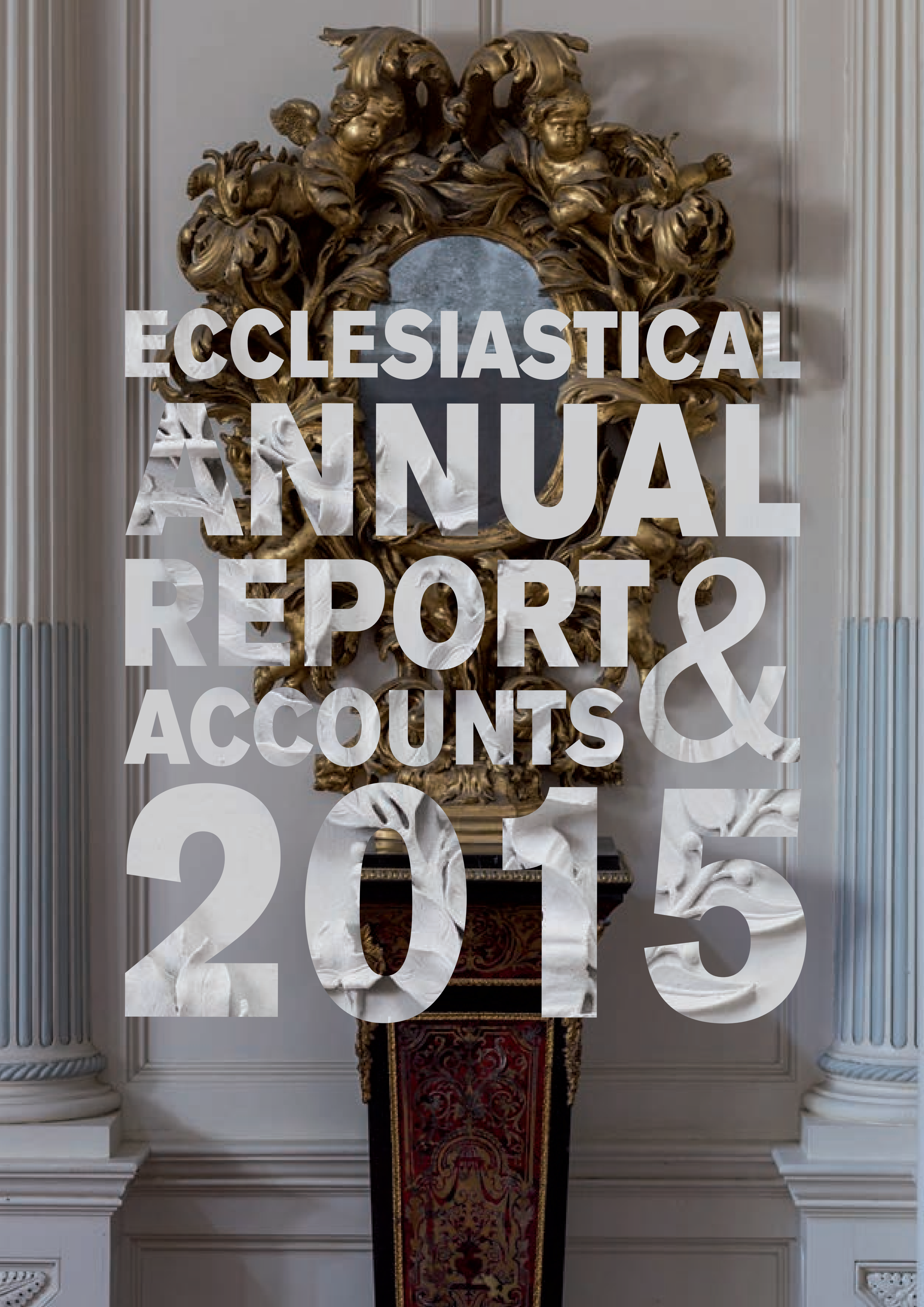
ECCLESIASTICAL ANNUAL REPORT & ACCOUNTS 2015



2015

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Our strategic goal is to be the most trusted and ethical specialist financial services group

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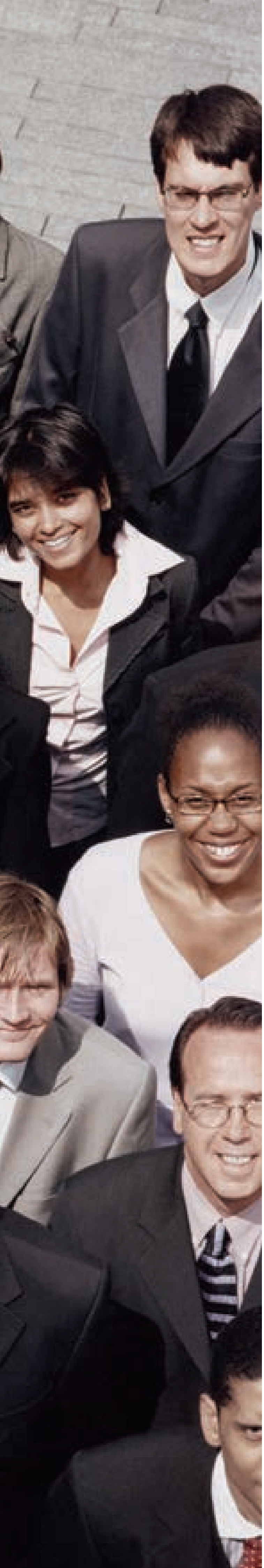
Photograph by Oskar Proctor

ABOUT US



A different kind of business

We are a specialist financial services group, with a strong portfolio of insurance, investment management, broking and advisory businesses in the UK, Ireland, Canada, and Australia.

Owned by a charity, we are a commercial business with a charitable purpose – a rarity in our sector. This means that we grant a significant proportion of our profits to our charitable owner Allchurches Trust Limited (ATL), which in turn invests them independently into the heart of communities, helping to change people's lives for the better. We also have our own programme of charitable giving.

We strive to be the most ethical and trusted business in our chosen markets. This has helped us to build enduring relationships with our customers and partners, giving us a deep knowledge and understanding of their needs. As a result, we offer products and services that are trusted and add real value, giving us the competitive edge that allows us to deliver significant financial returns to ATL.

At a time when the financial services sector is under increasing scrutiny, we believe our business model sets us apart, enabling us to benefit not only our customers but also the wider community.

Ecclesiastical at a glance

UK'S No 1 INSURER FOR CHARITABLE GIVING*

*DSC GUIDE TO CHARITABLE GIVING

UK'S 13TH LARGEST CORPORATE DONOR TO CHARITY*

*DSC GUIDE TO CHARITABLE GIVING

129 YEARS' EXPERIENCE

Established in 1887 to provide fire protection to Anglican churches.

ALLCHURCHES TRUST LIMITED

OWNERS OF ECCLESIASTICAL INSURANCE GROUP

OWNED BY CHARITY

Our charitable owner is Allchurches Trust Limited (ATL)

£0.5BN NET ASSETS

£2.3BN FUNDS UNDER MANAGEMENT

WHAT WE DO

INSURE £276BN OF PROPERTY WORLDWIDE

WHAT WE DO

LEADING INSURER FOR THE
ANGLICAN CHURCH
in all our territories

LEADING
MULTI-FAITH INSURER
Insuring synagogues and mosques in all our territories

INSURE 10 OF THE UK'S
WORLD HERITAGE SITES*
INCLUDING STONEHENGE AND CANTERBURY CATHEDRAL
*alongside other insurers

INSURE MANY THOUSANDS
40,000+
OF CHARITIES IN THE UK ALONE

MAIN INSURER OF THE UK'S
GRADE 1 LISTED
BUILDINGS

MAJOR INSURER OF INDEPENDENT SCHOOLS

50%+ OF CAIS* MEMBERS

40%+ OF INDEPENDENT SCHOOLS IN THE UK

*Canadian Accredited Independent Schools

AWARD-WINNING
ETHICAL INVESTMENT PROVIDER
2009 – 2015

WINNER
SEVEN TIMES
Investment Life & Pensions
Moneyfacts
Award 2009 -2015

Best Ethical Investment Provider

HOW WE DO BUSINESS

95% OF CUSTOMERS

SATISFIED WITH HOW THEIR CLAIM IS HANDLED

99% in UK; 96% in Ireland

98-100%

UK CUSTOMER SATISFACTION

Across all the sectors we measure

INSURERS CII CHARTERED

FOR THREE CONSECUTIVE **YEARS**

1 of only 5 insurers with CII chartered status across whole UK business

95%+

OF BROKERS SATISFIED WITH OUR SERVICE

95% in Canada;
96% of key brokers in UK

OUR PEOPLE

TOP EMPLOYERS FOR YOUNG PEOPLE

Canadian and Australian businesses named in national awards (see 'Strategy in action')

CANADA'S TOP EMPLOYERS FOR YOUNG PEOPLE 2016

We are a Living Wage Employer

88%

OF EMPLOYEES UNDERSTAND OUR VALUES

+7% above private sector norm

OUR CORPORATE RESPONSIBILITY

MORE THAN 40% OF OUR EMPLOYEES VOLUNTEER

OVER 3,500 VOLUNTEER HOURS

IN 2015, WE GAVE **£20.6M** TO CHARITY

£20m to ATL and £0.6m via our Greater Giving programme

BEST IN CLASS STANDARD

CommunityMark
BUSINESS IN THE COMMUNITY

OUR FINANCIAL PERFORMANCE

£20M GRANT TO ATL

£23.5M IN PREVIOUS YEAR

£43.2M INVESTMENT RETURN

£46.2M IN PREVIOUS YEAR

92.0% COMBINED OPERATING RATIO

+3.2pp

£53.6M PROFIT BEFORE TAX

3.0 PRA CAPITAL COVER

2.9 in previous year

Our businesses

We are organised into three divisions: Specialist Insurance, Investment Management, and Broking and Advisory. All are underpinned by a reputation for delivering an outstanding service to our customers.

We provide products and services to businesses, organisations and retail customers, both directly and through intermediaries.

Operating primarily from the UK, our Divisions and their associated companies are:

Specialist Insurance

Ecclesiastical UK / Ansvar UK / Ansvar Australia / Ecclesiastical Canada / Ecclesiastical Ireland

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

We have particular expertise in valuing and protecting distinctive properties both old and new – from cathedrals to concert halls, schools to stately homes and iconic modern buildings to youth hostels.

We also provide a discrete range of specialist products including household insurance for church and congregations and fine art insurance to the high net worth market.

