permit the preparation of financial statements; and
- The Group 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.

## Group Internal Audit

Group Internal Audit is guided by the Group Audit 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 responsibility for GIA and the Director of GIA is accountable to the Group Audit Committee Chairman, reports administratively to the Group Chief Executive Officer and has access to the Chairman of the Board.

Group Internal Audit'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 in advance by the Group Audit Committee and is regularly reviewed throughout the year to ensure that it continues to reflect areas of higher priority. Where necessary, changes to the agreed plan are identified as a consequence of the Group's changing risk profile. All proposed changes to the agreed internal audit plan are reviewed, challenged and approved by the Group Audit Committee during the year.

Throughout the year GIA submitted quarterly reports to the Group Audit Committee summarising findings from audit activity undertaken and the responses and action plans agreed with management. During the year the Group Audit Committee monitored progress of the most significant management action plans to ensure that these were completed in a timely manner and to a satisfactory standard.

## 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  
24 March 2015

# Group Remuneration Report

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

## 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	4	4
David Christie	April 2013	4	4
Christine Wilson	April 2013	4	4
Caroline Taylor	November 2014*	0	0

*\* Caroline Taylor was appointed to the Committee with effect from 26 November 2014.*

## Group Remuneration Committee Chairman's statement

### General context

As Chair of the Group Remuneration Committee, I am pleased to introduce the Group Remuneration Report for the year ending 31 December 2014 and to highlight some of the key aspects of the Committee's work during the financial year.

In addition to myself, the Committee during the year comprised of three NEDs, David Christie, Christine Wilson and Caroline Taylor, who was appointed on 26 November 2014. There were four meetings in total, three scheduled meetings and one additional meeting.

As has been the case in previous years, while our Group structure does not require us to comply with the regulations governing the disclosure of executive remuneration to which quoted companies are subject, we have chosen to largely adopt these reporting requirements in order to provide greater transparency and follow best practice. Therefore, following my introductory statement, this report is effectively divided into two sections: (i) the Directors' Remuneration Policy which sets out the structure and elements of pay for our Directors and how these interact and; (ii) the Annual Report on Remuneration which describes how the Group's remuneration policies have been implemented in 2014 providing retrospective disclosures on Directors' remuneration for 2014 and setting out how the policy will be implemented in 2015.

As described in the Strategic Report starting on page 21, the Group has made substantial progress during 2014 in improving underwriting profitability and rebuilding the foundations for sustainable profit from its core business.

However, significant challenges remain both for the industry and for Ecclesiastical and therefore our approach to remuneration remains appropriately measured.

During 2014, the Group delivered a strong underwriting profit, our first for five years, despite the storms and floods at the start of the year in the UK. The Combined Operating Ratio (COR) for the Group improved to 95.9% (2013: 102.9%). Our profit before tax (PBT) of £48m is below that reported last year (2013: £67m) as the positive underwriting result was offset by a more 'normal' investment return.

Given the Group's strong performance over the year, the Committee is satisfied that (i) the annual bonus awards of 78% (Group Chief Executive), 66% (Deputy Group Chief Executive) and 64% (Group Chief Financial Officer) of the maximum potential value and (ii) the extent to which the LTIP granted in 2012 vested, were appropriate.

### Key Committee activities during the year

During 2014, the Committee has undertaken a strategic review of the Group's Remuneration Policy, including the incentive schemes applicable to Executive Directors and senior executives, with specialist advice taken from FIT Remuneration Consultants LLP. The Committee additionally sought detailed advice from the Group Chief Risk Officer in relation to the risk impact of each proposed incentive scheme design and targets.

As part of this review the Committee established a set of principles which will underpin the Group's reward structures and ensure Ecclesiastical offers remuneration packages that are demonstrably 'fair' and aligned to the Group's strategic priorities, values and culture. They also need to reflect regulatory requirements, market practice and enable Ecclesiastical to attract, retain and motivate the high calibre staff required to deliver the Group's strategy and generate sustainable long-term returns to our shareholders.

An appropriate mix of fixed and performance-related pay opportunity will be offered, ensuring that any incentive plans have been responsibly designed to take full account of the Group's ethics, values and risk profile, discourage inappropriate conduct and support Ecclesiastical's desire to provide a best in class service to its customers.

From 2015 onwards, based on the principles set out above and having considered the advice of the Group Chief Risk Officer, the following key changes have been made to the Executive Directors' remuneration packages:

#### Annual bonus

- We have increased the impact of customer and conduct-related performance on overall bonus outcomes, to put customers at the heart of our decisions.
- We have dispensed with UK and Ireland COR as a bonus metric with COR now being measured on a Group-wide basis only to reduce complexity and increase focus on Group results.
- A bonus deferral element has been introduced to align with market best practice.
- While no changes have been made to maximum annual bonus opportunity, the amount of bonus payable for delivery of an 'on-target' level of performance has been increased to bring it more in line with market practice.

## Long-term incentives

- A broader range of metrics will be used to assess performance, including new elements based on customer and conduct-related performance and delivery of key strategic objectives.
- Maximum award levels will remain unchanged at 100% of salary, albeit award levels of some individuals will be increased to bring overall opportunity closer to market norms.
- The participant population will be extended to a broader group of key executives.
- Clawback provisions have been introduced.

No material changes have been made to other elements of the Executive Directors' remuneration, except as outlined in the tables starting on page 110.

In terms of other matters addressed by the Committee during the year, further consideration was given to the remuneration package of the Deputy Group Chief Executive, following the appointment of S. Jacinta Whyte to this role and to the Board in July 2013.

S. Jacinta Whyte continued to exercise her responsibilities as General Manager and Chief Agent for Canada during the year, alongside her appointment as Deputy Group Chief Executive and Managing Director of UK General Insurance. Given the global nature of her remit, specialist advice was sought in relation to pay benchmarking data, taxation, employment legislation and corporate governance requirements in both the Province of Ontario, Canada and the UK. In developing an appropriate remuneration package and contractual arrangements the Committee sought to balance the need to align her remuneration package with Ecclesiastical's long-term strategic goals, risk appetite, values, culture and high standards of conduct; the demands of the role, including leading transformational change programmes in both UK General Insurance and Ansva Australia; and to balance existing contractual commitments under Ontario law with UK corporate governance requirements.

The Committee also reviewed the remuneration package of Ian Campbell, who was appointed to the role of Group Chief Financial Officer on 30 April 2014, taking account of all relevant factors.

Details of the remuneration package and contractual arrangements for the Deputy Group Chief Executive and the Group Chief Financial Officer can be found starting on page 100.

Finally, I value the continued support from our charitable owner Allchurches Trust Limited (ATL), and remain mindful of our responsibilities to drive sustained and improved performance over the long term through our remuneration strategy, policy and principles.

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**Denise Wilson**

Chair of the Group Remuneration Committee  
24 March 2015

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# Directors' Remuneration Policy

**Not auditable**

The Directors' Remuneration Policy (the 'Policy') described in this part of the report is intended to apply for the year from January to December 2015 and describes the structure and elements of pay and how they interact. A strategic review of the Group's Remuneration Policy was carried out in 2014 and the Policy set out below reflects the recommendations of this review.

As outlined in the Group's Strategic Report starting on page 21, our ambition includes the following strategic objectives:

- Most trusted specialist insurer
- Most trusted specialist adviser
- Best ethical investment provider.

To support the achievement of the Group's strategic objectives, Ecclesiastical needs to attract, motivate and retain highly capable, productive and motivated employees who are aligned to the Company's values and culture. The Group therefore needs to provide a progressive, dynamic working environment which allows its employees to fulfil their potential and an appropriately structured set of remuneration policies.

The Group's Remuneration Policy outlined in the Group Remuneration Committee Chairman's statement above is aligned to delivery of the Group's strategic objectives and establishes a set of principles which underpin the Group's reward structures for all Group employees:

- Reward structures will promote the delivery of long-term sustainable returns. As such, the performance measures in the annual and long-term incentive plans (LTIP) will reflect and support Ecclesiastical's underlying strategic goals and risk appetite and may comprise both financial and non-financial targets.
- Reward will be performance-related, reflecting individual and business performance, including both what is delivered and the way in which results are achieved. However, Ecclesiastical will adopt a prudent and considered approach when determining what portion of an employee's package should be performance-linked and/or variable so as to ensure that irresponsible conduct and behaviours are neither encouraged nor rewarded and that customer experience is not prejudiced in any way by the operation of its pay arrangements.
- Reward structures will be straightforward and simple for everyone to understand.
- Remuneration packages will be set by reference to levels for comparable roles in comparable organisations. However, benchmark data will be only one of a number of factors that will determine remuneration packages.
- Reward structures will deliver an appropriate balance of fixed to variable pay in order to foster a performance culture, with the proportion of 'at risk' pay typically increasing with seniority. However, high levels of leverage are not appropriate for the Group.
- Reward structures will achieve a balance between short and long-term incentives, supporting the overall aim of the Group's Remuneration Policy of promoting the long-term success of the Group. The balance between short and long-term incentive pay is largely driven by role and seniority, with generally a greater role played by long-term incentives for more senior employees.
- The Group will strive to adhere to the highest standards of remuneration-related regulatory compliance and best practice guidelines, while ensuring that the Group's remuneration policies are appropriately tailored to its circumstances, challenges and strategic goals.

The Committee considers the Group's Remuneration 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. The current policy is summarised in the table on the next page.

## Balancing short and long-term remuneration

We have established the remuneration elements set out in this report guided by the Group's Remuneration Policy principles on the previous page. 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.

## Future Policy Table

How the element supports our strategic objectives	Operation
<b>Salary</b>  To provide a core reward at the level needed to attract and retain the required level of talent.	Salaries are paid in 12 equal monthly instalments during the year. Salaries are reviewed annually with changes taking effect from 1 April each year.
<b>Benefits</b>  To provide a market competitive reward package and promote the wellbeing of employees.	Benefits normally comprise a car allowance, a private healthcare scheme and medical assessments. Executive Directors also receive life assurance cover on the same basis as the wider employee population and in the case of the Deputy Group Chief Executive, health and dental cover, accidental death and dismemberment cover and long-term disability cover on the same basis as the wider employee population in our Canadian branch.
<b>Pension</b>  To aid retention and provide a market competitive provision for post-retirement income.	<b>UK Defined Contribution Scheme:</b> UK-based Executive Directors are eligible to participate in the Group Personal Pension plan. Contributions are made by the employee and employer.  <b>Canadian EIO plc Defined Contribution Pension plan:</b> the Canadian Defined Contribution Pension plan is applicable to Ecclesiastical's Canadian staff. The Deputy Group Chief Executive participates under this plan and does not participate in the UK Defined Contribution Scheme. Contributions are made by the employer.

	<b>Opportunity</b>	<b>Performance measures</b>	<b>Change from 2014</b>
	<p>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 or relevant territory population.</p> <p>Relevant pay data including market practice among a chosen set of comparator organisations in the financial services sector is also considered.</p>	Individual and Group performance	None
	Benefits are set at a level taking into account benefit packages offered by comparable organisations for comparable roles; benefits offered to the wider employee population and the objective of promoting the wellbeing of employees. The costs are those relating to providing the benefit.	Not applicable	None
	<p>The level of pension contribution takes into account the seniority of the role and pension benefits offered by comparable organisations for comparable roles.</p> <p>The employer contribution rate to the UK Defined Contribution Scheme will be 15% of basic salary.</p> <p>Any contributions to the UK Defined Contribution Scheme that are above the annual or lifetime earnings limit are paid in cash, net of NI contributions charge.</p> <p>The employer contribution rate to the Canadian EIO plc Defined Contribution Pension plan will be 12% of basic salary.</p> <p>Any contributions to the Canadian pension plan that are above the Canadian government maximum contribution limit are paid into a Supplemental Employee Retirement Plan (SERP) and are maintained as a liability on the Canadian balance sheet and attract interest annually.</p>	Not applicable	None

<b>How the element supports our strategic objectives</b>	<b>Operation</b>
<b>Group annual bonus scheme</b>	
<p>To incentivise the Executive Directors to achieve key financial and strategic goals and targets that have been set for the financial year. Deferral provides further alignment with shareholder interests and promotes retention.</p>	<p>This cash bonus is paid annually, normally three months after the end of the financial year to which it relates.</p> <p>Targets are set annually and award levels are determined by the Committee based on performance against these targets. When agreeing targets, the Committee also receives advice from the Group Chief Risk Officer on the extent to which the scheme meets the Group's risk appetite.</p> <p>Any bonus earned in excess of 75% of an individual's maximum bonus opportunity is deferred over a period of two years.</p> <p>Bonus already paid, or deferred, is subject to malus/clawback in certain circumstances; (i) misstatement; (ii) regulatory censure, material reputational damage and/or material non-adherence to the Company's risk tolerances; and (iii) misconduct. A three-year time limit applies.</p> <p>The Committee has discretion to reduce any bonus in certain circumstances, including (but not limited to): (i) there are issues regarding Ecclesiastical's underlying financial strength and position; (ii) there is an actual or potential regulatory censure; (iii) the Group is in material breach of its risk policies (including conduct risk) and/or its values/ethics; and (iv) there is a material diminution in the regard by which Ecclesiastical is held by its customer base through mismanagement.</p>
<b>Group Long-Term Incentive Plan (LTIP)</b>	
<p>To focus the Executives and incentivise the achievement of the Group's long-term objectives; to align the Executive Directors' interests with those of the shareholders and to promote attraction and retention of talented individuals.</p>	<p>Cash awards under the Group LTIP vest dependent on the Committee's assessment of performance against the performance conditions over the relevant three-year period.</p> <p>Targets are set annually for each successive three-year LTIP period. When agreeing targets, the Committee also receives advice from the Group Chief Risk Officer on the extent to which the scheme meets the Group's risk appetite.</p> <p>Any LTIP already vested and any unvested LTIP is subject to malus/clawback in certain circumstances: (i) misstatement; (ii) regulatory censure, material reputational damage and/or material non-adherence to the Company's risk tolerances; and (iii) misconduct. A three-year time limit applies.</p> <p>The Committee has discretion to reduce any bonus in certain circumstances, including (but not limited to): (i) there are issues regarding Ecclesiastical's underlying financial strength and position; (ii) there is an actual or potential regulatory censure; (iii) the Group is in material breach of its risk policies (including conduct risk) and/or its values/ethics; and (iv) there is a material diminution in the regard by which Ecclesiastical is held by its customer base through mismanagement.</p>

Opportunity	Performance measures	Change from 2014
Maximum opportunity of 100% of salary with 50% payable for a target level of performance.	<p>The Group annual bonus is subject to a range of challenging conditions linked to key strategic priorities. For 2015, the following performance conditions will apply:</p> <ul style="list-style-type: none"> <li>▪ Ecclesiastical Insurance Group (EIG) PBT (including fair value investment gains/losses)</li> <li>▪ Group COR</li> <li>▪ Strategic targets</li> <li>▪ Customers and conduct and</li> <li>▪ Personal performance rating.</li> </ul>	<p>Bonus opportunity for on-target performance has been brought closer to market norms.</p> <p>Performance measures revised.</p> <p>Deferral introduced.</p> <p>Malus introduced (clawback already in place).</p>
<p>Under the rules of the LTIP, awards of up to 100% of salary can be made.</p> <p>At on-target performance a target opportunity of 50% of the award applies.</p> <p>Threshold business performance would result in vesting of no more than 20% of the award.</p> <p>LTIP plans granted in respect of 2013-2015 and 2014-2016 will continue to vest under the previously applicable policy.</p>	<p>The Group LTIP is subject to a range of challenging conditions linked to key strategic priorities. For 2015 awards, the following performance conditions will apply:</p> <ul style="list-style-type: none"> <li>▪ EIG PBT (excluding fair value investment gains/losses)</li> <li>▪ EIG PBT (including fair value investment gains/losses)</li> <li>▪ COR</li> <li>▪ Strategic targets;</li> <li>▪ Customers and conduct.</li> </ul> <p>There is a 36-month performance period from the date of grant.</p>	<p>Overall reward opportunity under the LTIP has been brought into line with market norms.</p> <p>Performance measures revised as indicated.</p> <p>Malus/clawback introduced.</p>

## Discretionary bonus arrangements

The Committee may decide, from time to time, to incentivise specific Executive Directors, in exceptional circumstances, 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 incentive arrangements.

In addition to the above arrangements set out in the previous table, the following discretionary bonus arrangements are in existence for the Group Chief Executive and Deputy Group Chief Executive.

How the element supports our strategic objectives	Operation
<b>Group Chief Executive's three-year incentive plan</b>	
To incentivise the Group Chief Executive to achieve specific goals that have been set for the period 2014-2016.	<p>No mandatory deferral provision.</p> <p>Staged payments:</p> <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> <p>Payments under the plan are subject to clawback in respect of mis-statement and misconduct.</p>
<b>Deputy Group Chief Executive's two-year incentive plan</b>	
To incentivise the Deputy Group Chief Executive to achieve specific goals that have been set for the period 12 June 2013 to 30 June 2015.	<ul style="list-style-type: none"><li>▪ No mandatory deferral provision.</li><li>▪ Staged payments:<ul style="list-style-type: none"><li>▪ Jun-Dec 2013 up to £27.5k<sup>1</sup></li><li>▪ Jan-Dec 2014 up to £55k<sup>1</sup></li><li>▪ Jan-Jun 2015 up to £27.5k<sup>1</sup>.</li></ul></li></ul>

<sup>1</sup> An average 2014 exchange rate of 1.8177 Canadian dollars to 1 GBP has been used.

## Notes to the policy table

The Committee selected the performance conditions used for annual bonus and long-term incentives because they are central to the Group's overall strategy and are key metrics used in measuring the performance of the Group. The performance conditions are reviewed and set annually by the Committee, following consultation with the Group Chief Risk Officer.

The Committee is 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 provided they are not considered commercially sensitive at that time.

## 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. There is an increased emphasis on performance-related pay for the Executive Directors through a higher annual 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.

Opportunity	Performance measures	Change from 2014
Maximum opportunity of 100% of salary over the 2014-2016 performance period.	<p>There are three areas of performance conditions that apply to this award:</p> <ul style="list-style-type: none"> <li>▪ 50% dependent upon financial performance</li> <li>▪ 25% dependent on achievement of measurable, non-financial results</li> <li>▪ 25% dependent upon achievement of qualitative targets.</li> </ul>	None
Maximum opportunity of £110k <sup>1</sup> for the performance period from 12 June 2013 to 30 June 2015.	<p>There are three areas of performance conditions that apply to this award:</p> <ul style="list-style-type: none"> <li>▪ 40% dependent upon financial performance</li> <li>▪ 40% dependent on achievement of measurable, non-financial results</li> <li>▪ 20% dependent upon achievement of qualitative targets.</li> </ul>	New element for 2013/2014

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

The Committee invites the Group 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 remuneration practices within the Group.

The Group HR Director consults with the Committee on the performance measures for Executive Directors' annual bonuses and the extent to which these should be cascaded to other employees. The Committee has oversight of incentive arrangements that are in operation for all Group entities.

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

## Approach to recruitment remuneration

Ecclesiastical is a specialist financial services group competing for talent across a variety of markets and with often much larger organisations.

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 through the use of the Company's existing incentive arrangements. Where this is not possible, it may be necessary to offer some form of 'buy-out' award, the size of which will in the normal course reflect the commercial value of the award foregone and will also (where possible) be subject to some form of clawback if the individual leaves Ecclesiastical within a set time frame.

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	100%
Pension contribution/allowance	<ul style="list-style-type: none"><li>▪ 15% UK Defined Contribution Scheme</li><li>▪ 12% Canadian EIO plc Defined Contribution Pension plan</li></ul>

## Policy on termination payments for Executive Directors

Standard provision	Policy	Details
Notice periods in Executive Directors' service contracts	Twelve months by Company or Executive Director for the Group Chief Executive and six months by Company or Executive Director for other Executive Directors.	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.
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 in the case of the Group Chief Executive, 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 but, in the case of the Deputy Group Chief Executive and Group Chief Financial Officer, it can be paid in monthly instalments over the balance of the notice period.
Severance payment for Deputy Group Chief Executive	The Deputy Group Chief Executive's pre-existing contract of employment before her appointment to her new role contained severance provisions in line with Canadian law and practice. The policy of the Company has been to honour these commitments insofar as they relate to accrued service up to the date of her appointment to her new role, but not in respect of service after that date.	<p>The Executive's entitlement arises in the case of any termination by the Company for 'No Cause' as defined and represents the sum of £478k and the provision of dental and health insurance cover and life assurance cover for a period of 21 months after the termination date of her employment.</p> <p>The sums due may be made in monthly instalments to allow for mitigation. In addition, any sums otherwise due under the rules of any bonus or cash incentive plan in respect of the bonus year in which the termination date falls or in any subsequent year are only payable to the extent that they would otherwise exceed £141k.</p>

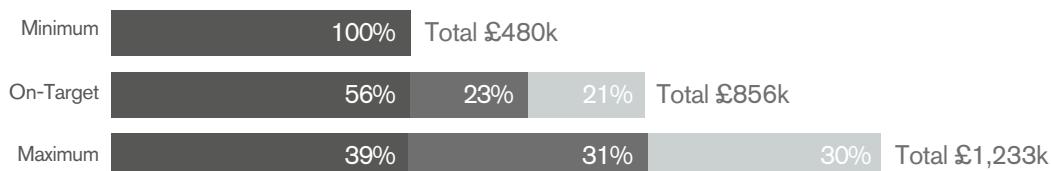
Standard provision	Policy	Details
Mitigation	<p>The Executive Directors' service contracts do not expressly provide for mitigation on termination except in the case of the Deputy Group Chief Executive's and Group Chief Financial Officer's contracts which allows for payment in instalments over the balance of the notice period.</p>	<p>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.</p>
Treatment of annual bonus on termination or change of control under plan rules	<p>No payment unless employed on date of bonus payment except for 'good leavers' as defined in the plan rules (e.g. death, ill health, redundancy, retirement) and other circumstances at the Committee's discretion.</p> <p>If there is a change of control event, then an early payment can be calculated and made.</p>	<p>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.</p>
Treatment of long-term incentive awards on termination or change of control under plan rules	<p>All awards lapse except for 'good leavers' as defined in the plan rules (e.g. death, ill health, redundancy, retirement) and other reason at the discretion of the Committee.</p> <p>If there is a change of control event, then an early payment can be calculated as stated in the rules of the plan.</p>	<p>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.</p>
Exercise of discretion	<p>Intended to be relied upon only in certain circumstances as set out in the future policy table.</p>	<p>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.</p>
Group Chief Executive's three-year incentive plan	<p>If the Group Chief Executive ceases to be employed in this capacity, the award will lapse unless he is a 'good leaver'.</p> <p>There is an express provision for clawback in respect of misstatement and misconduct.</p>	<p>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.</p>
Deputy Group Chief Executive's two-year incentive plan	<p>If the Deputy Group Chief Executive ceases to be employed in this capacity, the award will be treated in accordance with her contract.</p>	
Other matters	<p>The Company's policy is to honour commitments made to contractual arrangements that may have been entered into with an employee prior to them becoming a Director.</p> <p>There are no other provisions for termination payments or payments for loss of office in standard Directors' service contracts.</p>	

## Total remuneration opportunity

The charts below illustrate what each Executive Director could earn in respect of the policy for 2015, under different performance scenarios:

- Minimum: fixed pay only (being basic salary, pension or cash in lieu of pension and benefits) with no annual bonus and no vesting of the LTIP
  - On-target: fixed pay (being basic salary, pension or cash in lieu of pension and benefits) with annual bonus of 50% of basic salary and 50% vesting of the LTIP
  - Maximum: fixed pay (being basic salary, pension or cash in lieu of pension and benefits) with maximum bonus of 100% of basic salary and 100% vesting of the LTIP.
- 

### Mark Hews: Effect of the application of this policy in financial year 2015

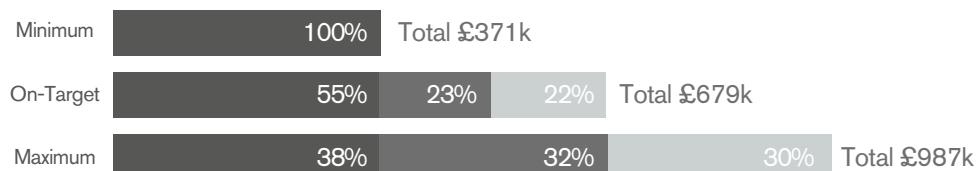


The Group Chief Executive's three-year incentive plan is not included in the above illustration as the three-year incentive plan is an additional multi-period bonus arrangement granted in a prior year.

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KEY      ■ Fixed pay      ■ Annual variable      ■ Multi-period variable

### S. Jacinta Whyte: Effect of the application of this policy in financial year 2015

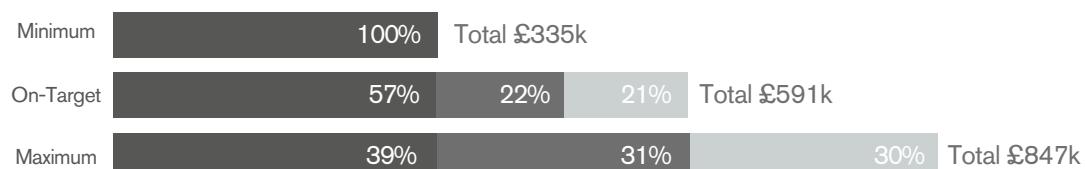


The Deputy Group Chief Executive's two-year incentive plan is not included in the above illustration as the two-year incentive plan is an additional multi-period bonus arrangement granted in a prior year.

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KEY      ■ Fixed pay      ■ Annual variable      ■ Multi-period variable

### Ian Campbell: Effect of the application of this policy in financial year 2015



KEY      ■ Fixed pay      ■ Annual variable      ■ Multi-period variable

## Notes to the charts:

- Fixed pay is base salary for 2015 plus the value of pension and benefits.
- The value of pension is calculated as described in the future policy table.
- The value of benefits in kind is taken from the single figure table for 2014 which can be found on page 111.
- For consistency, an LTIP of 100% of salary has been assumed for all Executive Directors for the purpose of the charts. However, actual award levels will be determined by the Committee at the relevant time.
- On-target performance is the level of performance required to deliver an annual bonus of 50% of basic salary and 50% vesting of the LTIP.
- Maximum performance is the level of performance required to deliver a maximum annual bonus award and 100% vesting of the LTIP.

## 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 and 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. The Chairman's fees are considered and approved by the Board in the absence of the Chairman.</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 shareholders on any changes to this policy in order to understand expectations with regard to Executive Directors' remuneration and any changes in shareholders' views. Any views expressed by the shareholders' are then considered and taken into account at the annual review of the policy. During 2014, the Committee consulted with the shareholders on the proposed changes to the Group's Remuneration Policy and incentive arrangements for Executives.

## Annual Report on Remuneration

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

### Statement of implementation of Remuneration Policy in 2015 (not auditable)

The implementation of the policy will be consistent with that outlined in the Directors' Remuneration Policy. Differences between the Directors' Remuneration Policy for 2014 and the Policy for 2015 are set out in the table below:

Element	Operation	Opportunity	Performance measures
Salary	No difference.  Salaries for Executive Directors will be subject to review with any changes taking effect from April 2015.	No difference	N/A
Benefits	No difference	No difference	N/A
Annual bonus	Any bonus earned in excess of 75% of an individual's maximum bonus opportunity is deferred over a period of two years.  Malus/clawback provisions apply as set out in the future policy table.  The Committee has discretion to reduce any bonus in certain circumstances on the grounds set out in the future policy table.	Maximum opportunity of 100% of salary is unchanged. Bonus opportunity for an on-target level of performance will be 50%.	In 2015, the annual bonus will be subject to the following performance conditions: <ul style="list-style-type: none"><li>▪ EIG PBT (including fair value investment gains/losses)</li><li>▪ Group COR</li><li>▪ Strategic targets</li><li>▪ Customers and conduct and</li><li>▪ Personal performance rating.</li></ul>
LTIP	Malus/clawback provisions apply as set out in the future policy table.  The Committee has discretion to reduce any bonus in certain circumstances on the grounds set out in the future policy table.	Under the rules of the LTIP, awards of up to 100% of salary can be made.	In respect of 2015-2017, the Group LTIP will be subject to the following performance conditions: <ul style="list-style-type: none"><li>▪ EIG PBT (excluding fair value investment gains/losses)</li><li>▪ EIG PBT (including fair value investment gains/losses)</li><li>▪ Group COR</li><li>▪ Strategic targets</li><li>▪ Customers and conduct.</li></ul>
Group Chief Executive's three-year incentive plan	No difference	No difference	No difference
Deputy Group Chief Executive's two-year incentive plan  To incentivise the Deputy Group Chief Executive to achieve specific goals set for the period 12 June 2013 to 30 June 2015.	No mandatory deferral provision.  Staged payments: <ul style="list-style-type: none"><li>▪ Jun-Dec 2013 up to £27.5k<sup>1</sup></li><li>▪ Jan-Dec 2014 up to £55k<sup>1</sup></li><li>▪ Jan-Jun 2015 up to £27.5k<sup>1</sup>.</li></ul>	Maximum opportunity of £110k <sup>1</sup> for the performance period from 12 June 2013 to 30 June 2015.	There are five performance conditions that apply to this award: <ul style="list-style-type: none"><li>▪ Two performance conditions (40%) are dependent upon financial performance</li><li>▪ Two performance conditions (40%) are dependent on achievement of measurable, non-financial results</li><li>▪ One performance condition (20%) is dependent upon achievement of qualitative targets.</li></ul>

<sup>1</sup> An average 2014 exchange rate of 1.8177 Canadian dollars to 1 GBP has been used.

Salary increases received by Executive Directors in the year are shown in the table opposite:

## Salary at the annual review date

Name	Salary (£000s)		Salary (£000s)		Percentage increase	
	1 April 2014		1 April 2013			
Mark Hews	367.5		260		41.3%	
S. Jacinta Whyte	300		250		19.9%	
Ian Campbell	250		200		25.0%	

Mark Hews became Group Chief Executive on 1 May 2013 and therefore his salary was increased to £350k with effect from this date, with a further increase made on 1 April 2014 to £367.5k.

S. Jacinta Whyte assumed responsibility for the role of Deputy Group Chief Executive on 12 June 2013 which was subject to regulatory approval. Regulatory approval was received at a later date and she was formally appointed on 16 July 2013. S. Jacinta Whyte continued to exercise her responsibilities as General Manager and Chief Agent for Canada during the year, alongside her appointment as Deputy Group Chief Executive and Managing Director of UK General Insurance. Her salary was increased to £286k with effect from 12 June 2013. A further increase was made on 1 April 2014 to £300k.

Ian Campbell took on additional finance responsibilities from the beginning of the financial year on 1 January 2014 and was formally appointed Group Chief Financial Officer on 30 April 2014. His salary was increased to £250k with effect from 1 January 2014.

## 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 2014 financial year for each Executive Director, together with comparative figures for 2013, where applicable. Aggregate Executive Directors' emoluments are shown on page 114. Details of NEDs' fees are set out in a separate table on page 114.

Single total figure for Executive Directors	Salary		Benefits <sup>2</sup>		Pension		Annual bonus		LTIP <sup>3</sup>		Total	
	£000s		£000s		£000s		£000s		£000s		£000s	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Mark Hews <sup>4</sup>	363	320	15	39	51	48	287	157	191	5	907	569
S. Jacinta Whyte <sup>5</sup>	296	164	18	9	36	20	162	30	81	41	593	264
Ian Campbell <sup>6</sup>	250	N/A	33	N/A	34	N/A	161	N/A	0	N/A	478	N/A
Michael Tripp <sup>7</sup>	0	196	0	23	0	25	0	84	16	2	16	330
Steve Wood <sup>8</sup>	0	244	0	32	0	36	0	0	23	3	23	315
<b>Total</b>	<b>909</b>	<b>924</b>	<b>66</b>	<b>103</b>	<b>121</b>	<b>129</b>	<b>610</b>	<b>271</b>	<b>311</b>	<b>51</b>	<b>2,017</b>	<b>1,478</b>

<sup>2</sup> Benefits include items such as a car allowance and private medical insurance which are valued at their taxable value. It also includes travel and accommodation benefits, valued at their grossed up tax and NI value. The 2013 benefit for Mark Hews and Michael Tripp have been adjusted by £2k and £4k respectively to include travel and accommodation benefits.