Investment Management

EdenTree Investment Management (EdenTree)

Our multi-award winning investment management team manages and sells ethically screened and non-screened investment products to institutional customers, including the charity and faith markets, and to retail customers through the advisory market.

In July 2015, the investment business was rebranded to EdenTree Investment Management, to achieve greater resonance in the socially responsible investment market.

EdenTree also manages the majority of the Group's financial investments.

Broking and Advisory

SEIB Insurance Brokers (SEIB) / Ecclesiastical Financial Advisory Services (EFAS) / Lycetts Insurance Brokers* / Lycetts Financial Services*

* Part of Ecclesiastical Insurance Group (EIG)

Our specialist brokers, SEIB and Lycetts, provide tailored insurance products for customers, particularly those in the high net worth, farming and rural estates, equine, animal trades, and specialist motor insurance sectors.

EFAS and Lycetts offer financial advice to businesses and individual customers including Church of England clergy. EFAS also marketed and administered prepayment funeral plans under the Perfect Choice brand.

Photograph by Oskar Proctor

STRATEGIC REPORT

Chairman's Statement

Financial performance

Ecclesiastical has delivered another set of strong and consistent results in 2015, testimony to the transformation in its performance over the last two years. Profit before tax grew by 11% to £54m, with underwriting profits and investment returns both performing well despite a challenging business climate.

These are pleasing results, but insurance remains a cyclical business and the industry is facing soft markets and lower investment returns. To prosper in these conditions, Ecclesiastical will continue to provide a specialist trusted proposition, backed up by disciplined underwriting and expense control.

The profits we made in 2015, combined with our strong balance sheet, have enabled us to pay a grant of £20m to our charitable owner, bringing the total we have granted ATL since 2014 to £43.5m. Including all other charitable giving, we have given £45.8m to charitable causes in that time, taking us closer to our goal of giving £50m to charity over three years.

Group underwriting profits increased from £11m to £16m, generating a combined operating ratio (COR) of 92.0% against 95.2% in 2014. In the UK and Ireland, the impact of challenging property claims and December's storm and flood events were offset by the improvement in the performance of our liability book. This helped us deliver an overall COR of 90.4% compared to 94.0% in our home market, the previous year.

"We achieved a return on our equity portfolio that exceeded FTSE All-Share Index returns. We also enhanced our investment property portfolio during 2014 and 2015 which generated a return of 11% during the year.

Investment returns were on budget at £43m in 2015, despite falling global equity markets and a reduction in the capital value of fixed interest investments due to rising yields. We achieved a return on our equity portfolio that exceeded FTSE All-Share Index returns. We also enhanced our investment property portfolio during 2014 and 2015 which generated a return of 11% during the year. Ecclesiastical has a sound capital base, which enables us to pursue our long-term strategy while being cognisant of short-term volatility.

People

First and foremost, our current and future success rests with our people. Ecclesiastical has a skilled, adaptable and dedicated team and I would like to thank and congratulate them for this year's successes and the transformation they have achieved.

We have continued to invest in our employees through a comprehensive, ongoing programme of training and development. In 2015, we provided over 3,000 technical and personal development training courses and over 500 management courses, many in conjunction with our business partners. We have also recruited to augment our underwriting and risk management capability.

Board

I would like to thank my fellow directors for their support and hard work in the past year. In particular, I want to express my thanks to David Christie, who retires as a non-executive director in March 2016. David has made an invaluable contribution to our company and we wish him well in his future endeavours.

This is my final review as Chairman of Ecclesiastical, as I will be retiring in March 2016 after ten years with the Company. It has been an honour to lead it through this period of transformation and to work with the committed and motivated people who work here. My successor, Edward Creasy, brings to Ecclesiastical a wealth of financial services and board level experience and I wish him every success as he takes the Company forward.

Ecclesiastical is a company with distinctive ethical values. Its ongoing success will come from a judicious fusion of the best of those values with a keen acceptance of the change required to succeed in a competitive insurance and investment market. I firmly believe that, with the substantial changes made to the Board and executive management team over the last three years, we have the necessary skills in place to embrace that change and take Ecclesiastical to even greater success.

“Group underwriting profits increased to £16m generating a combined operating ratio of 92.1%.

Corporate culture

The Board recognises the importance, particularly in times of change, of ensuring that our corporate culture supports long-term success. To that end we are reviewing our leadership and talent development strategy, to ensure that the values Ecclesiastical espouses are combined with outstanding commercial acumen.

Customer service is central to our corporate culture; our most recent surveys show customer satisfaction of between 98% and 100% across all measured groups and territories. We are committed to putting the customer at the heart of our business, for example by conducting regular 'listening exercises' with small groups of customers to discuss their current and emerging needs and concerns.

Will Samuel
Chairman

Chief Executive's Report

Customers and partners often tell us that our charitable purpose sets us apart.

Founded 129 years ago to insure the Church of England, we have always had a strong sense of moral purpose. Today, as we face the modern challenge of public mistrust in financial services, that purpose inspires our drive to be a very different kind of business.

In 2014, we set out a strategic goal for the Group that built upon our ethical foundations. It was clear, stretching and inspirational:

To work together to be the most trusted and ethical specialist financial services group, giving £50m to charity over three years.

Put simply, we want to deliver on our promises. We want to do the right thing for our customers and partners. And, above all, we want to give help, support and money to those who need it most. That is not just an adjunct to what we do; it is the reason we exist.

Another strong year

As a commercial business with a charitable purpose, we are focused on delivering strong and sustainable returns. To do good, we know we must be good.

That is why it gives me immense pleasure to report another year of strong results. We have achieved a pre-tax profit of £53.6m compared to £48.2m in 2014 and an underwriting profit of £15.9m, up from £10.7m the previous year. Our capital strength has also been enhanced and our net assets ended the year at £505m, a record high, compared to £495m in 2014.

All this been delivered against a backdrop of volatile investment markets, unusually high property losses, and severe weather events, including Canada's exceptionally cold January and the storms that hit the UK at the end of the year.

Last year, I described our results as 'nothing short of transformational'. This year's results signal that our ambitious change programme, new leadership teams and the tough decisions that we have taken over the past few years are reaping further dividends. Our momentum is building and we are now well placed to invest more in our future so that, over time, we can grow both our business and our charitable giving.

Being good to do good

Our charitable purpose shapes every aspect of how we do business.

For example, unlike many of our competitors, we do not have to pay hefty returns to external shareholders. This means we are not driven by short-term decisions focused mainly on the bottom line. Instead, we can focus on longer-term goals that are in our customers' best interests.

We are very conscious that trust in financial services companies has declined sharply in recent years. In a deliberate move to buck this trend, we have set about securing the trust of our customers and business partners for the long-term. In practice, this means meeting or exceeding our customers' expectations, being honest and professional at every turn and, most important, being unfailingly supportive in times of need.

This is where we differentiate ourselves in today's competitive environment. By being the most intelligent and knowledgeable player in our chosen markets, by offering real value for money and by always delivering on our promises, we know we are honing a competitive edge.

A raft of independent data shows that we have already made enormous progress.

Our latest UK customer satisfaction levels are 98-100% across the board and satisfaction with claims handling sits at 99% in the UK and 96% in Ireland. UK brokers have recognised us as the best charity, education and heritage insurer for the ninth consecutive year. In home insurance, we top the UK's Fairer Finance league table and pay 93% of claims against an industry average of just 79%. Our investment management business has been voted Moneyfact's Best Ethical Investment Provider for seven consecutive years and achieved the top assessment rating from the UN Principles of Responsible Investment.

All this reinforces my belief that, while not perfect, we are getting many things right.

The case studies in this report and on our website show how highly our customers and partners think of us, and I thank them all for their kind words. They represent just a fraction of the positive comments we receive, such as the handful shown:

> **"You meet claims fairly and promptly, and your valuation service is highly valued and unique.**
>
> **Broker,**
> London and South East

> **"The human side and the caring that everyone at Ecclesiastical showed has been so tremendous. I don't know how we'd have got through it all without your support.**
>
> **Kathryn Creese,**
> churchwarden and treasurer,
> St. Michael and All Angels Church, Tirley

> **"It is also appropriate here to salute the insurance companies, many of which have been praised for the speed and nature of their response to those flooded. Affected churches have greatly valued the service of the Ecclesiastical Insurance Group in particular during recent weeks.**
>
> **Rt. Revd. Nick Baines,**
> Bishop of Leeds, speaking
> in the House of Lords

> **"We should perhaps praise the Lord there is an insurer out there with a conscience…**
>
> **Patrick Collinson,**
> personal finance editor, Guardian
> (on our behaviour towards a policyholder)

I would like to thank and congratulate every one of my Ecclesiastical colleagues, who work tirelessly to deliver the service that elicits comments like these. They illustrate better than any words I could ever write how we are fulfilling our commitment to being the most trusted and ethical financial services group. Doubly rewarding is the fact that by doing so, we are also meeting our ultimate goal of giving £50m to charity over three years.

Progress in detail

Our focus is firmly on taking the right decisions to create long-term ethical and sustainable growth. In 2015, we continued to apply strong underwriting disciplines across the Group, which saw our overseas businesses achieve an increase in gross written premium (GWP) although our global GWP declined slightly. We won a number of significant accounts such as the Canadian Cancer Society, Scouts New South Wales, National Trust of Victoria and the Irish Management Institute, and we now insure the majority of Grade I listed buildings in the UK.

In the UK, we maintained high retention levels, despite further losses of academies to the Department for Education's risk protection arrangement for academy trusts, and managed our portfolio rigorously, with a deliberate emphasis on delivering profit in a highly competitive market. This approach lies behind the year's 7% fall in GWP and has contributed to the £5.2m increase in underwriting profits. Our aim is to achieve moderate GWP growth over the coming years, by adding profitable business at a sustainable rate.

Our Australian and Canadian businesses continued to achieve measured growth, increasing GWP by 4% and 9% respectively in local currency. Australia delivered an underlying underwriting profit of £0.1m and COR of 99.3%. Canada secured another set of robust underwriting results despite a record 'freeze' at the beginning of the year.

The investment management division, which rebranded as EdenTree Investment Management (EdenTree) during the year, delivered a profit of £2m against £3m in 2014. We invested substantially in this business during 2015, with the launch of the new brand and successful implementation of a new IT platform. Investment like this takes time to bear fruit but we are confident that it will enable us to make our offer clearer, more distinct and give it a wider appeal.
The name of the company may have changed but the profits with principles ethos remains as strong as ever.

Our independently run broking operation, SEIB, had a more difficult year as it dealt with the transition of one scheme to another provider. This resulted in a £0.8m decrease in profit from £3.0m to £2.2m, although in part this reflected a programme of investment in new employees, systems, websites, and marketing.