<sup>3</sup> LTIP represents the amount payable in respect of the three-year LTIP performance period 2012-2014 for 2014 and 2011-2013 for 2013, together with the amounts payable in respect of the Group Chief Executive's 3-year incentive plan (2014: £85k) and the Deputy Group Chief Executive's 2-year incentive plan (2014: £55k; 2013: £27.5k as note<sup>5</sup>). All Executive Directors hold unvested LTIP awards in accordance with the rules of the LTIP plan.

<sup>4</sup> Mark Hews was appointed Group Chief Executive on 1 May 2013. In 2014, Mark

Hews received a cash allowance in lieu of pension for part of the year which is in line with company policy that a cash allowance of 15% of salary (net of NI contributions) is paid to UK-based Executive Directors where continued Company contributions would result in a breach of the HMRC annual allowance.

<sup>5</sup> S. Jacinta Whyte was appointed Deputy Group Chief Executive on 16 July 2013. During 2014 she received the total sum of £19k in salary and £27.5k in respect of the Deputy Group Chief Executive's 2-year incentive plan which were attributable to her service in 2013. She also received £2k in pension contributions in 2014 which was attributable to her service in 2013. These are all included in the 2013 figures in the table above. Contributions to the Canadian pension plan that are above the Canadian government maximum contribution limit are paid into a SERP and are also included in the figures shown. An average 2014

exchange rate of 1.8177 Canadian dollars to 1 GBP has been used in respect of both 2014 and 2013.

<sup>6</sup> Ian Campbell took on additional finance responsibilities from the beginning of the financial year on 1 January 2014 and was formally appointed Group Chief Financial Officer on 30 April 2014. His salary was increased to £250k with effect from 1 January 2014.

<sup>7</sup> Michael Tripp resigned from the Board on 21 May 2013. An LTIP payment of £16k was made in 2014 and is in respect of performance in the year 2012 in the 2012-2014 LTIP.

<sup>8</sup> Steve Wood resigned from the Board on 12 June 2013. The LTIP payment of £23k was made in 2014 and is in respect of performance in the years 2012 and 2013 in the 2012-2014 LTIP.

Mark Hews is also a NED for MAPFRE RE and was appointed to their Board in December 2013. The fees that Mark earns in respect of this role are paid directly to the Group by MAPFRE RE.

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

The annual bonus payable to the Group Chief Executive and Group Chief Financial Officer in respect of 2014 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 performance multiplier, and these are shown in the table below. Actual results are assessed against these targets to calculate the Group performance multiplier as shown in the second table below. The proposed personal performance multiplier is reviewed and agreed by the Committee.

The annual bonus payable to the Deputy Group Chief Executive in respect of 2014 is based both upon the Group annual bonus plan applicable to the Group Chief Executive and the Group Chief Financial Officer and the relevant Canadian annual bonus plan, with half of the bonus opportunity attributable to each plan. Accordingly, that part of the annual bonus attributable to the Group plan is assessed on the same basis as the Group Chief Executive and the Group Chief Financial Officer as described above, but divided by two. The Canadian part of the bonus is assessed taking account of Canadian business performance against two equally weighted measures: Canadian Net COR and Canadian Gross Written Premium (GWP).

In recognition of the additional duties undertaken by the Deputy Group Chief Executive and the impact of her new role on her ability to meet the performance targets, in order to maintain her bonus opportunity, her aggregate potential bonus entitlement, for the transitional year 2014 only, was the greater of (i) 100% of her Canadian incentive arrangements and (ii) 50% of her Canadian incentive arrangements and 50% of her Group incentive arrangements.

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 2014 are shown in the single figure table on page 111. None of the 2014 annual bonuses are subject to deferral.

## Annual bonus table

The table below relates to the Group Chief Executive, Group Chief Financial Officer and to the 50% of the Deputy Group Chief Executive's annual bonus that is based on the Group annual bonus plan:

Original targets relating to the Group annual bonus for the financial year 2014 were:

Measure	Threshold	On-target	Maximum	Weighting
Group COR	101.0%	99.4%	97.0%	25%
UK & Ireland COR	101.0%	99.0%	97.0%	25%
Group PBT	£24.4m	£32.8m	£53.5m	35%
Group Strategic Priorities	0%	75%	100%	15%

Actual results relating to the Group annual bonus for the financial year 2014, giving the Group performance multiplier, are:

Measure	Result	Range	Weighting	Multiple
Group COR	95.9%	2.0	25%	0.50
UK & Ireland COR	94.0%	2.0	25%	0.50
Group PBT	£48.2m	1.7	35%	0.61
Group Strategic Priorities	89.0%	1.6	15%	0.23
<b>Overall Multiplier</b>				<b>1.84</b>

The table below relates to the 50% of the Deputy Group Chief Executive's annual bonus that is based on the Canadian annual bonus plan only:

Original targets relating to the Canadian annual bonus for the financial year 2014 were:

Measure	Threshold	On-target	Maximum	Weighting
Canadian Net COR	101.4%	99.4%	89.4%	50%
Canadian GWP	CAD\$72,918	CAD\$75,174	CAD\$78,933	50%

Actual results relating to the Canadian annual bonus for the financial year 2014 are:

Measure	Result	Factor	Weighting
Canadian Net COR	96.2%	25.4%	50%
Canadian GWP	CAD\$71,950	0%	50%

## 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 2012 for the period 2012-2014. Vesting was dependent on performance over the three financial years ending on 31 December 2014 and continued service until March 2015.

The LTIP amount included in the single total figure of remuneration for the Deputy Group Chief Executive in respect of the period 2012-2014 is based both upon the Group LTIP applicable to the Group Chief Executive and the Group Chief Financial Officer and the Canadian LTIP, with half of the LTIP opportunity attributable to each plan.

In relation to the Group Chief Executive and Group Chief Financial Officer and Director and to the 50% of the Deputy Group Chief Executive's LTIP award that is based on the Group LTIP, the performance achieved against the performance targets is shown below:

Performance measure	Threshold 30% vesting	Target 50% vesting	Maximum 100% vesting	Actual	Vesting (% of maximum for performance measure)
COR	104.0%	101.2%	90.0%	103.0%	31.2%
Group PBT	£95m	£132m	£210m	£153m	63.4%

In relation to the 50% of the Deputy Group Chief Executive's LTIP award that is based on the Canadian LTIP, the performance achieved against the performance targets is shown below:

Performance measure	Threshold	Target	Maximum	Actual	Vesting (% of maximum for performance measure)
Canadian Gross COR	86.7%	85.7%	80.7%	93.1%	0%
Canadian GWP	CAD\$64,038	CAD\$67,408	CAD\$70,778	CAD\$65,704	74.7%

## 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 November 2013 with increased fees becoming 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 that this will enable us to attract NEDs of the calibre we require to help us to implement our future strategy.

## NEDs' fees for the current and prior year

Director	2014 (£000s)	2013 (£000s)
Will Samuel <sup>9</sup>	68	68
David Christie	60	42
John Hylands	55	40
Tony Latham	55	40
Denise Wilson	53	36
The Venerable Christine Wilson <sup>10</sup>	45	32
Tim Carroll <sup>11</sup>	53	24
Caroline Taylor <sup>12</sup>	16	-
Sir Philip Mawer <sup>13</sup>	-	4
<b>Total</b>	<b>405</b>	<b>286</b>

<sup>9</sup> The Chairman has waived £27k of his 2014 fee, which was increased to £95k from 1 January 2014.

<sup>10</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>11</sup> Tim Carroll was appointed to the Board on 2 April 2013.

<sup>12</sup> Caroline Taylor was appointed to the Board on 8 September 2014.

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

## Statement of Directors' shareholdings and share interests

Directors' shareholdings and share interests are set out in the Directors' Report on page 73.

## Executive Directors' termination payments

No termination payments were made to Executive Directors in 2014.

## 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 except in relation to LTIP awards that vested in the year in relation to a prior performance period under the good leaver provisions of the scheme.

## Total aggregate emoluments of 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 Directors in respect of qualifying services during 2014 was £1,991k (2013: £1,609k).

After inclusion of amounts receivable under long-term incentive schemes and pension benefits, the total aggregate emoluments of the Directors was £2,422k (2013: £1,764k). The 2013 figures have been adjusted to reflect changes made to prior year figures as mentioned in the single figure table on page 111.

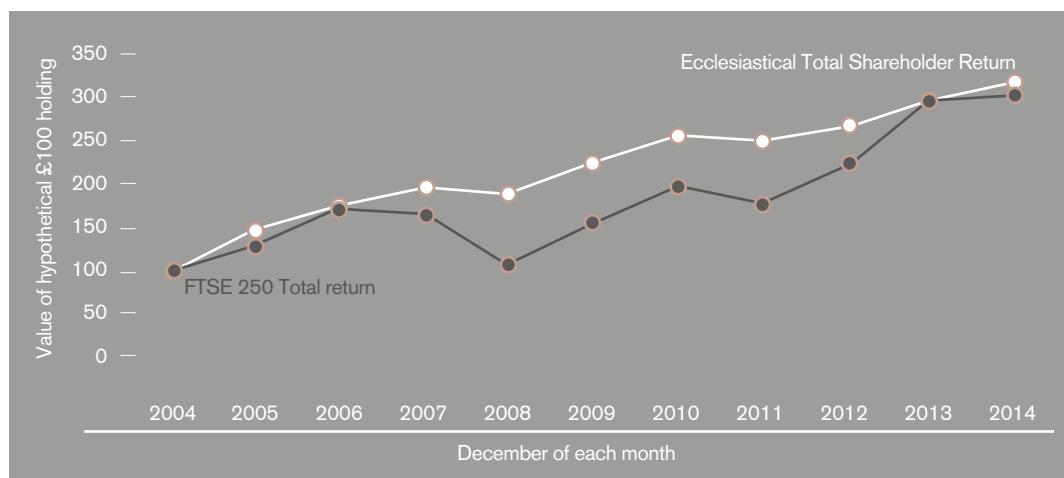
## LTIP grant policy (not auditable)

Grants of participation in the LTIP are made annually following the publication of the Company's accounts. In 2014 awards were made to Executive Directors and other designated senior managers in accordance with our normal grant policy. For Executive Directors this is included in the single figure table on page 111.

## Performance graph (not auditable)

As Ecclesiastical does not have equity shares traded on a regulated market, total equity shareholders' 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 TSR performance against the FTSE 250 (2004-2014)



## 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.

## 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 2014. During the year external professional advice was sourced from HNBS and, as part of the Group Remuneration Strategy Review, from FIT Remuneration Consultants LLP when determining appropriate remuneration packages for Executive Directors and those holding Significant Influence functions. HNBS and FIT Remuneration Consultants LLP have no other advisory function within the Group. The Committee also has access to benchmarking reports from Towers Watson and McLagan, which provide data to support the determination of pay and conditions throughout the Group.

The Committee is content that the advice received from its advisers 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. None of the Executive Directors were involved in discussions relating to their own remuneration. The Committee also has overarching responsibility for the Group-wide Remuneration Policy.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ECCLESIASTICAL INSURANCE OFFICE PLC

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## **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 2014 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 34. 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 on page 74 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> The assessment of the calculation of the general insurance technical reserves requires management to make significant judgements about the quantum of the reported losses and the estimated incurred but not reported ("IBNR") losses based on past experience and current expectations of future cost levels. Gross provisions for outstanding claims total £564m. The more judgemental areas of reserving are considered higher risk, being the liability claims reserves and in particular the 'PSA' reserves, referred to by the Group Audit Committee in their report on page 88.	We challenged the key judgements within the calculation of the general insurance reserves as set out in note 27 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. Key assumptions and methodologies were benchmarked using our industry knowledge. We also tested the design and implementation of key controls around reserving and the completeness and accuracy of the underlying data used in the reserving.
<b>Carrying Value of Goodwill</b> The assessment of impairment of goodwill is a judgemental process which requires estimates concerning the estimated future cash flows and associated discount rates and growth rates based on management's view of future business prospects. The Group's intangible assets include £24m of goodwill relating to acquisitions; material goodwill is held in respect of the brokers SEIB and Lansdown.	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. We compared these to published benchmark rates, agreed the prevailing Group cost of capital at the year-end and compared to management's past forecasting accuracy and future prospects of the business. We also tested the mathematical accuracy of management's calculations and the design and implementation of controls around the impairment review process.
<b>Life Insurance Reserves</b> The assessment of the calculation of the 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. Although closed for new business, the Group maintains reserves for existing business of £94m.	We evaluated the key judgements underpinning the calculation of the life insurance reserves as set out in note 27 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 design and implementation of key controls around the life reserving and the completeness and accuracy of underlying data used in the reserving.
<b>Assumptions Underpinning the Calculation and Recognition of Retirement Benefit Obligations and recognition of surpluses</b> The determination of the value of the surpluses and deficits relating to the Group's defined benefit pension schemes and liability relating to post-employment medical benefits requires significant judgement in the selection of key assumptions and is highly sensitive to such assumptions. Management make significant judgements in respect of mortality, price inflation, discount rates, pension increases and earnings growth. The Group recognises a total of £21m for pension schemes in surplus and a deficit of £250k for one scheme; the post-employment medical benefits scheme has a liability of £12.5m.	We evaluated the appropriateness of the assumptions used in deriving the defined benefit pension and post-retirement medical benefits balances, as set out in note 18 to the financial statements, by involving our internal pension specialists to benchmark the assumptions in respect of the discount rate, inflation and mortality assumptions to those observed in the market.  We tested the design and implementation of key controls around pensions balances and the completeness and accuracy of underlying data used in the calculation of the retirement benefit obligations; we also assessed management's valuation of pension scheme assets, held at fair value, by comparison to observable market prices and 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>Revenue Recognition</b> We have identified earning patterns applied to gross written premiums ("GWP") and the risk of data from policy administration systems not being reflected appropriately as our revenue risks for general insurance business and we have identified the calculation of management fees as the revenue risk for investment management business. GWP totalled £329m for the year, EIM's management fee income totalled £9.8m.	We have tested the design and implementation and operating effectiveness of the key controls over revenue recognition and underwriting. We focussed our work on the automated controls and interfaces between the underlying policy administration systems and the general ledger. Furthermore, we performed tests of details on the gross and unearned premium balances, agreeing a sample to policy documents and cash receipts where appropriate. We also performed substantive analytical procedures on the writing patterns and unearned premium percentage. Our IT audit specialists were involved in the testing of systems and controls and also in performing data analytics on the premiums population to enable selection of a risk-weighted sample for detailed testing. EIM management fee income was tested by recalculation and we performed analytical procedures, focussing on fees earned compared to funds under management, throughout the year.

Last year our report included a further risk which is not included in our report this year: carrying value of tax liabilities – the significant uncertainty regarding these has been eliminated in the year as circumstances became clearer regarding a specific issue disclosed last year, as referred to in note 28 to the financial statements. The description of risks above should be read in conjunction with the significant issues considered by the Group Audit Committee discussed on page 91. 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.