Looking forward to our future

I see 2016 as an exciting year of transition: a year where one successful chapter of transformation draws to a close and a fresh new chapter of investment in our future begins.

We are enormously grateful to Will Samuel for his outstanding chairmanship in recent years. There is no doubt that with his guidance we have made huge strides in reshaping and repositioning our Group, going through each of our businesses thoroughly, taking decisive action to improve them and delivering a Group-wide change programme. This has all contributed to strong results and increased grants for our charitable owner.

In our next chapter, we have much to look forward to. We will launch and drive forward the next stage of our transformation programme, led by an exceptionally committed and energised team in each of our territories and businesses around the world. I know they are keen to build on our recent success and deliver against our charitable purpose.

We know that challenges lie ahead and are prepared for them. We expect market volatility to continue in the near term and are positioned for this, taking a defensive stance where appropriate. Equity markets have performed strongly over the long term but we know that the level of return cannot be guaranteed. However, our financial strength and unique ownership allow us to take a long-term view and ride out periods of market turbulence.

In 2016, institutions in England and Wales will be scrutinised as the Independent Inquiry into Child Sexual Abuse starts its investigations. We welcome the openness and transparency that the Inquiry heralds and recognise it may result in more victims and survivors feeling able to come forward. Our reserving techniques for latent claims of this nature have been developed and enhanced over a number of years; ensuring appropriate reserves are held which take into account the typically higher uncertainties that are attached to this kind of risk.

The general insurance market remains very competitive in some of our markets; however, our results demonstrate that with our specialist focus, disciplined underwriting and premium service we can successfully confront these challenges.

I know that our financial strength and committed ethical approach give us strong foundations upon which we can build our business and grow our charitable giving. We have high aspirations, we are on target to give £50m to charity over three years, and there is abundant energy and goodwill drawing us together to achieve this.

Working together for the greater good

In 2015, we gave £20.6m to charity, including grants to our charitable owner and through our wider Greater Giving programme.

Yes, this is a big number. But for us, what really matters is the lives we are able to improve. And having seen first-hand the impact of our giving, there is no doubt that we make a real and life-changing difference to many vulnerable people in the markets and communities in which we operate. That is the reason why so many of us support Ecclesiastical, either as employees, customers or business partners.

I thank all our customers and our business partners whom we serve, and whose expectations we aim to exceed. It is only with their support that we can give so much to good causes.

I would also like to take the opportunity to invite prospective partners and customers to consider working with us and experience the 'Ecclesiastical difference' for yourselves. I would also encourage potential employees from all walks of life to consider joining us. Our doors are always open to like-minded individuals and organisations who share our aspirations and can help us to help others.

I am confident that with the ongoing support and commitment of our extraordinary people, we will deliver this exciting new chapter and build a Group that stands by its customers ever more firmly. A Group that is formed from a unique blend of business, charity and faith. A Group that is changing people's lives.

Mark Hews
Group Chief Executive

CASE STUDY

Helping hand for a hurricane-damaged school

In November 2015, Manchester Grammar School celebrated the opening of its new, state-of-the-art sports hall by ex-England cricket captain Mike Atherton OBE. Just 20 months earlier, their old hall had been damaged beyond repair by hurricane-force winds.

We worked alongside the school from start to finish, quickly assessing the damage, agreeing options for the use of temporary facilities and supporting the school's ambition to improve its sporting facilities.

The brand-new two-storey sports hall includes four cricket nets, separate badminton, basketball and volleyball courts, a five-a-side football pitch and an indoor hockey pitch. We are delighted that our specialist claims consultants were invited to the reopening ceremony.

“ I would like to extend my sincere thanks to Ecclesiastical, our insurance company, for their help and support throughout this project and enabling us to build this fantastic new venue. It has been a pleasure to work with them and I am extremely grateful for their assistance in helping us create this fantastic facility.

Dr Martin Boulton
High Master, The Manchester Grammar School

Global trends in financial services

We monitor a number of global trends that we believe will affect our business in the future. Our insight and response to these trends is shown over the next few pages:

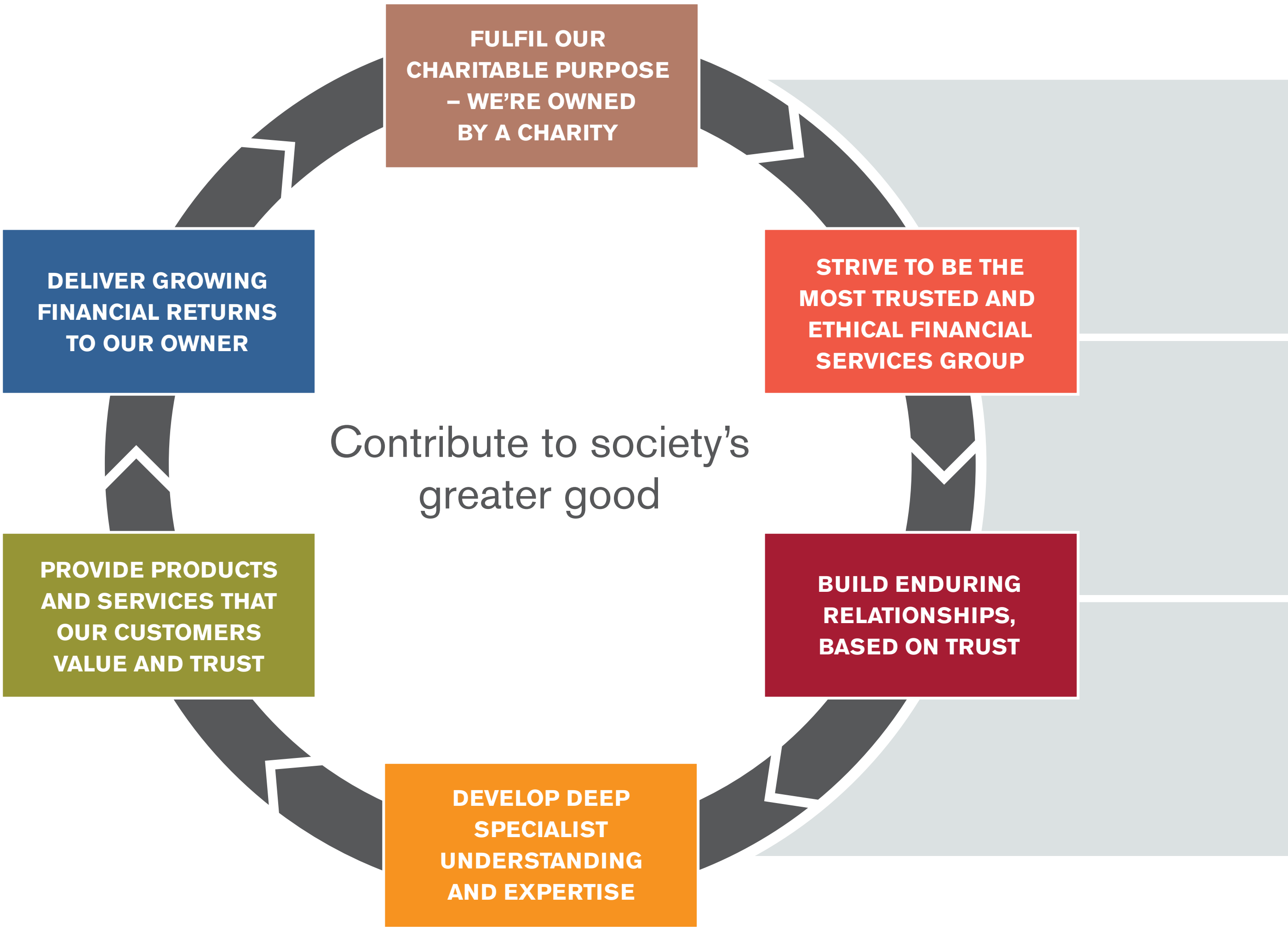
Trend	Our perspective	Our response
Regulation	With Solvency II now live, regulators will continue to focus on capital strength, transparency and governance. Customer focus will be central to ensuring a successful response to regulatory requirements. Along with increased management attention, businesses will need to invest further in the systems, processes and organisational culture that help them meet customers' needs.	We met Solvency II requirements by 1 January 2016, resulting in a step change in the Group's management of risk and capital. All frameworks are embedded and operational, and we have agreed a scheduled application submission for the Internal Model in 2017. We have already begun to prepare for future regulatory requirements, such as the EU Insurance Mediation Directive (IMD2) and planned updates to Markets in Financial Instruments Directive (MiFiD2). Consideration is being given to the potential impact of any regulatory decisions regarding the distribution model in our Broking and Advisory division. We already place customers at the heart of our business. Our ethical approach and the enduring relationships we build with our customers mean that we are well placed to respond to regulatory requests for greater transparency and improved customer relationships.
Developments in technology, data and analytics	Businesses are seeking deeper insights into customer behaviour to gain competitive advantage. Such data underpins insurance pricing models, offering the potential for superior risk selection, better risk pricing, an improved offering to customers and, ultimately, an enhanced underwriting result. Businesses continue to invest in systems and technology in order to improve operational efficiency.	As part of our long-term strategy, we have begun to make significant investments in upgrading and replacing the technology across the Group. We have streamlined the front-end operations of EdenTree, our investment management business, with the implementation of the specialist platform Charles River. Plans are underway to migrate the underlying trading platforms in our major broker businesses onto a single IT architecture, using the technology expertise in our SEIB broker business. Our UK underwriting business is evaluating options for its underlying platform to enhance data analytics and remove unnecessary processes from operational areas.

Trend	Our perspective	Our response
	Advances in technology are helping businesses gain a better understanding of their property portfolio. Unmanned drones are used increasingly to map buildings by 3D laser and built-in sensors are used to detect environmental changes such as the escape of water.	We scan the horizon to anticipate and understand the potential impact of emerging technologies on the broader environment, our business and our customers.
Changing demographic and social trends; increased customer expectations	Demographics and social profiles are changing across our key markets and territories. In particular, increased immigration and ethnic diversity will provide new opportunities for companies operating in faith markets. Customers and intermediaries expect increasingly enhanced levels of service and tailored products that meet their specific needs. Customers are actively seeking ethical and trusted providers. Corporate responsibility is also increasingly being taken into account during the procurement process.	We have deepened our understanding of customer and broker needs, supported by an ongoing programme of market and customer research. In the UK, we have established our 'Select Broker' programme. This offers an enhanced proposition and specialist in-house support to our brokers. We look at developing opportunities in new and emerging markets. For example, our broking businesses have been developing their expertise in the alternative energy sector. We have appointed directors to manage each of our UK divisions, with responsibility for continuing to ensure that customers' needs are understood and that our products and services meet those needs. Our underwriting Business Model is based on the creation of longstanding trusted relationships, which we achieve through partnerships with our customers, brokers and ourselves as the insurer. This has attracted many prestigious customers in 2015, including the Canadian Cancer Society, Scouts New South Wales, National Trust of Victoria, and the Irish Management Institute. We strive to be the most trusted and ethical financial services group and this is a cornerstone of our Business Model. Our investment management team, which launched one of the UK's first socially responsible retail funds, continues to win awards for its ethical investment proposition.