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<b>Our application of materiality</b>	<p>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.</p>
	<p>We determined materiality for the group to be £3.1m (2013: £3.7m), which is below 1% (2013: below 1%) of both gross written premiums and equity.</p>
	<p>We agreed with the Group Audit Committee that we would report to the Committee all audit differences in excess of £62k (2013: £77k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Group Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.</p>
<b>An overview of the scope of our audit</b>	<p>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 97% of the Group's net assets (2013: 96%), 93% of the Group's revenue (2013: 93%) and 92% of the Group's profit before tax (2013: 85%). All significant components were subject to full scope audits which were executed at levels of materiality applicable to each individual entity, in the range £4k to £2.8m.</p>
	<p>We completed the majority of our audit work in the UK. A senior member of the group audit team visited each significant component as part of this year's audit and we discussed the risk assessment with the component auditor, in addition to reviewing documentation of the findings from their work.</p>
	<p>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.</p>
<b>Opinion on other matter prescribed by the Companies Act 2006</b>	<p>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.</p>
<b>Other matters</b>	<p>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.</p>
<i>Directors' Remuneration</i>	
<i>Corporate Governance Statement</i>	<p>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. We reviewed the part of the Corporate Governance Statement relating to the company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.</p>
<b>Matters on which we are required to report by exception</b>	<p>Under the Companies Act 2006 we are required to report to you if, in our opinion:</p>
<i>Adequacy of explanations received and accounting records</i>	<ul style="list-style-type: none"> <li>■ we have not received all the information and explanations we require for our audit; or</li> <li>■ 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</li> <li>■ the parent company financial statements are not in agreement with the accounting records and returns.</li> </ul>

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 Group Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

**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

24 March 2015

S E C T I O N   F O U R

## Financial Statements

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# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2014

	Notes	2014 £000	2013 £000
<b>Revenue</b>			
Gross written premiums	5, 6	<b>328,797</b>	399,345
Outward reinsurance premiums	6	<b>(135,132)</b>	(131,274)
Net change in provision for unearned premiums	6	<b>31,178</b>	24,592
<b>Net earned premiums</b>		<b>224,843</b>	292,663
Fee and commission income	7	<b>62,258</b>	58,088
Net investment return		<b>46,197</b>	77,243
<b>Total revenue</b>		<b>333,298</b>	427,994
<b>Expenses</b>			
Claims and change in insurance liabilities	8	<b>(197,170)</b>	(234,789)
Reinsurance recoveries	8	<b>62,306</b>	36,545
Fees, commissions and other acquisition costs	9	<b>(70,813)</b>	(80,285)
Other operating and administrative expenses		<b>(79,381)</b>	(82,411)
<b>Total operating expenses</b>		<b>(285,058)</b>	(360,940)
Operating profit		<b>48,240</b>	67,054
Finance costs		<b>(86)</b>	(117)
<b>Profit before tax</b>	5	<b>48,154</b>	66,937
Tax expense	13	<b>(7,837)</b>	(4,819)
<b>Profit for the year (attributable to equity holders of the Parent)</b>	10	<b>40,317</b>	62,118

# CONSOLIDATED AND PARENT STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2014

	2014		2013	
	Group £000	Parent £000	Group £000	Parent £000
<b>Profit for the year</b>	<b>40,317</b>	<b>31,359</b>	62,118	52,494
<b>Other comprehensive income</b>				
<i>Items that will not be reclassified to profit or loss:</i>				
Fair value gains/(losses) on property	30	30	(104)	-
Actuarial losses on retirement benefit plans	(13,184)	(13,184)	(1,526)	(1,526)
Attributable tax	2,647	2,647	484	453
	(10,507)	(10,507)	(1,146)	(1,073)
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Losses on currency translation differences	(1,697)	(405)	(10,071)	(2,727)
<b>Net other comprehensive income</b>	<b>(12,204)</b>	<b>(10,912)</b>	<b>(11,217)</b>	<b>(3,800)</b>
<b>Total comprehensive income attributable to equity holders of the Parent</b>	<b>28,113</b>	<b>20,447</b>	<b>50,901</b>	<b>48,694</b>

# CONSOLIDATED AND PARENT STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2014

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 2014</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>
Profit for the year	-	-	-	-	-	40,317	40,317
Other net income/(expense)	-	-	-	40	(1,697)	(10,547)	(12,204)
Total comprehensive income	-	-	-	40	(1,697)	29,770	28,113
Dividends	-	-	-	-	-	(9,181)	(9,181)
Gross charitable grant	-	-	-	-	-	(23,500)	(23,500)
Tax relief on charitable grant	-	-	-	-	-	5,053	5,053
Group tax relief in excess of standard rate	-	-	-	-	-	5	5
Reserve transfers	-	-	(538)	(199)	-	737	-
<b>At 31 December 2014</b>	<b>120,477</b>	<b>4,632</b>	<b>25,299</b>	<b>541</b>	<b>12,643</b>	<b>331,041</b>	<b>494,633</b>
<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>
Profit for the year	-	-	-	-	-	62,118	62,118
Other net expense	-	-	-	(52)	(10,071)	(1,094)	(11,217)
Total comprehensive income	-	-	-	(52)	(10,071)	61,024	50,901
Dividends	-	-	-	-	-	(9,181)	(9,181)
Gross charitable grant	-	-	-	-	-	(4,000)	(4,000)
Tax relief on charitable grant	-	-	-	-	-	930	930
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>Parent</b>							
<b>At 1 January 2014</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>
Profit for the year	-	-	-	-	-	31,359	31,359
Other net income/(expense)	-	-	-	40	(405)	(10,547)	(10,912)
Total comprehensive income	-	-	-	40	(405)	20,812	20,447
Dividends	-	-	-	-	-	(9,181)	(9,181)
Gross charitable grant	-	-	-	-	-	(23,500)	(23,500)
Tax relief on charitable grant	-	-	-	-	-	5,053	5,053
Group tax relief in excess of standard rate	-	-	-	-	-	(741)	(741)
Reserve transfers	-	-	(538)	(62)	-	600	-
<b>At 31 December 2014</b>	<b>120,477</b>	<b>4,632</b>	<b>25,299</b>	<b>541</b>	<b>6,053</b>	<b>263,370</b>	<b>420,372</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>
Profit for the year	-	-	-	-	-	52,494	52,494
Other net income/(expense)	-	-	-	21	(2,727)	(1,094)	(3,800)
Total comprehensive income	-	-	-	21	(2,727)	51,400	48,694
Dividends	-	-	-	-	-	(9,181)	(9,181)
Gross charitable grant	-	-	-	-	-	(4,000)	(4,000)
Tax relief on charitable grant	-	-	-	-	-	930	930
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>

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 2014

	Notes	2014		2013	
		Group £000	Parent £000	Group £000	Parent £000
<b>Assets</b>					
Goodwill and other intangible assets	16	<b>28,998</b>	<b>4,230</b>	23,684	3,795
Deferred acquisition costs	17	<b>31,117</b>	<b>26,974</b>	34,757	30,542
Deferred tax assets	29	<b>1,295</b>	<b>11</b>	3,261	37
Pension assets	18	<b>21,068</b>	<b>21,068</b>	32,288	32,288
Property, plant and equipment	19	<b>6,405</b>	<b>5,693</b>	7,292	6,084
Investment property	20	<b>69,775</b>	<b>69,775</b>	45,099	45,099
Financial investments	21	<b>886,186</b>	<b>714,428</b>	946,452	763,926
Reinsurers' share of contract liabilities	27	<b>157,465</b>	<b>115,004</b>	132,593	121,490
Current tax recoverable		-	-	135	135
Other assets	23	<b>119,394</b>	<b>102,239</b>	124,464	108,271
Cash and cash equivalents	24	<b>107,526</b>	<b>77,774</b>	107,241	80,430
Current assets classified as held for sale	25	<b>6,204</b>	-	-	-
<b>Total assets</b>		<b>1,435,433</b>	<b>1,137,196</b>	1,457,266	1,192,097
<b>Equity</b>					
Share capital	26	<b>120,477</b>	<b>120,477</b>	120,477	120,477
Share premium account		<b>4,632</b>	<b>4,632</b>	4,632	4,632
Retained earnings and other reserves		<b>369,524</b>	<b>295,263</b>	369,034	303,185
<b>Total shareholders' equity</b>		<b>494,633</b>	<b>420,372</b>	494,143	428,294
<b>Liabilities</b>					
Insurance contract liabilities	27	<b>820,328</b>	<b>618,887</b>	848,267	663,188
Finance lease obligations		<b>1,259</b>	<b>1,259</b>	1,624	1,624
Provisions for other liabilities	28	<b>3,588</b>	<b>2,770</b>	6,710	6,566
Pension liabilities	18	<b>250</b>	<b>250</b>	-	-
Retirement benefit obligations	18	<b>12,547</b>	<b>12,547</b>	11,744	11,744
Deferred tax liabilities	29	<b>36,014</b>	<b>35,559</b>	40,116	39,548
Current tax liabilities		<b>5,767</b>	<b>4,962</b>	2,463	2,171
Deferred income		<b>16,432</b>	<b>13,443</b>	14,231	13,950
Other liabilities	30	<b>44,615</b>	<b>27,147</b>	37,968	25,012
<b>Total liabilities</b>		<b>940,800</b>	<b>716,824</b>	963,123	763,803
<b>Total shareholders' equity and liabilities</b>		<b>1,435,433</b>	<b>1,137,196</b>	1,457,266	1,192,097

The financial statements of Ecclesiastical Insurance Office plc, registered number 24869, on pages 121 to 180 were approved and authorised for issue by the Board of Directors on 24 March 2015 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 2014

	2014		2013
	Group £000	Parent £000	Group £000
<b>Profit before tax</b>	<b>48,154</b>	<b>35,644</b>	66,937
<i>Adjustments for:</i>			57,394
Depreciation of property, plant and equipment	1,638	1,464	1,930
(Profit)/loss on disposal of property, plant and equipment	(32)	(13)	112
Amortisation and impairment of intangible assets	1,751	1,092	2,770
Loss on disposal of intangible assets	19	-	7
Net fair value (gains)/losses on financial instruments and investment property	(8,918)	739	(36,072)
Dividend and interest income	(34,709)	(26,150)	(38,364)
Finance costs	86	86	117
<i>Changes in operating assets and liabilities:</i>			
Net decrease in insurance contract liabilities	(21,413)	(41,066)	(8,689)
Net (increase)/decrease in reinsurers' share of contract liabilities	(26,814)	6,087	5,275
Net decrease/(increase) in deferred acquisition costs	3,327	3,377	(1,075)
Net decrease in other assets	3,792	4,725	16,385
Net increase/(decrease) in operating liabilities	8,814	1,777	(777)
Net (decrease)/increase in other liabilities	(3,498)	(4,177)	48
Cash (used)/generated by operations	(27,803)	(16,415)	8,604
Dividends received	8,624	7,863	9,923
Interest received	26,889	18,774	27,388
Interest paid	(86)	(86)	(117)
Tax recovered/(paid)	1,127	2,512	(225)
<b>Net cash from operating activities</b>	<b>8,751</b>	<b>12,648</b>	<b>45,573</b>
<b>Cash flows from investing activities</b>			<b>38,950</b>
Purchases of property, plant and equipment	(1,369)	(1,171)	(1,017)
Proceeds from the sale of property, plant and equipment	677	126	54
Purchases of intangible assets	(1,548)	(1,547)	(2,232)
Acquisition of business, net of cash acquired	(5,000)	-	-
Acquisition of shares issued by subsidiary	-	(300)	-
Purchases of financial instruments and investment property	(152,899)	(123,780)	(269,766)
Sale of financial instruments and investment property	185,401	144,870	242,082
<b>Net cash from/(used by) investing activities</b>	<b>25,262</b>	<b>18,198</b>	<b>(209,153)</b>
<b>Cash flows from financing activities</b>			<b>182,040</b>
Payment of finance lease liabilities	(359)	(359)	(418)
Payment of group tax relief in excess of standard rate	(15)	(122)	(163)
Dividends paid to Company's shareholders	(9,181)	(9,181)	(9,181)
Donations paid to ultimate parent undertaking	(23,500)	(23,500)	(8,000)
<b>Net cash used by financing activities</b>	<b>(33,055)</b>	<b>(33,162)</b>	<b>(8,000)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>958</b>	<b>(2,316)</b>	<b>(17,762)</b>
Cash and cash equivalents at beginning of year	107,241	80,430	112,584
Exchange losses on cash and cash equivalents	(673)	(340)	(2,275)
<b>Cash and cash equivalents at end of year</b>	<b>107,526</b>	<b>77,774</b>	<b>(312)</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 and in addition offers 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 2014 issued by the International Accounting Standards Board (IASB) 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 £892.4m (including current assets classified as held for sale), 98% of which are liquid (2013: financial investments of £946.5m, 97% liquid); cash and cash equivalents of £107.5m and no borrowings (2013: cash and cash equivalents of £107.2m and no borrowings); and a regulatory enhanced capital cover of 2.9 (2013: 2.6). 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

The Standards adopted in the current year are either outside the scope of Group transactions or do not significantly impact the Group.

The following Standards were in issue but not yet effective and have not been applied in these financial statements.

Accounting Standard	Key requirements	Expected impact on financial statements	Effective date
IFRS 9, <i>Financial Instruments</i>	The final phase of IFRS 9 was issued in the year and the Standard has now been issued in full. It provides a new model for the classification and measurement of financial instruments, a single, forward-looking 'expected loss' impairment model and a reformed approach to hedge accounting.	It is expected that equity instruments will continue to be measured at fair value through profit or loss. There is a possibility that the measurement of debt instruments will change to amortised cost or fair value through other comprehensive income, although this is being assessed and depends on the conclusion of IFRS 4 Phase II, the IASB's ongoing insurance accounting project.	Annual periods beginning on or after 1 January 2018.
IFRS 15, <i>Revenue from Contracts with Customers</i>	Establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.	Insurance contracts are outside the scope of the Standard. The impact on fee and commission income is being assessed. There is the possibility of commission income being recognised earlier if a contract is approved and consideration is probable. Variable consideration will be recognised earlier if receipt is considered highly probable.	Annual periods beginning on or after 1 January 2017.

The other Standards in issue but not yet effective are not expected to significantly impact the Group.

### 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 over which the Company, directly or indirectly, has control, with control being achieved when the Company has power over the investee, is exposed to variable return from its involvement with the investee and has the ability to affect its returns. 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, *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.

## 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 1 Accounting policies (continued)

### **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.

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 brand, 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 1 Accounting policies (continued)

- 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. 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 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 an 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 a 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, *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.

# NOTES TO THE FINANCIAL STATEMENTS

## 1 Accounting policies (continued)

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.

### Assets held for sale

Assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and expected to qualify for recognition as a completed sale within one year from the date of classification.

## 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 27. 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 27.

### (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 returns 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, margins for risk and uncertainty are 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 27.

### (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 expense 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 considers 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 expense inflation is determined by comparing the historical relationship of the actual medical expense 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 2 Critical accounting estimates and judgements in applying accounting policies (continued)

#### **(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 of 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 (the risk of failing to ensure disciplined risk selection and achieve the required premium), claims reserving risk (the risk of actual claims payments exceeding the amount we are holding in relation to our long-tail liability risks) 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 in 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 and net underwriting exposure is protected through the use of a comprehensive programme of reinsurance using both proportional and non-proportional reinsurance and supported by proactive claims handling. The overall reinsurance structure is regularly reviewed and modelled to ensure that it remains optimum to our needs. The optimum reinsurance structure can best be described as the one that provides us with sustainable, long-term capacity to support our specialist business strategy. This combines effective balance sheet protection at the same time as producing, over time, the required underwriting result and return on capital.

Catastrophe protection is purchased following an extensive annual modelling exercise of our gross and net (of proportional reinsurance) exposures. In conjunction with our reinsurance brokers we utilise the full range of proprietary catastrophe models, as well as continue to develop bespoke modelling options that better reflect the specialist nature of our portfolio. Reinsurance is arranged to cover up to a 1/250 loss, which increases to a 1/500 loss where earthquake risk exists.

#### (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 has also underwritten 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.

2014		General insurance				Life insurance	
		Property £000	Liability £000	Motor £000	Accident £000	Funeral plans £000	Total £000
<b>Group</b>							
<b>Territory</b>							
United Kingdom	Gross	172,097	51,710	183	13,664	167	237,821
	Net	90,053	46,017	(924)	13,197	167	148,510
Australia	Gross	22,638	15,532	763	1,150	-	40,083
	Net	(8,558)	13,300	757	1,105	-	6,604
Canada	Gross	27,918	11,447	-	-	-	39,365
	Net	19,691	10,562	-	-	-	30,253
Ireland	Gross	7,265	4,185	-	78	-	11,528
	Net	4,453	3,770	-	75	-	8,298
Total	Gross	229,918	82,874	946	14,892	167	328,797
	Net	105,639	73,649	(167)	14,377	167	193,665
<b>Parent</b>							
<b>Territory</b>							
United Kingdom	Gross	172,097	51,710	183	13,664	-	237,654
	Net	90,053	46,017	(924)	13,197	-	148,343
Canada	Gross	27,918	11,447	-	-	-	39,365
	Net	19,691	10,562	-	-	-	30,253
Ireland	Gross	7,265	4,185	-	78	-	11,528
	Net	4,453	3,770	-	75	-	8,298
Total	Gross	207,280	67,342	183	13,742	-	288,547
	Net	114,197	60,349	(924)	13,272	-	186,894

# NOTES TO THE FINANCIAL STATEMENTS

## 3 Insurance risk (continued)

2013	Group	General insurance				Life insurance		Total £'000
		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	

### (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, 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.

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 earthquake, weather or fire 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**

The main exposures are in respect of liability insurance contracts which protect policyholders from the liability to compensate injured employees (employers' liability) and third parties (public liability).

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. 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 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 27 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 interest rate and inflation risk within this has been largely mitigated by holding index-linked assets of a similar term to the expected liabilities profile. The main residual risk is the spread risk attaching to corporate bonds held to match the liabilities. The small 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 the financial risks to which the Group is exposed. 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			Financial liabilities** £000	Other assets and liabilities £000	Total £000
	Designated at fair value £000	Held for trading £000	Loans and receivables* £000			
<b>At 31 December 2014</b>						
Financial investments	886,170	-	16	-	-	886,186
Other assets	-	-	116,485	-	2,909	119,394
Cash and cash equivalents	-	-	107,526	-	-	107,526
Assets classified as held for sale	-	-	***6,204	-	-	6,204
Other liabilities	-	-	-	(40,338)	(4,277)	(44,615)
Net other	-	-	-	-	(580,062)	(580,062)
<b>Total</b>	<b>886,170</b>	<b>-</b>	<b>230,231</b>	<b>(40,338)</b>	<b>(581,430)</b>	<b>494,633</b>
<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>Parent</b>						
<b>At 31 December 2014</b>						
Financial investments	664,349	-	14	-	50,065	714,428
Other assets	-	-	99,652	-	2,587	102,239
Cash and cash equivalents	-	-	77,774	-	-	77,774
Other liabilities	-	-	-	(23,885)	(3,262)	(27,147)
Net other	-	-	-	-	(446,922)	(446,922)
<b>Total</b>	<b>664,349</b>	<b>-</b>	<b>177,440</b>	<b>(23,885)</b>	<b>(397,532)</b>	<b>420,372</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>

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

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

\*\*\* In the prior year financial investments included mortgages secured on residential property which are classified as held for sale in the current year. See note 25 for details.

**(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 2014</b>				
<b>Financial assets at fair value through profit or loss</b>				
Financial investments				
Equity securities	269,347	209	20,349	289,905
Debt securities	591,542	4,485	238	596,265
Total financial assets at fair value through profit or loss	<b>860,889</b>	<b>4,694</b>	<b>20,587</b>	<b>886,170</b>
<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	<b>912,990</b>	<b>5,844</b>	<b>19,707</b>	<b>938,541</b>
<b>Parent</b>				
<b>At 31 December 2014</b>				
<b>Financial assets at fair value through profit or loss</b>				
Financial investments				
Equity securities	239,419	209	20,348	259,976
Debt securities	403,099	1,036	238	404,373
Total financial assets at fair value through profit or loss	<b>642,518</b>	<b>1,245</b>	<b>20,586</b>	<b>664,349</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	<b>692,823</b>	<b>1,621</b>	<b>19,703</b>	<b>714,147</b>

# 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	Debt securities	Total
	£000	£000	£000
<b>At 31 December 2014</b>			
Opening balance	19,390	317	19,707
Total gains/(losses) recognised in profit or loss	959	(79)	880
Closing balance	<b>20,349</b>	<b>238</b>	<b>20,587</b>
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	<b>959</b>	<b>(79)</b>	<b>880</b>
<b>At 31 December 2013</b>			
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	<b>19,390</b>	<b>317</b>	<b>19,707</b>
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	<b>832</b>	<b>(5,782)</b>	<b>(4,950)</b>
<b>Parent</b>			
<b>At 31 December 2014</b>			
Opening balance	19,386	317	19,703
Total gains/(losses) recognised in profit or loss	962	(79)	883
Closing balance	<b>20,348</b>	<b>238</b>	<b>20,586</b>
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	<b>962</b>	<b>(79)</b>	<b>883</b>
<b>At 31 December 2013</b>			
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	<b>19,386</b>	<b>317</b>	<b>19,703</b>
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	<b>872</b>	<b>(5,309)</b>	<b>(4,437)</b>
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 changes 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, partially offset by the movement in the euro exchange rate 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 increased uncertainty regarding the recoverability of the value of an asset.

# 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 (2013: two 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 27 (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 2014</b>				
<b>Assets</b>				
Debt securities	1,053	24,311	79,490	104,854
Cash and cash equivalents	1,924	-	-	1,924
	<b>2,977</b>	<b>24,311</b>	<b>79,490</b>	<b>106,778</b>
<b>Liabilities</b>				
Long-term business provision	6,014	21,816	66,494	94,324
<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

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 of non-payment of their obligations by counterparties and financial markets borrowers. 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 2014 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-' in February 2014 and then to 'A' in May 2014 with a stable outlook.

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:

	2014		2013	
	Group	Parent	Group	Parent
	£000	£000	£000	£000
UK	424,480	319,625	UK	463,879
Australia	87,037	-	Australia	93,283
Canada	60,162	60,162	Canada	58,629
Europe	24,586	24,586	Europe	26,272
Total	596,265	404,373	Total	642,063
				447,577

# 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 27. 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 30.

### (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's foreign operations create two sources of foreign currency risk:

- the operating results of the Group's 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, representing effective diversification of resources.

	2014		2013	
	Group £000	Parent £000	Group £000	Parent £000
Aus \$	45,571	2,614	Aus \$	43,053
Can \$	34,757	34,757	Can \$	33,044
Euro	14,625	14,625	Euro	12,828
NZ \$	10,969	10,969	US \$	1,479
Japanese Yen	1,047	1,047	Japanese Yen	1,130

### (g) Equity price risk

The Group is exposed to equity price risk because of financial investments held by the Group which are 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:

	2014		2013	
	Group £000	Parent £000	Group £000	Parent £000
UK	264,716	234,787	UK	273,650
Europe	20,442	20,442	Europe	19,393
Canada	2,583	2,583	Canada	1,909
US	1,950	1,950	US	979
Other	214	214	Other	389
Total	289,905	259,976	Total	296,320
				266,412

#### (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		2014 £000	2013 £000	2014 £000	2013 £000
Interest rate risk	-100 basis points		(4,284)	(254)	(15)	(121)
	+100 basis points		1,243	(4,769)	18	131
Currency risk	-5%		1,388	811	3,794	3,513
	+5%		(1,318)	(770)	(3,605)	(3,337)
Equity price risk	+/- 5%		11,379	11,371	-	-

Parent			Potential increase/ (decrease) in profit		Potential increase/ (decrease) in other equity reserves	
Variable	Change in variable		2014 £000	2013 £000	2014 £000	2013 £000
Interest rate risk	-100 basis points		(1,583)	1,269	-	(88)
	+100 basis points		299	(2,174)	5	85
Currency risk	-5%		1,388	811	1,533	1,391
	+5%		(1,318)	(770)	(1,457)	(1,321)
Equity price risk	+/- 5%		10,204	10,224	-	-

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 are to:

- comply with the regulators' capital requirements of the markets in which the Group operates; and
- 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 27 (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.

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 Ansva brands.

##### **Australia**

The Group has a wholly-owned subsidiary in Australia underwriting general insurance business under the Ansva 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. It is closed to new business.

#### - 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.

	2014			2013		
	Gross written premiums £000	Non-insurance services £000	Total £000	Gross written premiums £000	Non-insurance services £000	Total £000
<b>General business</b>						
United Kingdom	234,000	-	234,000	291,338	-	291,338
Australia	40,083	-	40,083	45,669	-	45,669
Canada	39,365	-	39,365	41,172	-	41,172
Ireland	11,528	-	11,528	13,606	-	13,606
Central operations	3,654	-	3,654	807	-	807
<b>Total</b>	<b>328,630</b>	-	<b>328,630</b>	<b>392,592</b>	-	<b>392,592</b>
Life business	167	-	167	6,753	-	6,753
Investment management	-	12,045	12,045	-	10,535	10,535
Broking and Advisory	-	9,865	9,865	-	8,031	8,031
<b>Group revenue</b>	<b>328,797</b>	<b>21,910</b>	<b>350,707</b>	<b>399,345</b>	<b>18,566</b>	<b>417,911</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.

2014	Combined operating ratio	Insurance £000	Investments £000	Other £000	Total £000
<b>General business</b>					
United Kingdom	94.1%	9,765	23,360	70	33,195
Australia	106.2%	(1,129)	7,619	(139)	6,351
Canada	94.2%	1,662	1,598	-	3,260
Ireland	93.2%	594	288	-	882
Central operations		(1,693)	-	-	(1,693)
	95.9%	9,199	32,865	(69)	41,995
Life business		(178)	1,522	(4)	1,340
Investment management		-	3,164	-	3,164
Broking and Advisory		-	-	2,071	2,071
Other activities		-	-	(416)	(416)
<b>Profit before tax</b>		<b>9,021</b>	<b>37,551</b>	<b>1,582</b>	<b>48,154</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 5 Segment information (continued)

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>

### (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:

	2014		2013	
	Gross written premiums £000	Non-current assets £000	Gross written premiums £000	Non-current assets £000
	237,821	123,971	298,898	73,329
United Kingdom	237,821	123,971	298,898	73,329
Australia	40,083	257	45,669	918
Canada	39,365	2,407	41,172	1,338
Ireland	11,528	-	13,606	74
	<b>328,797</b>	<b>126,635</b>	<b>399,345</b>	<b>75,659</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 2014</b>			
Gross written premiums	328,630	167	328,797
Outward reinsurance premiums	(135,132)	-	(135,132)
Net written premiums	<b>193,498</b>	<b>167</b>	<b>193,665</b>
Change in the gross provision for unearned premiums	23,651	-	23,651
Change in the provision for unearned premiums, reinsurers' share	7,527	-	7,527
Change in the net provision for unearned premiums	31,178	-	31,178
<b>Earned premiums, net of reinsurance</b>	<b>224,676</b>	<b>167</b>	<b>224,843</b>
<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	<b>261,318</b>	<b>6,753</b>	<b>268,071</b>
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>

## 7 Net investment return

	2014 £000	2013 £000
<i>Income from financial assets at fair value through profit or loss</i>		
- equity income	<b>8,575</b>	9,948
- debt income	<b>22,936</b>	25,118
<i>Income from financial assets not at fair value through profit or loss</i>		
- interest income on mortgages and other loans	<b>327</b>	414
- cash and cash equivalents income, net of exchange movements	<b>50</b>	1,933
- other income received	<b>1,573</b>	1,754
<i>Other income</i>		
- rental income	<b>3,818</b>	2,004
<b>Investment income</b>	<b>37,279</b>	41,171
Fair value movements on financial instruments at fair value through profit or loss	<b>6,459</b>	34,729
Fair value movements on investment property	<b>2,459</b>	1,343
<b>Net investment return</b>	<b>46,197</b>	77,243

Included within cash and cash equivalents income are exchange losses of £1,346,000 (2013: £865,000 gains).

Included within fair value movements on financial instruments at fair value through profit or loss are £158,000 losses (2013: £7,813,000 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
<b>For the year ended 31 December 2014</b>			
Gross claims paid	188,263	7,016	195,279
Gross change in the provision for claims	(13)	26	13
Gross change in long-term business provisions	-	1,878	1,878
Claims and change in insurance liabilities	188,250	8,920	197,170
Reinsurers' share of claims paid	(43,034)	-	(43,034)
Reinsurers' share of change in the provision for claims	(19,272)	-	(19,272)
Reinsurance recoveries	(62,306)	-	(62,306)
<b>Claims and change in insurance liabilities, net of reinsurance</b>	<b>125,944</b>	<b>8,920</b>	<b>134,864</b>
<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>

## 9 Fees, commissions and other acquisition costs

	2014 £000	2013 £000
Fees paid	533	404
Commission paid	51,886	62,744
Change in deferred acquisition costs	3,327	(1,075)
Other acquisition costs	15,067	18,212
<b>Fees, commissions and other acquisition costs</b>	<b>70,813</b>	<b>80,285</b>

## 10 Profit for the year

	2014 £000	2013 £000
<b>Profit for the year has been arrived at after charging/(crediting)</b>		
Net foreign exchange losses/(gains)	1,346	(865)
Depreciation of property, plant and equipment	1,638	1,930
(Profit)/loss on disposal of property, plant and equipment	(32)	112
Amortisation of intangible assets	1,684	2,706
Increase in fair value of investment property	(2,459)	(1,343)
Employee benefits expense including termination benefits	62,683	64,271
Operating lease rentals	3,576	3,671

## 11 Auditor's remuneration

	2014 £000	2013 £000
<b>Fees payable to the Company's auditor for the audit of the Company's annual accounts</b>	<b>247</b>	242
<b>Fees payable to the Company's auditor and its associates for other services:</b>		
- The audit of the Company's subsidiaries	102	113
Total audit fees	<b>349</b>	355
- Audit-related assurance services	84	88
- Other assurance services	6	6
- Taxation advisory services	-	9
Total non-audit fees	<b>90</b>	103
<b>Total auditor's remuneration</b>	<b>439</b>	458

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 (2013: £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:

	2014			2013		
	General business	Long-term business	Other	General business	Long-term business	Other
	No.	No.	No.	No.	No.	No.
United Kingdom	673	9	108	732	9	101
Australia	101	-	-	110	-	-
Canada	63	-	-	60	-	-
Ireland	34	-	-	22	-	-
	<b>871</b>	<b>9</b>	<b>108</b>	<b>924</b>	<b>9</b>	<b>101</b>

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

2014 £000	2013 £000
<b>53,479</b>	50,814
<b>4,469</b>	4,192
<b>2,696</b>	2,577
<b>1,465</b>	1,648
<b>551</b>	783
<b>62,660</b>	60,014

The above figures do not include termination benefits of £23,000 (2013: £4,257,000).

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

		2014 £000	2013 £000
Current tax	- current year	11,063	5,192
	- prior years	(3,716)	(1,696)
Deferred tax	- temporary differences	14	6,466
	- prior years	476	(254)
	- reduction in tax rate	-	(4,889)
<b>Total tax expense</b>		<b>7,837</b>	<b>4,819</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:

		2014 £000	2013 £000
Profit before tax		<b>48,154</b>	66,937
Tax calculated at the UK standard rate of tax of 21.5% (2013: 23.25%)		<b>10,353</b>	15,563
<i>Factors affecting charge for the year:</i>			
Expenses not deductible for tax purposes		(245)	101
Non-taxable income		(1,849)	(3,340)
Life insurance and other tax paid at non-standard rates		424	(389)
Utilisation of tax losses for which no deferred tax asset has been recognised		(116)	(277)
Impact of reduction in deferred tax rate		-	(4,889)
Adjustments to tax charge in respect of prior periods		<b>(730)</b>	(1,950)
<b>Total tax expense</b>		<b>7,837</b>	<b>4,819</b>

A deferred tax credit on fair value movements on owner-occupied property of £10,000 (2013: £52,000 credit) and tax relief on charitable grants of £5,053,000 (2013: £930,000) are taken directly to equity.

A change in the UK standard rate of corporation tax from 23% to 21% became effective from 1 April 2014. Where appropriate, current tax has been provided at the blended rate of 21.5%. A further reduction in the rate of corporation tax to 20% will become effective from April 2015. Deferred tax has been provided at the rate of 20%.