Trend	Our perspective	Our response
Low trust in financial services	We find it disappointing that consumers' trust in financial services is expected to remain low, though there are signs of a slight recovery as indicated by the 2015 Edelman Trust barometer. A recent survey by the Financial Services Compensation Scheme (FSCS) indicated that banks are now more trusted than insurance companies. Ecclesiastical has an unusual level of trust among brokers. A recent independent survey shows that 61% of brokers trust us to do the right thing compared to only 37% who trust the insurance industry and 24% the UK financial services industry.	Our strategic goal is to become the most trusted and ethical specialist financial services group. This shapes the way we do business across all our markets and territories. As a commercial business with a charitable purpose, we grant a significant proportion of our profits to ATL for distribution to charitable causes and communities. Our research tells us that this resonates positively with key customer groups. We are the UK's top charitable donor in the insurance sector and have publicly announced our intention to give £50m to charity over three years. In 2015 alone, we granted £20m to ATL and £0.6m to our own Greater Giving programme, making a cumulative total of £20.6m at the end of the year.
Climate change	The world's climate has changed over the past decade, with average temperatures rising by just over one degree. Potentially, this will lead to less predictable and more extreme weather events. This is likely to result in a greater concentration of insurance losses and will require changes in the way risk is evaluated and managed. Alternative energy sources are being considered and the impact of businesses on the environment will be scrutinised more closely.	We are using predictive tools and expertise to map the probability and potential impacts of major weather events, helping us to understand the longer-term impact of climate change and the implications for our customers and our business. We have deepened our understanding of flood risk, monitoring high-risk areas and providing proactive risk management advice and assistance to help customers develop informed flood resistance and resilience plans. Our broker businesses have specialist expertise in many kinds of renewable energy. They offer commercial policies for a range of renewable energy sources, such as biomass, geothermal and wind. EdenTree, with its award-winning ethical investment track record, is engaging proactively with public policy issues, signing the Paris Pledge and the COP21 Investor Statement on Climate Change and joining the Institutional Investors Group on Climate Change (IIGCC).

Trend	Our perspective	Our response
Cyber security	Third party cyber-attacks on businesses are becoming larger, more complex and more commonplace, according to Arbor Networks' 11th Worldwide Infrastructure Security Report. While the loss of data is damaging in itself, it also has wider impacts on companies' finances and reputations. Companies will see increased regulatory scrutiny, particularly given the impending introduction of the EU General Data Protection Regulations, which will require compulsory reporting and increased financial sanctions for any breaches.	In 2016, we will use third-party expert insurers to find solutions to cyber security challenges for our customers, including the provision of new products and specialist advice. We have a number of controls operating within our technology infrastructure, which aim to safeguard and deny unauthorised or malicious access to our systems, internal data and infrastructure. Our specialist broker, SEIB, has created a specialist product for SMEs to address the gap in commercial combined insurance, with increased indemnity limits for denial of service and cyber-attacks. They have also worked with both Essex Police and the Serious Fraud Office to raise awareness of internet-enabled crime among the local business community.

Our Business Model and Strategy



Like all commercial businesses, our aim is to create long-term value for our shareholders, by using our skills and approach that differentiates us to create competitive advantage.

What sets us apart from others in the financial services sector is the fact that our Group's owner is a charity.

Our purpose is, therefore, to deliver growing financial returns to our shareholder and owner, which are in turn distributed to charitable causes and communities, contributing to society's greater good.

Our charitable purpose underpins our culture, enhancing the Group's reputation as an ethical business.

This helps us build longstanding relationships and high levels of customer loyalty.

These enduring relationships mean we really understand our customers and sectors, and have built deep expertise within them, allowing us to provide highly valued products and services.

All these factors help us to deliver sustainable and growing returns over the long term.

The most trusted specialist insurer

Our aim is to be the most trusted specialist insurer, offering unrivalled expertise and knowledge in our core markets, with appealing customer propositions and an excellent claims service that meet the concerns and needs of our customers and business partners.

The most trusted specialist adviser

We aim to be the most trusted specialist adviser in our chosen markets, providing our customers with the best independent and impartial insurance or financial advice in order to meet their needs.

The best ethical investment provider

We aim to be the best ethical investment provider and thought leader on socially responsible investment. Building on an impressive track record, we will continue to enhance our proposition and our ethical credentials, leading the debate on the ethical investment issues that matter to our customers.

OUR STRATEGIC GOAL IS TO BE THE MOST TRUSTED AND ETHICAL SPECIALIST FINANCIAL SERVICES GROUP

GIVING £50M TO CHARITY OVER THREE YEARS

STRATEGIC REPORT
STRATEGY IN ACTION

Photograph by Oskar Proctor

Strategy in action

Giving £50m to charity over three years

In 2014, we set out our goal to give £50m to charity over a three-year period. In 2015, we gave £20.6m to charity, including £20m in grants to ATL and £0.6m in donations via our own Greater Giving programme. With £45.8m donated to date, we are well on our way to achieving that goal.

Most trusted specialist insurer

We achieve this by being

Customer focused
– keeping customers at the heart of our business and aiming to deliver exceptional customer service

Disciplined in our underwriting
– having a well-defined risk appetite that supports profitability and sustainability in our business mix

Focused on relationships
– building strong, lasting relationships with brokers, with a focus on trilateral relationships between brokers, customers and ourselves

Real specialists
– building a deep knowledge of those areas of financial services in which we specialise

Prepared to invest
– investing in our operational capability, to create the best possible experience for our customers, our business partners and our people

Strategy in action

We measure UK performance against the 15 guiding principles of our new Ecclesiastical Promise, which will be introduced across our other territories in 2016

To support our outstanding reputation for risk management advice, we have introduced thermographic imaging and will launch drone technology in Australia in 2016. This will help us provide preventative guidance to customers and support a speedy response to those affected by extreme weather events

We have made significant hires into the business including the further strengthening of our underwriting and risk management capabilities, particularly in the UK

We have established Centres of Excellence to share best practice and learning across core disciplines

We have enhanced our technology landscape including the mobilisation of a programme of systems development in the UK

Our Select Broker programme was introduced at the start of 2015, to build even stronger relationships with these brokers

Most trusted specialist insurer

Highlights

UK customer satisfaction sits at 98-100% across every sector we measure

Customer satisfaction with claims handling stands at 99% in the UK and 96% in Ireland

88% of our UK brokers and 95% of our Canadian brokers are satisfied with our service

We are recognised by brokers as the best insurer in the charity, education and heritage sectors for the 9th consecutive year, according to an independent survey by FWD

Our UK Corporate Chartered Insurance status was renewed by the Chartered Insurance Institute (CII), illustrating our commitment to its code of ethics and our professionalism

We are top of the independent Fairer Finance rankings for our home insurance offerings

Ecclesiastical Canada was named one of Canada's Top Employers for Young People for the fourth successive year

Ansvar Australia was selected as a finalist for Youth Development Insurer of the Year in the ANZIIF 2015 Insurance Industry Awards

The UK's Landmark Trust, which we have insured for 25 years, has selected us as their first Corporate Patron together with their insurance broker, JLT Specialty

98-100% UK CUSTOMER SATISFACTION

CASE STUDY

Dealing sensitively with flood damage

For many of our customers in Cumbria, Lancashire and Yorkshire, December 2015 was a traumatic and emotional time as they wrestled with the devastation caused by extreme flooding.

In Carlisle, the Grade II Listed church of St. Aiden's was flooded along with the attached church hall, as was the vicarage a few hundred yards away. Floodwater, in places two to three feet deep, deposited huge amounts of silt and debris which damaged the timber parquet floor, sandstone walling and columns and timber panelling.

Our priority was to provide quick and effective support. We sent out our specialist claims handlers to assess the situation and helped St. Aiden's vicar, Rev. Keith Teasdale, to secure alternative accommodation. We also brought in loss adjusters and restorers with a deep, specialist knowledge of working with listed properties.

"I cannot fault Ecclesiastical at all. Their timing, care and attention to detail has been first class, both in respect of the church and the hall, as well as the vicarage, where we had over five feet of water.

Ecclesiastical has provided emergency funding and called me regularly to check on progress. They even turned up with a hamper to provide a bit of Christmas cheer! I've been recommending Ecclesiastical to my flooded neighbours, not all of whom have such wonderfully understanding insurers.

Rev. Keith Teasdale

CASE STUDY

An enduring customer relationship

When the Nova Scotia Schools Insurance Exchange (NSSIE) appointed a new broker, strong customer relationships saw Ecclesiastical Canada retain and refresh this remarketed account.

NSSIE has been an Ecclesiastical customer since 2009 and has chosen to remain with us through three changes of broker. The non-profit organisation manages all insurance placements for Nova Scotia schools and adult community colleges via its School Insurance Programme – a total insured value of around CAD$5.8bn.

We know that our risk management, underwriting and claims expertise was central to NSSIE's decision to reappoint us in 2015, together with coverage enhancements that met their specific needs.

> **"The partnership between the School Insurance Program (SIP) and Ecclesiastical is more than just an insured–insurer relationship. SIP's business is to provide quality insurance services to Nova Scotia schools. As a non-profit organisation, we welcome an insurer whose vision includes working for the greater good. This is one of the many reasons SIP finds an excellent fit with Ecclesiastical.**
>
> Diane McRae
> Chief Executive Officer NSSIE

Most trusted specialist adviser

We achieve this by

Providing excellent service – building long-term sustainable relationships with our customers and their insurers

Strengthening our proposition – deepening our expertise further in our chosen markets, cementing our position as market leaders in these areas

Building our business – delivering growth by developing new offerings and schemes which complement our existing niche markets

Working more closely together – developing closer operational links across the Group to offer solutions that meet our customers' needs

Strategy in action

Working with other Ecclesiastical companies, we have created a number of focussed propositions, including a joint offering to Church of England clergy

SME business opportunities have been developed with the Essex Chamber of Commerce

Sourced a new insurance product to address cybercrime issues

Diversified into insurance for commercial drone operators

We rebranded South Essex Insurance Brokers to SEIB Insurance Brokers, increasing business opportunities by removing perceived regional ties

Integrated the 2014 acquisition of Lansdown successfully into SEIB

Highlights

Finalists in Insurance Times Awards for Brand Campaign of the Year – Broker

Finalists at the UK Broker Awards for Schemes Broker of the Year

Our UK Corporate Chartered Insurance status was renewed by the CII across our UK operations

SEIB maintained an exceptional customer satisfaction score of 97%

CASE STUDY

From cyber security to commercial drones: SEIB meets new customer needs

Our specialist brokers pride themselves on anticipating their customers' changing needs and developing new products to meet them.