## 14 Appropriations

		2014 £000	2013 £000
Amounts recognised as distributions to equity holders in the period:			
<b>Dividends</b>			
Non-Cumulative Irredeemable Preference share dividend		<b>9,181</b>	9,181
<b>Charitable grants</b>			
Gross charitable grants to the ultimate parent company, Allchurches Trust Limited		23,500	4,000
Tax relief		(5,053)	(930)
<b>Net appropriation for the year</b>		<b>18,447</b>	<b>3,070</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 15 Acquisition of business

On 15 April 2014, South Essex Insurance Brokers Limited acquired the assets of Lansdown Insurance Brokers (hereafter referred to as Lansdown). Lansdown is an insurance broker across a variety of classes of business, with a particular specialism in blocks of flats and apartments and high net worth homes. Lansdown was acquired as part of the Group's strategy to identify new market sectors in which to grow, either organically or through acquisition, and is included within the Broking and Advisory segment in note 5.

The amounts recognised in respect of the identifiable assets acquired are as set out in the table below.

	£000
Property, plant and equipment	12
Intangible assets	1,166
<b>Total identifiable assets</b>	<b>1,178</b>
Goodwill	4,392
<b>Total consideration</b>	<b>5,570</b>
Satisfied by:	
Cash	5,000
Contingent consideration arrangement	570
<b>Total consideration</b>	<b>5,570</b>

The net cash outflow arising on acquisition was £5,000,000.

The goodwill of £4,392,000 arising from the acquisition consists of intangible assets not qualifying for separate recognition, such as workforce, synergies and new business opportunities. None of the goodwill is expected to be deductible for income tax purposes.

The fair value of the identifiable intangible assets of £1,166,000 consists of the value of customer relationships and brand acquired.

The contingent consideration arrangement requires £2,100,000 of retained commission income to be received for the twelve months to 15 April 2015, with the potential amount of the future payment that the Group could be required to make being between £nil and £1,000,000.

The fair value of the contingent consideration of £570,000 was estimated based on current commission forecasts, without discounting as the payment is payable after exactly one year from the date of acquisition.

No material acquisition-related costs were incurred in relation to the transaction.

Lansdown contributed £1,046,000 revenue and £555,000 to the Group's profit before tax for the period between the date of acquisition and the balance sheet date. If the acquisition of Lansdown had been completed on the first day of the financial year, Group revenues for the period would have been £333,634,000 and Group profit before tax would have been £48,405,000.

## 16 Goodwill and other intangible assets

Group	Goodwill £000	Computer software £000	Other intangible assets £000	Total £000
<b>Cost</b>				
At 1 January 2014	19,387	22,140	3,918	45,445
Additions	-	1,548	-	1,548
Acquisition	4,392	-	1,166	5,558
Disposals	-	(3,816)	-	(3,816)
Exchange differences	-	(42)	-	(42)
At 31 December 2014	23,779	19,830	5,084	48,693
<b>Accumulated impairment losses and amortisation</b>				
At 1 January 2014	72	18,187	3,502	21,761
Amortisation charge for the year	-	1,176	508	1,684
Impairment losses for the year	67	-	-	67
Disposals	-	(3,797)	-	(3,797)
Exchange differences	-	(20)	-	(20)
At 31 December 2014	139	15,546	4,010	19,695
<b>Net book value at 31 December 2014</b>	<b>23,640</b>	<b>4,284</b>	<b>1,074</b>	<b>28,998</b>
<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>

£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. £4,392,000 of the balance relates to the acquisition of Lansdown Insurance Brokers Limited during the current year (see note 15). The recoverable amounts, determined on a value in use basis, indicate no impairment has arisen. The calculation uses cash flow projections based on management-approved business plans, covering a three-year period, with forecast annual cash flows at the end of the planning period continuing thereafter in perpetuity at the UK long-term average growth rate of 2.3% (2013: 2.3%), sourced from the Office for Budget Responsibility. Discounting is at the Group's long-term targeted return on capital of 12% (2013: 12%).

Assumptions used are consistent with historical experience within the business acquired and external sources of information. The headroom above the goodwill carrying value is significant and reasonably possible changes to the key assumptions do not result in impairment.

Other intangible assets consist of acquired brand, customer and distribution relationships, which have an overall remaining useful life of nine years 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 2014	19,873
Additions	1,547
Disposals	(1,741)
Exchange differences	(50)
At 31 December 2014	<u>19,629</u>
<b>Amortisation</b>	
At 1 January 2014	16,078
Charge for the year	1,092
Disposals	(1,741)
Exchange differences	(30)
At 31 December 2014	<u>15,399</u>
<b>Net book value at 31 December 2014</b>	<b>4,230</b>
<b>Cost</b>	
At 1 January 2013	18,699
Additions	2,096
Disposals	(723)
Exchange differences	(199)
At 31 December 2013	<u>19,873</u>
<b>Amortisation</b>	
At 1 January 2013	14,888
Charge for the year	2,017
Disposals	(723)
Exchange differences	(104)
At 31 December 2013	<u>16,078</u>
<b>Net book value at 31 December 2013</b>	<b>3,795</b>

### 17 Deferred acquisition costs

	2014		2013	
	Group £'000	Parent £'000	Group £'000	Parent £'000
At 1 January	34,757	30,542	34,626	35,886
Increase in the period	31,267	26,964	35,795	31,023
Release in the period	(34,594)	(30,341)	(34,720)	(35,925)
Exchange differences	(313)	(191)	(944)	(442)
At 31 December	<u>31,117</u>	<u>26,974</u>	<u>34,757</u>	<u>30,542</u>
All balances are current.				

## 18 Retirement benefit schemes

### 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. The Trustee is currently working with the employer in order to finalise the triennial valuation as at 31 December 2013. Actuarial valuations were reviewed and updated by the actuary at 31 December 2014 for IAS 19 (R) purposes. As disclosed in 2013, the Irish plan closed on 31 March 2014 and has been accounted for as a curtailment and settlement as shown in the tables below.

Since 2000, the Parent has been the sponsoring employer for the Ecclesiastical Insurance Office plc Pension and Life Assurance Scheme (EIOPLA). This is a defined benefit scheme that has been closed to new entrants since 1 July 1998, providing benefits to pensioners of Methodist Insurance plc, a company with a similar culture and whose insurance risks, excluding terrorism, are fully reinsured by the Parent. The assets of the scheme are held separately from those of the Parent, and are invested with an insurance company under a Group Funding policy. The most recent triennial valuation was at 1 January 2011.

The EIOPLA has not previously been reported within the Group accounts and, while it has not been material from a Group perspective, the scheme should have been included within the Group results. The financial effects of the scheme have therefore been included in the Parent and Group statement of profit or loss and statement of other comprehensive income for 2014.

The scheme has consistently been in a surplus position but as the recoverability of any surplus is uncertain the asset is derecognised, with any gains or losses relating to the scheme being eliminated in the year. As a result, there would have been no change to the net assets of the Group if the scheme had previously been included in the results. Due to the immateriality of the scheme, and the impact of the derecognition of the surplus, prior year results have not been restated. Instead, the scheme has been brought into the Parent and Group financial statements for 2014, and is shown as a transfer in in the reconciliation of plan assets and reconciliation of defined benefit obligations shown below. Had the prior year comparative been restated, the effect on the financial statements would have been a £24,000 increase in profit for the year and no change to the balance sheet.

The plans typically expose 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: Scheme 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 scheme benefits are linked to inflation. Although scheme 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 of the Fund concluded the appointment of a new Scheme Actuary and Plan Administrator following a competitive tendering process. A comprehensive review of the Fund's Additional Voluntary Contribution arrangements was also completed.

All Group defined benefit plans are now closed to new entrants but remain open to future accrual. 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 Retirement benefit schemes (continued)

Group and Parent	2014 £000	2013 £000
<b>The amounts recognised in the statement of financial position are determined as follows:</b>		
Present value of funded obligations	(277,459)	(255,604)
Fair value of plan assets	298,840	287,892
	<b>21,381</b>	32,288
Restrictions on asset recognised	(563)	-
Net asset in the statement of financial position	<b>20,818</b>	32,288
<b>Movements in the net asset recognised in the statement of financial position are as follows:</b>		
At 1 January	32,288	36,521
Exchange differences	22	(24)
Expense charged to profit or loss*	(1,894)	(1,961)
Amounts recognised in other comprehensive income	(12,693)	(5,180)
Contributions paid	3,095	2,932
At 31 December	<b>20,818</b>	32,288
<b>The amounts recognised through profit or loss are as follows:</b>		
Current service cost	3,516	3,441
Administration cost	392	221
Interest expense on liabilities	11,549	9,971
Interest income on plan assets	(13,151)	(11,672)
Gains on settlements/curtailments	(412)	-
Total, included in employee benefits expense	<b>1,894</b>	1,961
<b>The amounts recognised in the statement of other comprehensive income are as follows:</b>		
Return on plan assets, excluding interest income	2,391	16,921
Experience gains on liabilities	5,569	127
Gains from changes in demographic assumptions	5,273	-
Losses from changes in financial assumptions	(26,051)	(22,228)
Change in asset ceiling	125	-
Total included in other comprehensive income	<b>(12,693)</b>	(5,180)

\* Charge to profit or loss includes £429,000 (2013: £313,000) in respect of member salary sacrifice contributions and costs ultimately borne by related parties.

The following is the analysis of the defined benefit pension balances for financial reporting purposes:

Group and Parent	2014 £000	2013 £000
Pension assets	21,068	32,288
Pension liabilities	(250)	-
	<b>20,818</b>	32,288

The principal actuarial assumptions (expressed as weighted averages) were as follows:

	2014 %	2013 %
Discount rate	<b>3.70</b>	4.60
Inflation (RPI)	<b>3.10</b>	3.50
Inflation (CPI)	<b>2.10</b>	2.70
Future salary increases	<b>4.60</b>	5.00
Future increase in pensions in deferment	<b>2.10</b>	2.70
Future pension increases (linked to RPI)	<b>3.11</b>	3.50
Future pension increases (linked to CPI)	<b>2.10</b>	2.70

	2014	2013
Mortality rate		
The average life expectancy in years of a pensioner retiring at age 65, at the year end date, is as follows:		
Male	<b>23.7</b>	24.2
Female	<b>25.3</b>	26.3
The average life expectancy in years of a pensioner retiring at age 65, 20 years after the year end date, is as follows:		
Male	<b>26.0</b>	26.5
Female	<b>27.6</b>	28.7

	2014 %	2013 %
Plan assets are weighted as follows:		
Cash and cash equivalents	<b>5</b>	4
Equity instruments		
UK quoted	<b>25</b>	30
Overseas quoted	<b>25</b>	29
	<b>50</b>	59
Debt instruments		
UK public sector quoted - fixed interest	<b>2</b>	3
UK non-public sector quoted - fixed interest	<b>18</b>	15
UK quoted - index-linked	<b>15</b>	12
	<b>35</b>	30
Other	<b>10</b>	7
	<b>100</b>	100

The actual return on plan assets was a gain of £15,542,000 (2013: gain of £28,593,000).

# NOTES TO THE FINANCIAL STATEMENTS

## 18 Retirement benefit schemes (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:

	2014 £000	2013 £000			
<b>Plan assets</b>					
At 1 January	287,892	261,685			
Transfer in	2,947	-			
Interest income	13,151	11,672			
Return on plan assets, excluding interest income	2,391	16,921			
Pension benefits paid and payable	(6,079)	(5,406)			
Contributions paid	3,095	2,932			
Assets distributed on settlements	(4,416)	-			
Exchange differences	(141)	88			
At 31 December	<b>298,840</b>	287,892			
<b>Defined benefit obligation</b>					
At 1 January	255,604	225,164			
Transfer in	2,259	-			
Current service cost	3,516	3,441			
Administration cost	392	221			
Interest cost	11,549	9,971			
Pension benefits paid and payable	(6,079)	(5,406)			
Experience gains on liabilities	(5,569)	(127)			
Gains from changes in demographic assumptions	(5,273)	-			
Losses from changes in financial assumptions	26,051	22,228			
Liabilities extinguished on settlements/curtailments	(4,828)	-			
Exchange differences	(163)	112			
At 31 December	<b>277,459</b>	255,604			
<b>Asset ceiling</b>					
At 1 January	-	-			
Transfer in	688	-			
Change in asset ceiling	(125)	-			
At 31 December	<b>563</b>	-			
<b>History of plan assets and liabilities</b>	<b>2014 £000</b>	2013 £000	2012 £000	2011 £000	2010 £000
Present value of defined benefit obligations	<b>(277,459)</b>	(255,604)	(225,164)	(199,087)	(213,740)
Fair value of plan assets	<b>298,840</b>	287,892	261,685	234,314	237,440
Restrictions on asset recognised	<b>21,381</b>	32,288	36,521	35,227	23,700
Surplus	<b>(563)</b>	-	-	-	-
	<b>20,818</b>	32,288	36,521	35,227	23,700

The weighted average duration of the defined benefit obligation at the end of the reporting period is 23 years (2013: 21 years).

The contribution expected to be paid by the Group during the year ending 31 December 2015 is £2.7 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	
		2014	2013
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%/9%	Increase/decrease by 10%/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	2014 £000	2013 £000
Present value of unfunded obligations and net obligations in the statement of financial position	<b>12,547</b>	11,744
<b>Movements in the net obligations recognised in the statement of financial position are as follows:</b>		
At 1 January	11,744	14,810
Total expense charged to profit or loss	551	783
Net actuarial losses/(gains) during the year, recognised in other comprehensive income	491	(3,654)
Benefits paid	(239)	(195)
At 31 December	<b>12,547</b>	11,744
<b>The amounts recognised through profit or loss are as follows:</b>		
Current service cost	33	116
Interest cost	518	667
Total, included in employee benefits expense	<b>551</b>	783

The weighted average duration of the net obligations at the end of the reporting period is 22 years (2013: 22 years).

The main actuarial assumptions for the plan are a long-term increase in medical costs of 12.0% (2013: 12.0%) and a discount rate of 3.7% (2013: 4.6%). 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	
		2014	2013
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 10%/11%	Decrease/increase by 10%/11%
Medical expense inflation	Increase/decrease by 1.0%	Increase/decrease by 23%/18%	Increase/decrease by 23%/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 2014	3,065	2,840	6,157	7,530	19,592
Additions	-	471	509	603	1,583
Acquisition	-	-	12	-	12
Disposals	(504)	(787)	(1,227)	(2,131)	(4,649)
Revaluation	30	-	-	-	30
Exchange differences	4	-	(37)	(7)	(40)
At 31 December 2014	2,595	2,524	5,414	5,995	16,528
<b>Depreciation</b>					
At 1 January 2014	-	1,131	5,177	5,992	12,300
Charge for the year	-	454	379	805	1,638
Disposals	-	(507)	(1,151)	(2,125)	(3,783)
Exchange differences	-	-	(32)	-	(32)
At 31 December 2014	-	1,078	4,373	4,672	10,123
<b>Net book value at 31 December 2014</b>	<b>2,595</b>	<b>1,446</b>	<b>1,041</b>	<b>1,323</b>	<b>6,405</b>
<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>

All properties were revalued at 31 December 2012, with the exception of two properties, which were revalued at 31 December 2014. 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 £2,867,000 (2013: £3,019,000).

Depreciation expense has been charged in other operating and administrative expenses.

Included within net book value of motor vehicles is £1,182,000 (2013: £1,530,000) 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 2014	2,360	2,701	5,731	5,628	16,420
Additions	-	370	505	510	1,385
Disposals	(95)	(685)	(995)	(640)	(2,415)
Revaluation	30	-	-	-	30
Exchange differences	-	-	(37)	(12)	(49)
At 31 December 2014	<b>2,295</b>	<b>2,386</b>	<b>5,204</b>	<b>5,486</b>	<b>15,371</b>
<b>Depreciation</b>					
At 1 January 2014	-	1,047	4,922	4,367	10,336
Charge for the year	-	417	352	695	1,464
Disposals	-	(447)	(995)	(640)	(2,082)
Exchange differences	-	-	(32)	(8)	(40)
At 31 December 2014	-	<b>1,017</b>	<b>4,247</b>	<b>4,414</b>	<b>9,678</b>
<b>Net book value at 31 December 2014</b>	<b>2,295</b>	<b>1,369</b>	<b>957</b>	<b>1,072</b>	<b>5,693</b>
<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	<b>2,360</b>	<b>2,701</b>	<b>5,731</b>	<b>5,628</b>	<b>16,420</b>
<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	-	<b>1,047</b>	<b>4,922</b>	<b>4,367</b>	<b>10,336</b>
<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>

The Company's properties were revalued at 31 December 2012, with the exception of a certain property, which was revalued at 31 December 2014. 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 £2,467,000 (2013: £2,484,000).