When internet-enabled crime emerged as a growing issue, SEIB sourced a new insurance product to address it, partnering with a leading specialist insurer for cybercrime. Designed especially for small and medium-sized companies, the product offers increased indemnity limits for incidents such as denial of service and cyber-attacks. It also aims to meet businesses' specific needs following an attack or accidental loss of data, by providing a dedicated helpline.

SEIB has recently diversified into insurance for commercial drone operators, again demonstrating that it is at the forefront of understanding and catering for emerging risks.

"Essex Chambers of Commerce is particularly grateful to SEIB for helping us to understand the implications of cyber-related crime to our business and to source suitable cover to match our business needs, as well as those of our business members. Furthermore, they are also successfully raising the awareness and importance of cyber insurance cover through membership of the Essex Business Crime Forum, which is chaired by the Police and Crime Commission for Essex.

Denise Rossiter
Chief Executive, Essex Chambers of Commerce

Best ethical investment provider

We achieve this by

Promoting socially responsible investment
– we have an industry-leading reputation for our socially responsible investment funds and investment thought leadership

Delivering long-term performance
– we use a consistent proven approach to delivering long-term investment success

Developing our offering
– we are developing and deepening our fund offering with particular focus on institutional investors and the charity segment

Creating a platform for growth
– we are upgrading our IT capabilities to create a platform for growth and increase processing efficiency

Refining our service
– we are enhancing our services to keep pace with the evolving needs of our customers

Strategy in action

The investment management business has been rebranded to EdenTree Investment Management

A market-leading investment website has been launched to service all clients, including institutional and charity investors, financial advisers and private investors

We have implemented an investment management system that supports electronic trading and automated compliance monitoring

Our investment team sustained its award-winning track record, securing numerous plaudits based on its above-average long-term performance record

Highlights

Secured top assessment rating of A+ from UNPRI (United Nations Principles of Responsible Investment) – an external, independent validation of EdenTree's responsible investment process affirming our leadership position among our global peers

2015 Citywire Platinum rated for Mixed Asset Sector

2015 Lipper's Best Group over 3 years for Mixed Assets Small

Won FUNDCLASS European Funds Trophy for Best European Asset Manager – for 4 to 7 rated funds for the fourth year in a row

Awarded the Moneyfacts Best Ethical Investment Provider Award for the seventh year in a row, voted for by the Independent Financial Adviser community

CASE STUDY

EdenTree Higher Income Fund continues to win supporters

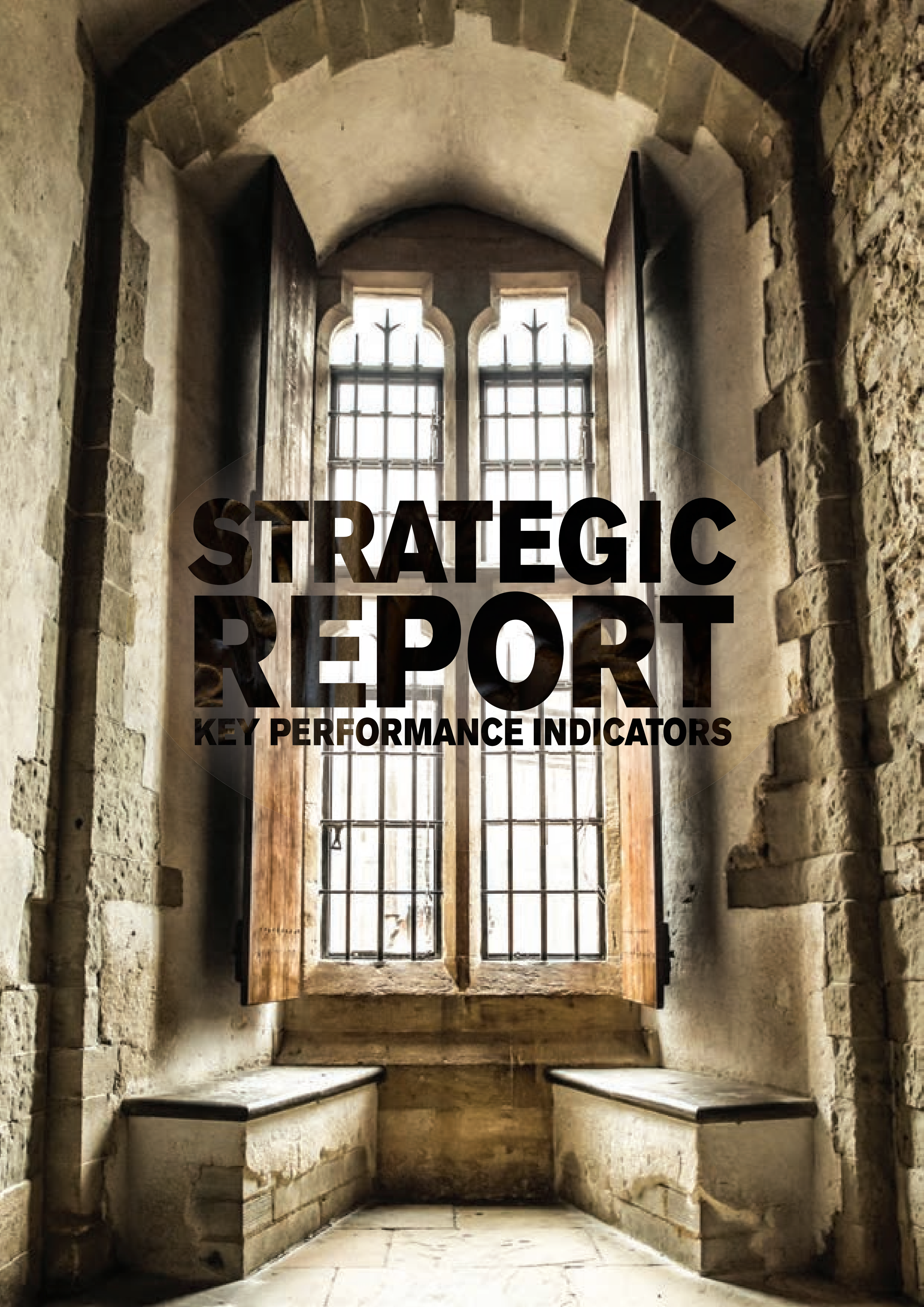
Launched in 1994, our award winning Higher Income Fund has demonstrated a strong long-term performance history.

In February 2015 it was selected by Hargreaves Lansdown as one of their favourite funds and joined their Wealth 150+ list. Hargreaves Lansdown is one of the largest investment platforms in the UK for private investors and the funds for this list are chosen following detailed assessments of fund investment strategies, in-depth mathematical analysis to find those funds that have produced consistent outperformance and thousands of hours of interviews with leading fund managers.

> **"Hargreaves Lansdown believe this list offers the ultimate combination of 'best in class' performance potential and low management charges.**
>
> Hargreaves Lansdown

STRATEGIC REPORT

KEY PERFORMANCE INDICATORS



Key Performance Indicators – financial

Measure	Performance	

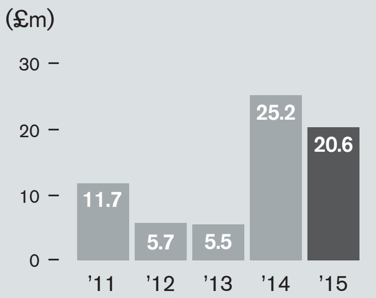
Donations

The amount donated by Ecclesiastical to charities and our charitable owner each year. This is the main measure of our ambition, which is to give £50m to charity over three years.

In 2014, transformation of our results allowed us to make £23.5m of grants to our charitable owner as well as £1.7m donations to other good causes.

Another year of consistent financial results has enabled us to continue our targeted level of charitable giving, with £20.6m of donations paid in 2015.

We have now made donations of £45.8m towards our goal of giving £50m to charity over three years.



Regulatory capital*

The capital resources available to meet the Prudential Regulation Authority's (PRA) regulatory requirements.

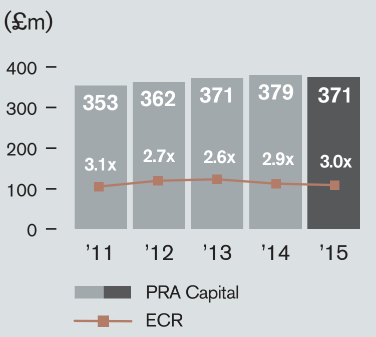
The Enhanced Capital Requirement (ECR) is a risk-based statistical calculation based on the business written and assets held.

ECR coverage is the ratio of PRA capital available to meet this requirement.

Our requirement is to exceed regulatory capital requirements at all times.

Ecclesiastical's capital position has remained strong throughout its period of transformation. We have balanced the need to retain profit within the business to support future growth and development with our target to distribute £50m to charity over three years.

The Group's regulatory capital requirements changed on 1 January 2016 as Solvency II was launched in the European Union. We have agreed a set of targets for capital cover on both the regulatory standard formula basis and our own view of economic capital. We are comfortable that we will be able to meet the Solvency II capital requirements.



Measure	Performance	

Profit/(loss) before tax*

The Group's profit or loss (excluding discontinued operations) before deduction of tax.

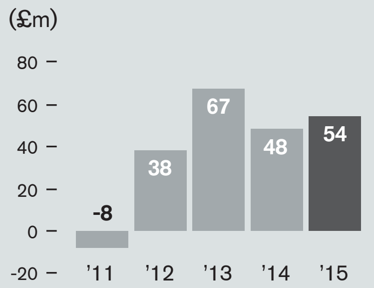
Each year, refreshed targets are set in relation to the Group's business plans for profit before tax. Details of the target that was set for 2015 can be found in the Group Remuneration Report on page 123. Our short-term target is to generate sufficient profit to enable us to give £50m to charity over three years.

Better-than-expected Group underwriting profit, supported by stable total investment returns, delivered a year-on-year improvement in total profit which increased to £53.6m in 2015.

Our Investment Management and Broking and Advisory divisions also continued to contribute consistent profits to the Group result.

More information on underwriting performance is given below.

See the Financial Performance Report on page 44 for more details.



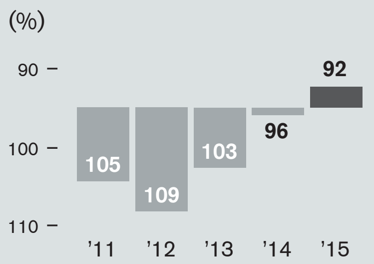
Combined operating ratio (COR)*

The sum of Ecclesiastical's general insurance incurred losses and expenses divided by earned premiums for each financial year.

Each year, refreshed targets are set in relation to the Group's business plans for the Group COR. Details of the target that was set for 2015 can be found in the Group Remuneration Report on page 123. Our target over the longer term is to achieve a 95% COR.

The COR has improved for a fourth consecutive year, reflecting the Group's focus on underwriting and pricing discipline prioritising profit over growth in the competitive business environment. The ratio exceeded our longer-term target for the first time since 2009 primarily driven by better-than-expected performance of our liability business in 2015.

See the Financial Performance Report on page 44 for more details.



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

Measure	Performance	

Net expense ratio (NER)*

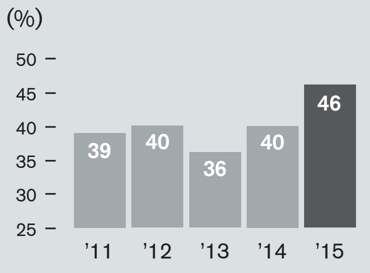
Total expenses as a proportion of the net premium earned in the year. These expenses include acquisition costs, administration costs, the movement in deferred acquisition costs and commission paid less commission received.

Our aim is to make year-on-year improvements in the NER.

Our NER increased in 2015 to 46% with an 11% fall in net earned premium, offsetting a 2% decrease in net expenses.

The storm and flood events in the UK significantly affected commission income from reinsurers, with the reduction contributing to 2% of the overall increase in NER.

We expect to continue to control our costs, seeking efficiencies where we can to ensure we can continue to invest in systems and processes that benefit our customers.

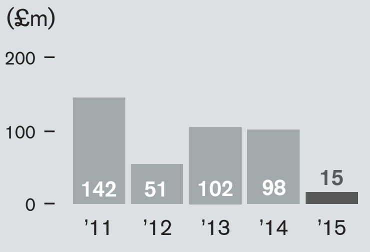


Net inflows (investments)

Net inflows are the difference between the gross sales and redemptions made during the period from third parties in the range of funds our investment division offers.

Each year refreshed targets are set which take into account current market conditions and potential new initiatives.

2015 proved to be a volatile and difficult year for many investment management companies and EdenTree was similarly affected, particularly in the second half of the year. Gross inflows remained similar to 2014, but outflows were almost equal to inflows leaving a net result of £15m for the year. This was below our target to maintain net inflows at levels similar to those achieved in 2013 and 2014. We expect the continuing market volatility to depress net inflows during 2016.



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

Key Performance Indicators – non-financial

Measure	Performance

Direct customer satisfaction

Results from 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.

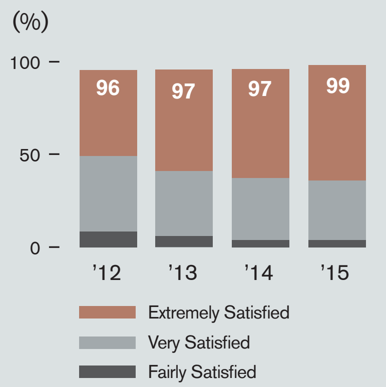
Customers are asked to rate their experience on a six-point scale: 1 – extremely dissatisfied to 6 – extremely satisfied.

We measure the level of positive satisfaction, particularly extremely and very satisfied.

Our target is to achieve at least 90% very or extremely satisfied.

We take pride in placing the customer at the heart of everything we do, particularly when they are in real need of help and support at the time of a claim. In 2015, 94% of customers surveyed were either extremely or very satisfied with the way their claim was handled and 99% were satisfied overall.

Similar results were also seen in the responses for customer surveys on general satisfaction levels. In particular, 100% of our home insurance customers were satisfied with their new business experience with us.



Broker satisfaction

Results from broker opinion surveys carried out each year.

Brokers are asked to rate their experience, on a six-point scale: 1 – extremely dissatisfied to 6 – extremely satisfied.

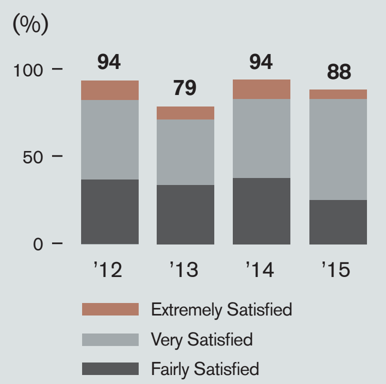
We measure the level of positive satisfaction, particularly extremely and very satisfied.

Our aim is to achieve over 90% satisfied score.

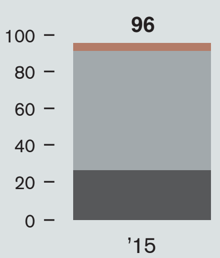
The Group continued to score a good level of satisfaction with our brokers in 2015, although the overall result has dropped by 6% over the prior year. Results have polarised this year with 6% more brokers being extremely/very satisfied with service. In 2015, 63% of our brokers were extremely/very satisfied.

The result for our Select Brokers, a programme launched in 2015 aimed at our key broker relationships, was an additional 11% stronger on overall extremely/very satisfied. In 2015, 69% of our Select Brokers were extremely or very satisfied while satisfaction remains at 96%. The Net Promoter Score (NPS) has increased from 32% to 42% in 2015.

This polarisation is also mirrored in Ansvar UK's results, which has 7% more brokers extremely/very satisfied with service over the prior year and a significant increase in NPS form 38% in 2014 to 57% in 2015.



Select broker satisfaction survey (%)



Measure	Performance

SEIB customer satisfaction

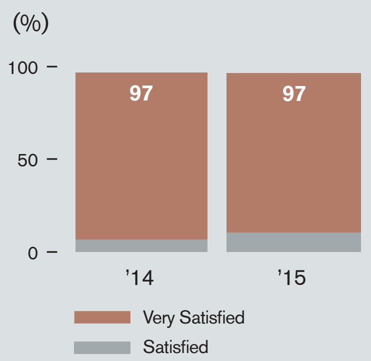
Results from a satisfaction survey carried out by our broker SEIB. The survey was set up in 2014 and covers the administration, claims, commercial client and new business departments, and relates to how satisfied SEIB's customers were with the service they received.

Customers were asked to rate their service experience on a ten-point scale: 10 – very satisfied to 0 – not satisfied.

We have measured the level of positive satisfaction and we have 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.

SEIB customer satisfaction results have been very pleasing over the past 2 years with 97% of SEIB's customers who responded to the survey, being either very satisfied or satisfied in 2015. From these results, a staggering 87% 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.



Risk management satisfaction survey – direct

This is a new KPI. Following our site surveys, customers are asked to complete a customer satisfaction report in respect of their on-site experience with our surveyor or consultant and the quality and clarity of advice provided.

Customers are asked to rate their experience on a six point scale 1 – extremely dissatisfied to 6 – extremely satisfied.

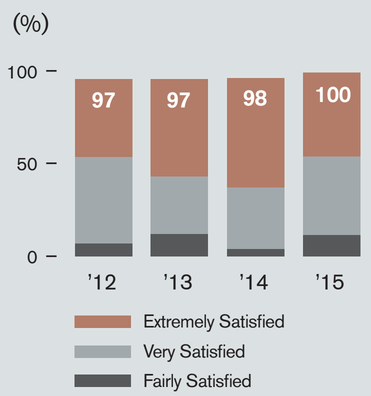
We measure the level of positive satisfaction, particularly extremely and very satisfied. Our target is to achieve at least 90% very or extremely satisfied customer feedback.

Our Risk Management team supports our customers in the identification, quantification (including valuations), assessment and improvement of risk.

Our surveyors and consultants conduct on-site survey assessments at periodic intervals with a view to helping our customers understand and protect themselves from risk.

We also provide customer guidance online and via regular risk insight updates.

Having a strong in-house risk management service is seen as a key competence for the Group and is clearly valued by our customers who responded to the survey, with 92% very or extremely satisfied with their risk management survey and 100% satisfied. Of those customers surveyed, 98% are satisfied with their risk management report of which 88% are very or extremely satisfied.



STRATEGIC REPORT

FINANCIAL

PERFORMANCE REPORT

Photograph by Oskar Proctor

Financial Performance Report

We delivered another year of strong and consistent financial results, reporting a pre-tax profit of £53.6m (2014: £48.2m). Our underwriting performance improved again, despite a more active year for property claims across all of our territories. Investment returns were also similar to last year in the face of challenging markets, particularly in the second half of the year.

Our consistent financial performance and continuing strong capital position have enabled us to make further substantial charitable grants to ATL. Grants of £20m were paid during the year taking our total charitable giving since the start of 2014 to £45.8m.

We invested in our investment management business during the year, rebranding as EdenTree and continuing the modernisation of their IT systems. We continued to streamline and develop our broking and advisory business in the year, successfully concluding the sale of our legacy mortgage book in the early months of the year.

General insurance

Our underwriting performance for the year was a profit of £15.9m (2014: £10.7m profit), resulting in a Group COR of 92.0% (2014: 95.2%). Each of our business units has delivered an underlying underwriting profit for a second year.

United Kingdom and Ireland

Our insurance businesses in the UK and Ireland reported an underwriting profit of £14.5m (2014: £10.4m profit) and a COR of 90.4% (2014: 94.0%).

It has been a more active year for property claims with a higher than average cost of large losses, particularly fire losses, together with the storms and floods that hit the UK in December. We incurred net losses of £12.2m in respect of those weather events which were adequately reserved for at the year end.

The performance of our liability book, however, has continued to improve and produced strong profits, enhancing the overall positive underwriting performance for the year. Current year claims performance has been better than expected, and we have also had the benefit of reserve releases as historical claims have been settled at amounts that were less than anticipated.

In 2015, GWP has fallen by 7% to £228m (2014: £246m). Retention levels were high at 85%, despite further losses of academies to the Department for Education's risk protection arrangement for academy trusts. We considered all new business carefully and did not seek to write business at prices we considered unsustainable.