Depreciation expense has been charged in other operating and administrative expenses.

Included within net book value of motor vehicles is £1,182,000 (2013: £1,530,000) in respect of assets held under finance leases.

# NOTES TO THE FINANCIAL STATEMENTS

## 20 Investment property

Group and Parent	2014 £000	2013 £000
Net book value at 1 January	45,099	27,315
Additions	23,817	17,894
Disposals	(1,600)	(1,453)
Fair value gains	2,459	1,343
Net book value at 31 December	<b>69,775</b>	<b>45,099</b>

The Group's investment properties were last revalued at 31 December 2014 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 £3,818,000 (2013: £2,004,000) and is included in net investment return. Other operating and administrative expenses include £391,000 (2013: £350,000) relating to investment property.

## 21 Financial investments

Financial investments summarised by measurement category are as follows:

	2014		2013	
	Group £000	Parent £000	Group £000	Parent £000
<b>Financial investments at fair value through profit or loss</b>				
Equity securities				
- listed	269,556	239,628	276,930	247,026
- unlisted	20,349	20,348	19,390	19,386
Debt securities				
- government bonds	196,179	118,947	225,413	147,418
- listed	399,848	285,188	416,445	299,954
- unlisted	238	238	205	205
Derivative financial instruments				
- options	-	-	158	158
	<b>886,170</b>	<b>664,349</b>	<b>938,541</b>	<b>714,147</b>
<b>Loans and receivables</b>				
Loans secured by mortgages *	-	-	7,892	-
Other loans	16	14	19	14
	<b>16</b>	<b>14</b>	<b>7,911</b>	<b>14</b>
<b>Parent investments in subsidiary undertakings</b>				
Shares in subsidiary undertakings	-	50,065	-	49,765
Total financial investments	<b>886,186</b>	<b>714,428</b>	<b>946,452</b>	<b>763,926</b>
Current	327,552	296,566	391,205	357,674
Non-current	558,634	417,862	555,247	406,252

\* Included as current assets held for sale in the statement of financial position in the current year (also see note 25).

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.

Group and Parent	2014			2013		
	Contract/ notional amount £000	Fair value asset £000	Fair value liability £000	Contract/ notional amount £000	Fair value asset £000	Fair value liability £000
<b>Equity/Index contracts</b>						
Options	-	-	-	30,000	158	-
All balances are current.						

The notional amount above reflects the aggregate of individual derivative positions on a gross basis and so gives an indication of the overall scale of the derivative transaction. It does not reflect current market values of the open positions.

The derivative fair value assets are recognised within financial investments (note 21).

## 23 Other assets

	2014		2013	
	Group £000	Parent £000	Group £000	Parent £000
<b>Receivables arising from insurance and reinsurance contracts</b>				
- due from contract holders	24,469	24,468	25,474	25,456
- due from agents, brokers and intermediaries	40,645	29,735	43,287	31,727
- due from reinsurers	7,230	5,437	8,808	8,051
<b>Other receivables</b>				
- accrued interest and rent	7,032	5,317	7,876	5,821
- other prepayments and accrued income	3,074	2,745	3,268	2,868
- amounts owed by related parties	20,586	34,596	17,566	31,006
- other debtors	16,358	(59)	18,185	3,342
	119,394	102,239	124,464	108,271
Current	97,936	69,323	107,206	78,015
Non-current	21,458	32,916	17,258	30,256

The Group has recognised a charge of £449,000 (2013: credit of £77,000) 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 £502,000 (2013: charge of £17,000).

The Group balance due from reinsurers comprises £14,415,000 (2013: £11,728,000) receivable net of £7,185,000 (2013: £2,920,000) payable. The Parent balance comprises £12,622,000 (2013: £10,971,000) receivable net of £7,185,000 (2013: £2,920,000) payable.

The Group balance owed by related parties comprises £20,587,000 (2013: £17,584,000) receivable net of £1,000 (2013: £18,000) payable. The Parent balance comprises £34,714,000 (2013: £31,610,000) receivable net of £118,000 (2013: £604,000) 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 23 Other assets (continued)

Movement in the allowance for doubtful debts	2014		2013	
	Group £000	Parent £000	Group £000	Parent £000
Balance at 1 January	323	189	882	553
Movement in the year	(109)	(20)	(559)	(364)
Balance at 31 December	214	169	323	189

Included within trade receivables of the Group is £3,365,000 (2013: £2,964,000) overdue but not impaired, of which £3,020,000 (2013: £2,558,000) is not more than three months overdue at the reporting date. Included within trade receivables of the Parent is £2,095,000 (2013: £2,115,000) overdue but not impaired, of which £1,844,000 (2013: £1,887,000) is not more than three months overdue at the reporting date.

## 24 Cash and cash equivalents

	2014		2013	
	Group £000	Parent £000	Group £000	Parent £000
Cash at bank and in hand	48,167	29,428	48,298	30,715
Short-term bank deposits	59,359	48,346	58,943	49,715
	<b>107,526</b>	<b>77,774</b>	<b>107,241</b>	<b>80,430</b>

Included within cash at bank and in hand of the Group is £4,808,000 (2013: £4,948,000) pledged as collateral in respect of an insurance liability.

## 25 Current assets held for sale

Ecclesiastical Financial Advisory Services Limited ceased to offer new mortgages following a strategic review in 2007, although it continued to administer the existing book. During the current year management have decided to dispose of the mortgage book in order to more clearly focus their attention on the current elements of the business.

After the end of the financial year the Company entered into an agreement to transfer its legacy mortgage business to Holmesdale Building Society. The transfer was completed on 1 February 2015.

The current assets held for sale consist of mortgages secured on residential property.

	2014 £000
Cost at 1 January	7,892
Repayments and redemptions	(1,022)
Market value adjustment	(666)
Carrying value at 31 December	<b>6,204</b>

The effective interest rate on the mortgages is 4.71% (2013: 4.42%).

Clients have the option to redeem mortgages before the end of the mortgage term. The Directors consider that the carrying value approximates to fair value.

There are no debts which are past due at the reporting date and no amounts have been impaired during the current or prior year.

The major class of assets comprising the operations classified as held for sale is financial investments.

## 26 Called up share capital

	Issued, allotted and fully paid	
	2014 £000	2013 £000
Ordinary shares of 4p each	14,027	14,027
8.625% Non-Cumulative Irredeemable Preference shares of £1 each	106,450	106,450
	<b>120,477</b>	<b>120,477</b>
 <b>The number of shares in issue are as follows:</b>		
Ordinary shares of 4p each		
At 1 January and 31 December	<b>350,678</b>	350,678
8.625% Non-Cumulative Irredeemable Preference shares of £1 each		
At 1 January and 31 December	<b>106,450</b>	106,450

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

## 27 Insurance liabilities and reinsurance assets

	2014		2013	
	Group £000	Parent £000	Group £000	Parent £000
<b>Gross</b>				
Claims outstanding	564,380	477,881	569,179	498,705
Unearned premiums	161,624	141,006	186,642	164,483
Long-term business provision	94,324	-	92,446	-
Total gross insurance liabilities	820,328	618,887	848,267	663,188
<b>Recoverable from reinsurers</b>				
Claims outstanding	107,331	75,324	89,472	78,610
Unearned premiums	50,134	39,680	43,121	42,880
Total reinsurers' share of insurance liabilities	157,465	115,004	132,593	121,490
<b>Net</b>				
Claims outstanding	457,049	402,557	479,707	420,095
Unearned premiums	111,490	101,326	143,521	121,603
Long-term business provision	94,324	-	92,446	-
Total net insurance liabilities	662,863	503,883	715,674	541,698
<b>Gross insurance liabilities</b>				
Current	324,979	280,408	372,878	328,088
Non-current	495,349	338,479	475,389	335,100
<b>Reinsurance assets</b>				
Current	92,728	75,532	105,451	97,058
Non-current	64,737	39,472	27,142	24,432

### (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) and 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 are 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	
	2014	2013	2014	2013
UK and Ireland	0.8% to 3.3%	0.4% to 3.8%	14	15
Canada	1.3% to 3.0%	1.1% to 3.2%	14	14
Australia	2.3%	3.3%	4	5

Parent consists of UK, Ireland and Canada. Group also includes Australia.

The above rates of interest are based on government bond yields of the relevant currency and term at the reporting date. Adjustments are made, 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 £606,259,000 for the Group (2013: £626,418,000), and £514,453,000 for the Parent (2013: £540,739,000).

At 31 December 2014, it is estimated that a fall of 1% in the discount rates used would increase the Group's net outstanding claims provisions by £13,865,000 (2013: £12,402,000). 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) 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 the terms of the reinsurance treaties, the anticipated time taken to settle a claim and the incidence of large individual and aggregated claims.

#### (vi) Changes in assumptions

There are no significant changes in assumptions.

#### (vii) 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:

		2014		2013	
		Gross £000	Net £000	Gross £000	Net £000
Liability	- UK	28,100	25,600	28,300	25,500
	- Overseas	11,000	8,500	12,000	9,900
Property	- UK	5,500	3,100	6,900	4,100
	- Overseas	4,700	2,000	5,200	3,200
Motor	- UK	2,200	1,100	2,900	2,500

# NOTES TO THE FINANCIAL STATEMENTS

## 27 Insurance liabilities and reinsurance assets (continued)

### (viii) 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	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	Total £000
At end of year	46,155	45,688	50,840	56,420	74,742	84,476	82,095	100,612	81,725	61,901	
One year later	32,998	45,900	47,307	53,552	59,807	75,550	76,371	88,046	80,027		
Two years later	35,001	40,092	43,270	47,643	55,250	62,239	71,543	78,196			
Three years later	30,365	36,168	35,510	44,658	57,134	66,422	68,587				
Four years later	26,835	30,791	35,556	40,433	55,695	61,330					
Five years later	25,860	28,470	34,925	37,546	58,631						
Six years later	25,893	27,154	34,036	37,864							
Seven years later	25,312	27,377	33,917								
Eight years later	25,753	28,534									
Nine years later	26,818										
Current estimate of ultimate claims	26,818	28,534	33,917	37,864	58,631	61,330	68,587	78,196	80,027	61,901	535,805
Cumulative payments to date											(239,949)
Outstanding liability	4,290	5,482	6,189	7,533	18,947	20,399	40,214	60,291	71,952	60,559	295,856
Effect of discounting											(14,462)
Present value											281,394
Discounted liability in respect of earlier years											108,802
Total discounted gross liability (for liability classes) included in insurance liabilities in the statement of financial position											390,196
Parent	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	Total £000
At end of year	39,338	38,332	41,927	46,882	60,810	69,230	66,864	84,511	71,798	52,350	
One year later	27,128	37,518	38,967	43,344	46,660	60,202	63,770	77,629	60,950		
Two years later	28,917	33,711	33,464	37,204	43,853	50,834	62,587	69,580			
Three years later	24,960	30,329	28,093	37,669	49,444	53,390	60,653				
Four years later	21,643	24,731	28,569	34,514	47,970	50,526					
Five years later	21,095	24,821	28,679	33,384	47,482						
Six years later	20,919	24,450	29,217	33,667							
Seven years later	20,348	24,710	29,904								
Eight years later	21,434	25,717									
Nine years later	22,444										
Current estimate of ultimate claims	22,444	25,717	29,904	33,667	47,482	50,526	60,653	69,580	60,950	52,350	453,273
Cumulative payments to date											(208,148)
Outstanding liability	3,964	4,831	5,591	6,553	12,296	17,189	35,529	53,718	54,178	51,276	245,125
Effect of discounting											(12,330)
Present value											232,795
Discounted liability in respect of earlier years											97,899
Total discounted gross liability (for liability classes) included in insurance liabilities in the statement of financial position											330,694

**Estimate of net ultimate claims**

<b>Group</b>	<b>2005</b> £000	<b>2006</b> £000	<b>2007</b> £000	<b>2008</b> £000	<b>2009</b> £000	<b>2010</b> £000	<b>2011</b> £000	<b>2012</b> £000	<b>2013</b> £000	<b>2014</b> £000	<b>Total</b> £000	
At end of year	39,528	41,007	46,235	51,795	64,476	73,218	75,302	88,247	76,729	59,633		
One year later	32,780	40,976	43,107	48,432	53,700	64,796	72,336	79,272	66,475			
Two years later	31,287	35,783	38,979	44,498	50,805	57,758	68,057	73,735				
Three years later	28,641	33,145	34,180	42,524	50,168	59,353	66,822					
Four years later	25,665	30,283	35,004	39,321	50,062	55,975						
Five years later	25,391	28,230	34,688	37,208	49,879							
Six years later	25,150	26,926	33,702	37,606								
Seven years later	24,024	27,150	33,718									
Eight years later	24,534	28,016										
Nine years later	25,726											
Current estimate of ultimate claims	25,726	28,016	33,718	37,606	49,879	55,975	66,822	73,735	66,475	59,633	497,585	
Cumulative payments to date		(21,565)	(22,885)	(27,529)	(30,121)	(37,829)	(36,575)	(28,071)	(17,838)	(7,999)	(1,324)	(231,736)
Outstanding liability	4,161	5,131	6,189	7,485	12,050	19,400	38,751	55,897	58,476	58,309	265,849	
Effect of discounting											(14,462)	
Present value											251,387	
Discounted liability in respect of earlier years											92,646	
Total discounted net liability (for liability classes) included in insurance liabilities in the statement of financial position											344,033	

<b>Parent</b>	<b>2005</b> £000	<b>2006</b> £000	<b>2007</b> £000	<b>2008</b> £000	<b>2009</b> £000	<b>2010</b> £000	<b>2011</b> £000	<b>2012</b> £000	<b>2013</b> £000	<b>2014</b> £000	<b>Total</b> £000	
At end of year	32,394	33,318	36,959	41,631	51,226	57,135	59,011	74,361	67,690	50,025		
One year later	26,772	32,547	34,656	38,270	39,841	49,060	59,873	69,805	57,538			
Two years later	25,279	29,284	29,650	33,814	40,198	48,250	59,997	65,297				
Three years later	23,304	27,449	26,905	34,983	43,879	51,827	59,352					
Four years later	20,929	24,103	28,322	34,458	44,064	49,171						
Five years later	20,551	24,707	28,670	33,366	43,640							
Six years later	20,811	24,407	29,203	33,666								
Seven years later	20,100	24,696	29,904									
Eight years later	21,119	25,699										
Nine years later	22,157											
Current estimate of ultimate claims	22,157	25,699	29,904	33,666	43,640	49,171	59,352	65,297	57,538	50,025	436,449	
Cumulative payments to date		(18,364)	(20,885)	(24,313)	(27,114)	(33,678)	(32,783)	(25,066)	(15,860)	(6,749)	(1,074)	(205,886)
Outstanding liability	3,793	4,814	5,591	6,552	9,962	16,388	34,286	49,437	50,789	48,951	230,563	
Effect of discounting											(12,330)	
Present value											218,233	
Discounted liability in respect of earlier years											83,201	
Total discounted net liability (for liability classes) included in insurance liabilities in the statement of financial position											301,434	

# NOTES TO THE FINANCIAL STATEMENTS

## 27 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:

	2014	2013
UK government bonds: non-linked	1.52%	2.76%
UK government bonds: index-linked	-0.98%	-0.31%
Corporate debt instruments: index-linked	-0.32%	0.42%

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 are considered when setting the base renewal expense level. The unit renewal expense assumption for this business is £2.70 per annum (2013: £2.70 per annum). Additionally, now the business volumes are expected to fall, a number of expenses have been reserved for in a separate exercise. A reserve for these expenses is held at £4.8 million.

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 3.68% per annum (2013: 4.05%).