Our Strategy over the medium-term is to seek moderate GWP growth by adding good-quality business at a steady pace, but we expect the market environment to remain very competitive, particularly for commercial property business. We will not expect to change our approach, in accordance with our philosophy of not putting our underwriting performance at risk by seeking growth above profit.

Ansvar Australia

Australia achieved an underlying underwriting profit of AUD$0.2m (COR 99.3%) before the impact of movements on discount rates, which resulted in an underwriting loss of AUD$0.7m overall (2014: AUD$2.1m loss). The business was affected by a higher than average number of catastrophe events during the year, which was an issue for the whole Australian market. However, the reinsurance arrangements in place reduced the impact of these losses to a manageable level.

GWP grew by 4% in local currency to AUD$76.2m (2014: AUD$73.5m). Retention rates remained very strong and new business was 40% ahead of the prior year.

Canada

Canada continued its track record of delivering strong, profitable growth, reporting a 9% increase in GWP in the year in local currency. The branch's contribution to GWP increased to CAD$77.9m (2014: CAD$71.6m).

The territory reported an underwriting profit of CAD$2.0m (2014: CAD$3.0m profit), a COR of 96.5%. As with other territories, it has been a more active year for property claims than in the prior year with higher than expected costs coming from large losses.

Other insurance operations

Profits were improved by releases of reserves from our businesses in run-off, resulting in an overall profit of £0.8m (2014: £0.2m loss).

Investments

Against the backdrop of rising political tensions across the world, increased concern over the extent of the economic slowdown in China, and deterioration of growth in emerging economies, market volatility increased in the second half of 2015. The price of oil and other major resources continued to fall, hitting multi-year lows, significantly damaging many companies' balance sheets and dividend-paying ability.

Over the course of 2015, the FTSE All-Share Index produced a return of 1.0% while the FTSE 100 Index ended the year down 4.9%. By contrast, our UK equity portfolio increased by 4.4%, outperforming both indices, reflecting its lower weighting in poorly performing sectors such as oil and mining.

Government bond yields ended the year marginally higher, though they succumbed to significant bouts of volatility. Quantitative easing from the Eurozone and Japan, the surprise devaluation of the Chinese Yuan in August, fears about a Chinese growth slowdown and persistent commodity price declines all pushed global bond yields lower at different times throughout the year.

The end of 2015 was dominated by central bank monetary policy divergence between the US Federal Reserve and the European Central Bank (ECB). While the Federal Reserve saw fit to begin the process of interest rate normalisation, the ECB took the opposite approach, extending the duration of its asset purchase programme. These policy announcements triggered a bond sell-off which caused yields to rise in the final weeks of the year.

In 2015, our UK bond portfolio produced a total return of 1.1%, which compared favourably against the FT All Stocks Gilt Index's 0.6% return for the same period, due to its short dated position.

Investment management

The Group's investment management business completed a successful rebrand as EdenTree during 2015, as ethical investment continues to become more main-stream in investment management markets, reflecting the future growth ambitions of the company. The new brand coincided with the launch of a new EdenTree website, digital advertising, use of social media and national outdoor advertising. The team also launched a new front office IT platform to support investment trading and compliance activities, delivering better service to clients. Despite the change in name, there has been no change to the strategic aims of the business as it continues to focus on an active, value-based and long-term approach to stock picking, building upon its long track record of delivering profit with principles for investors and charities.

EdenTree benefited from receipt of a one-off performance fee of £0.7m in 2014, which was not repeated in 2015, meaning overall fee income for the year decreased by 4.7% to £13.6m (2014: £14.3m). Pre-tax profits fell to £1.8m (2014: £3.2m) reflecting the level of investment made during the year in the operations of the business.

Stock market volatility increased during the second half of the year and led to greater investor caution with the industry as a whole generally experiencing net outflows in 2015. Faced with a challenging investment environment, EdenTree generated net inflows to its funds of £15m (2014: £98m net inflow), holding assets under management at the end of the year of £2.3bn (2014: £2.3bn).

EdenTree has maintained its track record as a multi-award-winning ethical investment provider, with the company winning the Moneyfacts Best Ethical Investment Provider Award for a seventh consecutive year. Its funds continue to win awards, as shown earlier in the Strategic Report on page 35. EdenTree was rated platinum by Citywire, and across the team our Fund Managers continue to be highly rated.

Long-term insurance

The long-term insurance business result for 2015 was a profit of £1.0m (2014: £0.2m loss). Ecclesiastical Life Limited is closed to new business and the expected favourable run-off of the business during the year was enhanced by the positive impact of increased bond yields.

Broking and advisory

The broking and advisory business comprises our insurance broker business SEIB and EFAS, our small financial advisory business.

In 2015, SEIB was affected by disruption during the transition of one scheme to another provider. Profit before tax reduced to £2.2m (2014: £3.0m).

EFAS completed the sale of its mortgage book in early 2015, as the business looks to focus on its core independent financial advisory and funeral plan administration business. It reported a small loss of £0.3m in the year (2014: £1.0m loss which included £0.6m of costs in relation to the sale of the mortgage book).

Overall, our broking and advisory business delivered a stable pre-tax profit of £1.9m (2014: £2.0m profit).

Ian Campbell
Group Chief Financial Officer

> **"Grants of £20m were paid during the year taking our total charitable giving since the start of 2014 to £45.8m.**

STRATEGIC REPORT

RISK MANAGEMENT REPORT

Risk Management Report

Introduction

The Group's Business Model is explained in detail on page 26. The operations of the Group present a number of risks including Insurance, Market, Credit, Operational, and Strategic.

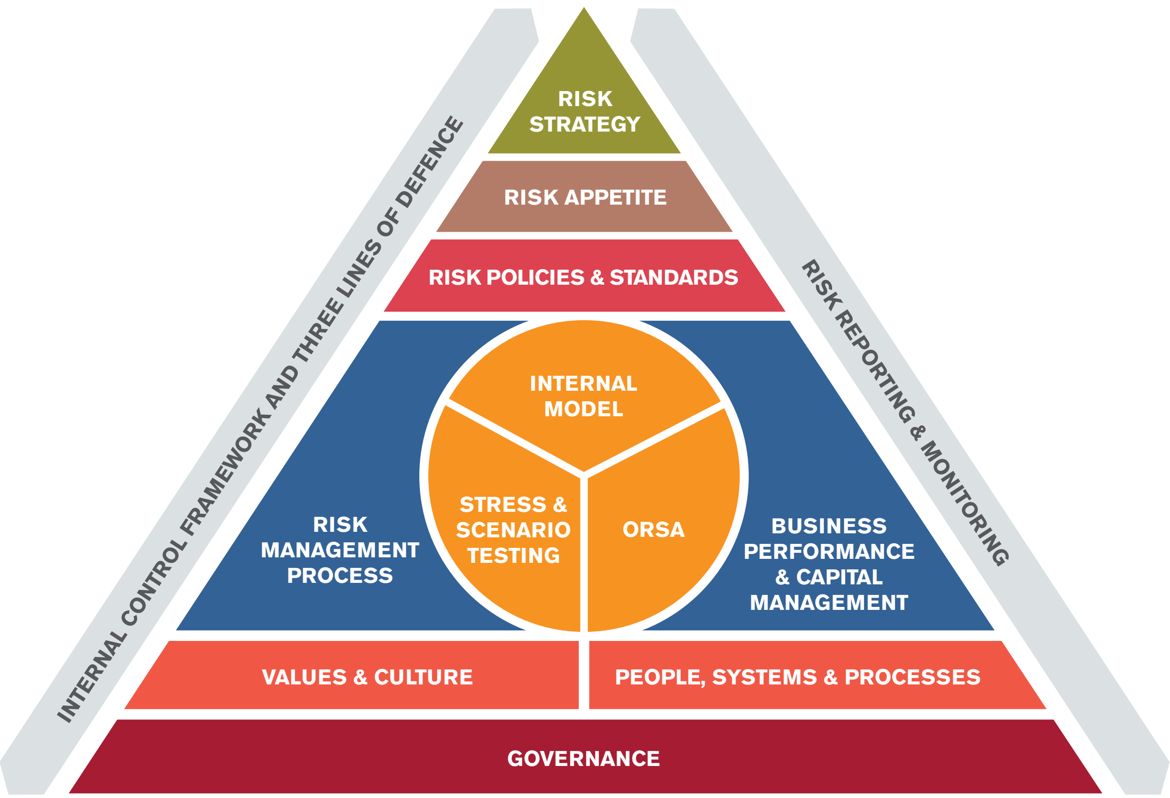
An enterprise-wide risk management framework has been embedded across the Group, with the purpose of providing the tools, guidance, policies, standards and defined responsibilities to enable us to achieve our Strategy and objectives. This also ensures that individual and aggregated risks to our objectives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

The risk management framework is integrated into the culture of the Group and is owned by the Board. Responsibility for the implementation and oversight is delegated to the Group Risk Function, led by the Group Chief Risk Officer. This 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 Risk Committee which has oversight of the investment and market risks of the Group; and
- the Group Operational Risk Committee which has oversight for all the operational risks of the Group.

The insurance risks relating to our life business are overseen by the Life Management Committee.

The risk management process demands accountability and is embedded in performance measurement and reward, thus promoting clear ownership for risk and operational efficiency at all levels.



On an annual basis, the Group Risk Committee (on behalf of the Board) identifies key strategic risks for the Group with input from the Group Management Board (GMB) and the Strategic Business Units (SBUs). The Group Risk Committee allocates responsibility for each of the risks to individual members of the Group's executive management. Any risk management actions that arise are regularly monitored and any gaps in risk mitigants challenged.

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

- 1st Line (Business Management) is responsible for strategy, performance and management of risks arising;
- 2nd Line (Reporting, Oversight and Guidance) is responsible for establishing minimum standards, appropriate reporting, oversight and challenge of our risk profiles and risk management activities within each of our businesses. This includes executive Risk Management Committees and is subject to oversight and challenge by the Group Risk Committee; and the
- 3rd Line (Assurance) provides independent and objective assurance of the effectiveness of the Group's systems of internal control. This activity principally comprises the Group 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 2015, key improvements included:

- formal documentation of the risk management framework;
- further embedding of the risk management framework within the 1st line of defence;
- consolidation of the qualitative risk profiles with a focus on business plans;
- significant development of quantitative risk profiling capabilities to ensure capture of all material risks and the development of an Internal Model validation framework;
- a revised Group risk appetite to strengthen risk oversight which was approved by the Group Risk Committee on behalf of the Board and refreshed SBU risk appetites aligned to the Group appetite;
- enhanced stress testing and scenario analysis;
- enhanced control risk and self-assessment (CRSA) process;
- implementation of a policy framework supported by standards and guidance; and
- improvements were made to the Own Risk and Solvency Assessment (ORSA) process.