##### **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 increased by £7.3 million (2013: £1.9 million decrease).

Changes to unit renewal expense assumptions (described in (i) above), had no effect on insurance liabilities (2013: £0.4 million increase).

#### (iii) Sensitivity analysis

The sensitivity of profit 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	
		2014	2013
	£000	£000	
Deterioration in annuitant mortality	+10%	500	100
Improvement in annuitant mortality	-10%	(600)	(100)
Increase in fixed interest/cash yields	+1% pa	1,000	(1,400)
Decrease in fixed interest/cash yields	-1% pa	(1,700)	(1,100)
Worsening of base renewal expense level	+10%	(600)	(500)
Improvement in base renewal expense level	-10%	500	500
Increase in expense inflation	+1% pa	(900)	(700)
Decrease in expense inflation	-1% pa	700	600

**(iv) Available capital resources**

	Non-profit life fund £000	Share- holders' fund £000	Total life business £000	Other activities £000	Group total £000
<b>2014</b>					
Shareholders' equity	(1,314)	43,008	41,694	452,939	494,633
Adjustments to assets/liabilities	7,500	(7,500)	-	(115,468)	(115,468)
Total available capital resources	<b>6,186</b>	<b>35,508</b>	<b>41,694</b>	<b>337,471</b>	<b>379,165</b>
Policyholder liabilities					
- life insurance business	<b>94,324</b>	-	<b>94,324</b>		
Net actuarial liabilities on statement of financial position	<b>94,324</b>	-	<b>94,324</b>		
<b>2013</b>					
Shareholders' equity	(1,136)	41,515	40,379	453,764	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>330,724</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>		

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 2013	<b>6,364</b>	<b>34,015</b>	<b>40,379</b>
Effect of new business	<b>44</b>	-	<b>44</b>
Variance between actual and expected experience	<b>146</b>	-	<b>146</b>
Effect of changes to valuation interest rates	<b>(642)</b>	-	<b>(642)</b>
Effect of change to expense assumption	<b>(23)</b>	-	<b>(23)</b>
Effect of change in inflation assumption	<b>120</b>	-	<b>120</b>
Other movements	<b>177</b>	<b>1,493</b>	<b>1,670</b>
Capital resources as at 31 December 2014	<b>6,186</b>	<b>35,508</b>	<b>41,694</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 27 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 2014	569,179	(89,472)	479,707
Cash (paid)/received for claims settled in the year	(195,279)	43,034	(152,245)
Change in liabilities/reinsurance assets			
- arising from current year claims	183,977	(44,824)	139,153
- arising from prior year claims	11,315	(17,482)	(6,167)
Exchange differences	(4,812)	1,413	(3,399)
At 31 December 2014	564,380	(107,331)	457,049
<b>Provision for unearned premiums</b>			
At 1 January 2014	186,642	(43,121)	143,521
Increase in the period	162,393	(50,549)	111,844
Release in the period	(186,044)	43,022	(143,022)
Exchange differences	(1,367)	514	(853)
At 31 December 2014	161,624	(50,134)	111,490
<b>Long-term business provision</b>			
At 1 January 2014	92,446	-	92,446
Effect of claims during the year	(7,176)	-	(7,176)
Changes in assumptions	7,317	-	7,317
Other movements	1,737	-	1,737
At 31 December 2014	94,324	-	94,324
<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

Parent	Gross £000	Reinsurance £000	Net £000
<b>Claims outstanding</b>			
At 1 January 2014	498,705	(78,610)	420,095
Cash (paid)/received for claims settled in the year	(167,475)	34,767	(132,708)
Change in liabilities/reinsurance assets			
- arising from current year claims	156,631	(32,772)	123,859
- arising from prior year claims	(7,865)	1,018	(6,847)
Exchange differences	(2,115)	273	(1,842)
At 31 December 2014	477,881	(75,324)	402,557
<b>Provision for unearned premiums</b>			
At 1 January 2014	164,483	(42,880)	121,603
Increase in the period	140,976	(39,691)	101,285
Release in the period	(163,680)	42,779	(120,901)
Exchange differences	(773)	112	(661)
At 31 December 2014	141,006	(39,680)	101,326
<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

# NOTES TO THE FINANCIAL STATEMENTS

## 28 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 2014	3,462	3,248	6,710
Additional provisions	-	1,130	1,130
Used during year	-	(1,669)	(1,669)
Not utilised	(1,440)	(1,137)	(2,577)
Exchange differences	-	(6)	(6)
At 31 December 2014	2,022	1,566	3,588
Current	2,022	910	2,932
Non-current	-	656	656
<b>Parent</b>			
At 1 January 2014	3,462	3,104	6,566
Additional provisions	-	420	420
Used during year	-	(1,639)	(1,639)
Not utilised	(1,440)	(1,137)	(2,577)
At 31 December 2014	2,022	748	2,770
Current	2,022	243	2,265
Non-current	-	505	505

### 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, while 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 reassess 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, dilapidations and deferred consideration.

### (b) Contingent liabilities

As reported in the 2013 annual report and accounts, the Group is in correspondence with HM Revenue and Customs regarding the treatment of its preference share capital for group tax purposes. While the issue is still not fully resolved, further correspondence has brought more clarity and we now believe that we have adequately provided for any additional tax cost to the Group. We no longer believe that there is a contingent liability in respect of this issue in addition to the amount provided.

## 29 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	Unrealised gains on investments	Net retirement benefit assets	Equalisation reserve	Other differences	Total
	£000	£000	£000	£000	£000
At 1 January 2013	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
(Credited)/charged to profit or loss	(517)	182	(108)	933	490
Credited to other comprehensive income	-	(2,637)	-	(10)	(2,647)
Exchange differences	(28)	-	-	49	21
At 31 December 2014	31,806	1,654	5,059	(3,800)	34,719
<b>Parent</b>					
At 1 January 2013	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
(Credited)/charged to profit or loss	(981)	182	(108)	(408)	(1,315)
Credited to other comprehensive income	-	(2,637)	-	(10)	(2,647)
Exchange differences	-	-	-	(1)	(1)
At 31 December 2014	30,477	1,654	5,059	(1,642)	35,548

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2014		2013	
	Group	Parent	Group	Parent
	£000	£000	£000	£000
Deferred tax liabilities	36,014	35,559	40,116	39,548
Deferred tax assets	(1,295)	(11)	(3,261)	(37)
	<b>34,719</b>	<b>35,548</b>	<b>36,855</b>	<b>39,511</b>

The Group has unused tax losses of £21,392,000 (2013: £22,138,000) 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 30 Other liabilities

	2014		2013
	Group £000	Parent £000	Group £000
Creditors arising out of direct insurance operations	831	416	656
Creditors arising out of reinsurance operations	13,034	7,578	13,578
Other creditors	14,254	5,775	11,801
Amounts owed to related parties	103	721	117
Accruals	16,393	12,657	11,816
	<b>44,615</b>	<b>27,147</b>	<b>37,968</b>
Current	<b>44,285</b>	<b>27,147</b>	<b>37,682</b>
Non-current	<b>330</b>	<b>-</b>	<b>286</b>
			-

The Group creditors arising out of reinsurance operations comprises £32,333,000 (2013: £39,745,000) payable net of £19,299,000 (2013: £26,167,000) receivable. The Parent balance comprises £26,877,000 (2013: £36,182,000) payable net of £19,299,000 (2013: £26,167,000) receivable.

The Group amounts owed to related parties comprises £136,000 (2013: £117,000) payable net of £33,000 (2013: £nil) receivable. The Parent balance comprises £892,000 (2013: £398,000) payable net of £171,000 (2013: £180,000) receivable.

## 31 Commitments

### Capital commitments

At the year end, the Group and Parent had capital commitments of £63,000 relating to computer software (2013: £1,685,000) and £37,000 relating to furniture, fittings and equipment (2013: £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:

	2014		2013
	Group £000	Parent £000	Group £000
Within 1 year	3,749	3,749	2,780
Between 1 & 5 years	13,239	13,239	9,241
After 5 years	24,724	24,724	19,044
	<b>41,712</b>	<b>41,712</b>	<b>31,065</b>
			31,065

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2014		2013
	Group £000	Parent £000	Group £000
Within 1 year	2,285	1,223	2,901
Between 1 & 5 years	8,416	7,189	5,181
After 5 years	6,668	5,928	1,072
	<b>17,369</b>	<b>14,340</b>	<b>9,154</b>
			6,238
Operating lease rentals charged to profit or loss during the year	<b>3,576</b>	<b>2,009</b>	<b>3,671</b>
Total future minimum sublease payments expected to be received under non-cancellable subleases	-	-	68
			68

## 32 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 182. 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 2014 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 Holdings Limited	Ordinary shares	100%	-
South Essex Insurance Brokers Limited	Ordinary shares	-	100%
<b>Incorporated in Great Britain, dormant</b>			
E.I.O. Trustees Limited	Ordinary shares	100%	-
<b>Incorporated and operating in Australia, engaged in insurance business</b>			
Ansvar Insurance Limited	Ordinary shares	100%	-
<b>Incorporated in Australia, dormant</b>			
EA Insurance Services Pty Limited	Ordinary shares	-	100%

# NOTES TO THE FINANCIAL STATEMENTS

## 33 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>2014</b>			
<b>Group</b>			
Trading, investment and other income, including recharges, and amounts received	8,050	-	6,882
Trading, investment and other expenditure, including recharges, and amounts paid	12,082	-	4,021
Amounts owed by related parties	19,458	-	1,128
Amounts owed to related parties	64	-	39
<b>Parent</b>			
Trading, investment and other income, including recharges, and amounts received	8,050	4,942	5,898
Trading, investment and other expenditure, including recharges, and amounts paid	12,082	7,086	4,021
Amounts owed by related parties	19,458	14,026	1,112
Amounts owed to related parties	64	618	39
<b>2013</b>			
<b>Group</b>			
Trading, investment and other income, including recharges, and amounts received	191	-	1,732
Trading, investment and other expenditure, including recharges, and amounts paid	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, and amounts received	191	9,270	803
Trading, investment and other expenditure, including recharges, and amounts paid	113	8,423	3,616
Amounts owed by related parties	15,539	13,445	2,022
Amounts owed to related parties	106	101	11

During the year, the Company received premiums, commission and reinsurance recoveries via a related party insurance agency amounting to £455,000 (2013: £7,096,000) and paid reinsurance protection, commission and claims amounting to £894,000 (2013: £11,608,000).

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.

## 34 Non-adjusting events after the reporting period

On 20 January 2015, Ecclesiastical Financial Advisory Services Limited entered into an agreement to transfer its mortgage business to Holmesdale Building Society. The transfer was completed on 1 February for consideration of £6,084,000, of which £5,260,000 was received in cash, with retentions of £824,000 payable over the next seven years.

At the year end date, the assets were classified as held for sale (see note 25). On completion of the transfer of business, a loss of £19,000 was realised on disposal.

S E C T I O N   F I V E

## Other Information

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# DIRECTORS AND EXECUTIVE MANAGEMENT

Directors	<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>I. G. Campbell BSc (Econ) (Hons), ACA <i>Group Chief Financial Officer</i></li><li>* T. J. Carroll BA, MBA, FCII</li><li>M. C. J. Hews BSc (Hons), FIA <i>Group Chief Executive</i></li><li>* J. F. Hylands FFA</li><li>* A. P. Latham ACII</li><li>* C. H. Taylor BSc (Hons) Banking and International Finance</li><li>S. J. Whyte MC Inst. M, ACII <i>Deputy Group Chief Executive</i></li><li>* The Venerable C. L. Wilson</li><li>* D. P. Wilson BA (Hons), FCII</li></ul>
Group Management Board	<p>M. C. J. Hews BSc (Hons), FIA <i>Group Chief Executive</i></p> <p>S. J. Whyte MC Inst. M, ACII <i>Deputy Group Chief Executive</i></p> <p>I. G. Campbell BSc (Econ) (Hons), ACA <i>Group Chief Financial Officer</i></p> <p>R. Cox FCII, DMS</p> <p>K. S. Jones MA (Oxon), MSc, MBA</p> <p>J. Schofield CFIIA</p> <p>C. M. Taplin BSc (Hons), MSc, MBA</p>
Company Secretary	Mrs R. J. Hall FCIS
Registered and Head Office	Beaufort House Brunswick Road Gloucester GL1 1JZ Tel: 0845 777 3322
Company Registration Number	24869
Investment Management Office	24 Monument Street London EC3R 8AJ Tel: 0845 604 4840
Legal advisors	<p>Addleshaw Goddard LLP Leeds</p> <p>Burgess Salmon LLP Bristol</p> <p>Charles Russell Speechlys LLP London</p> <p>DAC Beachcroft LLP Leeds</p> <p>Harrison Clark Rickerbys LLP Cheltenham</p> <p>Matheson Dublin</p> <p>McDowell Purcell Solicitors Dublin</p> <p>Pinsent Masons LLP Birmingham</p> <p>Wragge Lawrence Graham and Co. LLP London</p>
	* Non-Executive Directors

## DIRECTORS AND EXECUTIVE MANAGEMENT

Auditor	Deloitte LLP London
Registrar	Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS13 8AE

## UNITED KINGDOM REGIONAL CENTRES

Central and South West	Office:	7th Floor 9 Colmore Row Birmingham B3 2BJ 0845 605 0209
London and South East	Office:	24 Monument Street London EC3R 8AJ
	Tel:	0845 608 0069
North	Office:	St Ann's House St Ann's Place Manchester M2 7LP
	Tel:	0845 603 7554

# UNITED KINGDOM BUSINESS DIVISION AND INTERNATIONAL BRANCHES

<b>Ansva Insurance Business Division</b>	Managing Director: Office:	R. Lane TD, BA, FCII, MCMI, MCGI Ansva House St Leonards Road Eastbourne, East Sussex BN21 3UR 01323 737541
<b>Canada Branch</b>	Tel:	
	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
<b>- Eastern Region:</b>	Regional Vice President:	M. Thornhill BA, CRM, FCIP 1969 Upper Water Street, Suite 2106 Purdy's Wharf, Tower 2 Halifax, Nova Scotia B3J 3R7
<b>- Western Region:</b>	Regional Vice President:	K. Webster CRM, FCIP Suite 521, 10333 Southport Road S.W. Calgary, Alberta T2W 3X6
<b>- Pacific Region:</b>	Regional Vice President:	B. Mitchell, CIP Suite 1795, Two Bentall Centre 555 Burrard Street, Box 239 Vancouver, British Columbia V7X 1M9
<b>- Central Region:</b>	Acting Regional Vice President:	C. Robertson, ACII 20 Eglinton Avenue West, Suite 2200 P.O. Box 2004 Toronto, Ontario M4R 1K8
<b>- Risk Managed and National Accounts:</b>	Vice President:	J. Wleugel BA, CRM 20 Eglinton Avenue West, Suite 2200 P.O. Box 2004 Toronto, Ontario M4R 1K8
<b>Ireland Branch</b>	Managing Director: Office:	D. G. Lane B.Comm (Hons), Certified Insurance Director 1st Floor Kilmore House Spencer Dock Northwall Quay Dublin 1

## INSURANCE SUBSIDIARIES AND AGENCIES

<b>Ansvar Insurance Limited</b>	Chief Executive Officer:	W. R. Hutcheon MBA, GCM, Graduate AICD, Fellow ANZIIF (CIP), Associate Fellow AIM
	Head Office:	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:	24 Monument Street London EC3R 8AJ
<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 Thursday, 18th June 2015 at 12:15pm for the following purposes:

## Ordinary business

1. To receive the Report of the Directors and Accounts for the year ended 31st December 2014 and the report of the auditors 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 re-elect Ms. S. J. Whyte as a Director.\*
11. To elect Mr I. G. Campbell as a Director.\*
12. To elect Mrs C. H. Taylor as a Director.\*
13. To consider the declaration of a dividend.
14. 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 2015

\* Brief biographies of the Directors seeking election or re-election are shown on pages 70 to 71 of the 2014 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 2014  
Ecclesiastical Insurance Office plc  
Beaufort House, Brunswick Road, Gloucester, GL1 1JZ