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 the risk appetite.

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

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.

Our overarching risk appetite sets the minimum levels of capital and solvency that the Group wishes to maintain, and contains statements detailing the maximum exposure to different risk types that are deemed to be desirable. This includes limits on the type, nature, size and concentration of insurance risks that will be accepted by the Group and limits on the mix of assets to be held within the Group's investment portfolio.

The main objective of our risk appetite is to ensure that we have sufficient capital to meet our liabilities and maintain our financial strength 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).

Quantitative risk measures and stress testing framework

The tool we use to measure aggregate risk is our Internal Model, which has been calibrated to estimate the internal view of the capital resources required to deliver our business plan. 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. As an example, the Internal Model was used as an input to the development of our reinsurance strategy and pricing decisions and setting of investment strategy.

Under the Solvency I Regime this model was used to calculate our capital requirements. With the introduction of Solvency II our regulatory capital requirement will be calculated using the standard formula, although we will continue to use and develop our Internal Model alongside this. Our intention is to seek regulatory approval for our Internal Model as the basis for the calculation of our regulatory capital requirements during 2017.

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

This framework seeks to stress the business plan and identifies potential outcomes generated from a range of scenarios, providing evidence to the Board that the plan is robust. These stress tests are 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 Group uses stress and scenario testing as a key component of its business planning process.

Principle risks

The Board of directors has carried out a robust assessment of the principal risks that could have the highest potential to damage the Business Model, the Strategy or solvency of the Group both in the short and long term. Those risks identified are as follows:

Risk type and description	Why we have it	How we mitigate it
Insurance risks		
Business mix, underwriting and pricing risk		
The risk of failure to price insurance products adequately for claims costs, expenses, cost of capital and profit requirements; failure to manage portfolio risk according to the underwriting cycle; failure to establish appropriate underwriting disciplines.	General insurance is our core business. It 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 the success of the Group. We have targeted training programmes in place to ensure the correct skill set is maintained and developed. There continues to be significant investment in underwriting and pricing capabilities across the Group, and the organisational structure in the UK General Insurance business is now well established. A documented underwriting strategy and risk appetite is in place to ensure there is a clear focus on our chosen niches and classes of business, and all underwriters have documented authority levels to which they must adhere. This risk has not changed materially over the year. Actions continue to be taken to improve our underwriting capabilities and improve the quality of the business we write.
Claims reserving risk		
The risk of actual claims payments exceeding the amount we are holding in reserves.	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. The Goddard inquiry, which is an independent inquiry into child sexual abuse in England and Wales, in the UK may have an impact on the frequency and severity of Physical and Sexual Abuse (PSA) claims across the insurance industry. This is an emerging risk that we are actively monitoring.	Claims development and reserving levels are closely monitored. Claims reserving risk primarily arises from long-tail liability business. For statutory and financial reporting purposes, prudential margins are added to a best estimate outcome to allow for uncertainties. This approach may result in a favourable release of the 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, Actuarial Function Director, the Reserving Committee 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. We believe that this risk has remained at a similar level during the year given our prudent approach to reserving.

Risk type and description	Why we have it	How we mitigate it

Insurance risks

Reinsurance mix

The risk of failing to access and manage reinsurance capacity at a reasonable price.	Reinsurance is a central component of our Business Model, enabling us to insure a portfolio of large risks in proportion to our capital base. The current Business Model for our Australian subsidiary utilises a 100% property reinsurance arrangement. The global reinsurance market has seen a large amount of merger and acquisition activity during 2015. This has not restricted the capacity available or adversely affected our ability to place the reinsurance programme.	This risk is managed by taking a long-term relationship view towards reinsurance purchases to deliver sustainable capacity rather than benefit from opportunistic results. Strict criteria exist which relate to the ratings of the reinsurers we choose and a Reinsurance Security Committee approves all of our reinsurance partners. We purchase reinsurance to protect against property catastrophe events that are predicted to occur up to every 250 to 500 years, depending upon the territory. The level of this risk has remained broadly similar over the year.

Concentration and model error risk

The risk of failure to manage risk concentrations across our different business and risk areas, and including reliance on models which if found to be wrong could give rise to significant unplanned losses.	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.	Risk appetite limits have been established to manage our concentrations of risk and these are reviewed regularly by the Group Risk Committee. The risk is mitigated through the use of industry recognised models that have been validated by the vendors as well as our own assessments of their appropriateness, alongside our scenario and stress testing framework. The level of risk has remained static during the year.

Risk type and description	Why we have it	How we mitigate it
Market risk		
Market risk		
The risk of adverse movements in net asset values arising from a change in interest rates, equity and property prices, credit spreads and foreign exchange rates.	Market risk principally arises from investments held by the Group. We accept such risks to seek enhanced returns on these investments. 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. Market risk also arises as we have a significant equity portfolio. 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.	A robust investment risk management framework is in place to mitigate the impact of changes in financial markets. Our Fund Manager, EdenTree, manages our funds in accordance with the investment strategy and guidelines agreed by the Finance and Investment Committee. 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. Credit spread risk is controlled through the investment strategy and guidelines agreed by the Finance and Investment Committee. It is managed by EdenTree'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. We hold a relatively significant equity portfolio in order to deliver a risk-adjusted long-term investment return on capital. 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 2015. 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 in order to 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. We have increased diversification in our asset portfolio by investing more in property. We mitigate investment property risk by ensuring that appropriate due diligence is conducted on all prospective investments and through the monitoring of concentration risk, performance, sector allocation and income. Further information on this risk is given in note 4 to the financial statements starting on page 153. This risk has not changed materially over the year.

Risk type and description	Why we have it	How we mitigate it
Credit risk		
Credit risk		
The risk of non-payment of their obligations by counterparties and financial markets borrowers.	Our principal exposure to credit risk arises from reinsurance, which is central to our Business Model. Additional credit risk arises from our investment in debt securities, cash deposits and amounts owed to us by intermediaries and policyholders.	Reinsurer credit risk is overseen by the Group Reinsurance Security Committee, principally through careful selection and monitoring of reinsurance partners. All reinsurers on the 2015 and 2016 reinsurance programmes have a minimum rating of A minus from S&P or an equivalent agency at the time of purchase. Reliance on a single counterparty by our subsidiary, Ansvar Australia, continued due to the reinsurance arrangement with National Indemnity, which is part of the Berkshire Hathaway Group; however, it has a very strong S&P rating of AA+. Investment credit default risk is managed using the same processes as for credit spread risk as noted under Market Risk. We utilise robust agency and collection procedures to ensure that our credit and bad debt risk from our intermediaries and policyholders is minimised. The level of this risk remained largely unchanged during the year. Further information on this risk is given in note 4 to the financial statements starting on page 153.
Operational risks		
IT systems, data quality and business intelligence risk		
The risk of shortfalls in the quality or availability of management information required for decision-making, inadequate, ageing or unsupported systems and infrastructure, and system failure preventing processing efficiency.	Accessing claims data in relation to the risk offered is a key tool in enabling sufficient and competitive pricing. Other management information is vital to ensure timely decision making or responses to claims or other market developments. Efficient and reliable systems are paramount to delivering excellent customer service and business processing.	There has been significant focus on the accuracy, completeness and appropriateness of data and on the development of a strategic data warehouse. A number of projects are underway to replace legacy systems and upgrade the key business systems. An enablement strategy has been developed to define the long-term approach for our systems, processing and data. The level of this risk has remained the same this year.

Risk type and description	Why we have it	How we mitigate it
Operational risk		
Regulatory and legal risk		
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 resulting in consumer detriment.	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.	Legal and regulatory developments are monitored throughout the Group and working parties are established where necessary to consider significant developments which affect our business. The regulatory compliance function is key to the oversight of this risk and provides advice and guidance to the 1st line of defence. Regulatory compliance continued to increase in importance during 2015 with the continuing development of the PRA and Financial Conduct Authority (FCA) regimes. The level of this risk has remained the same during the year.
Cyber security risk		
The risk of criminal or unauthorised use of electronic information, either belonging to the Group or its stakeholders.	Increasing reliance is placed on electronic processing, storage and transmission of customer, company and employee information. Cyber security threats from malicious parties are increasing.	We have a number of proactive and preventative technical controls to deny malicious or unauthorised access to our systems, confidential data and internal infrastructure. These controls operate at different levels within our technology infrastructure, strategically placed to restrict access and safeguard our systems and data. The level of the risk has increased over the year due to the increasing number and sophistication of threats seen by many organisations across all industries. The management of this risk is owned by the Board.
Conduct risk		
The risk of unfair outcomes arising from the Company's conduct in its direct relationship with customers, or where the Company has a direct duty to customers.	As a Company, we place the customer at the heart of the business, treating them fairly and ethically, whilst safeguarding the interests of all other key stakeholders. Regulatory principles in the territories in which we operate aim to protect customers.	A conduct risk framework has been developed during 2015 which includes enhanced Consumer Risk Board reporting alongside specific risk appetite metrics. A project is underway which includes the development of customer charters and improvements to the product review process across the Group. The level of this risk has remained the same this year.

Risk type and description	Why we have it	How we mitigate it

Operational risk

Other operational risks

Risk type and description	Why we have it	How we mitigate it
The risk of unexpected loss or cost arising from other operational risks not covered above but includes employee risks, internal or external events, and inadequate or inefficient processes.	Operational risk is inherent in the business and it is not always cost effective or possible to completely eradicate such risks by the implementation of mitigating actions.	During 2015 we continued to strengthen our operational risk management through the consolidation and embedding of the risk management framework. This includes the continued development of the operational risk profiles which capture risks and management actions within each of our business areas. These profiles are specifically focused on the delivery of individual business area's plans and objectives. On an annual basis a CRSA process is undertaken by each SBU and they attest to the overall effectiveness of their management of risk. The Group risk appetite contains a number of statements which clearly define the appetite for operational risk. In addition operational risk scenario analysis is undertaken which helps to identify additional management actions required and the results are taken into account in capital requirement considerations. Each area of our Group has a disaster recovery and business continuity plan in place that is regularly tested and updated. The level of this risk is largely unchanged over the year.

Reputational risk

Risk type and description	Why we have it	How we mitigate it
The risk of a reduction in trust by customers, brokers, reinsurers and other stakeholders as a result of an event or series of events.	As a specialist financial services group with a distinctive ethical positioning, maintaining our reputation in our chosen markets is key to our success. We always aim to be fair to our stakeholders. However, if disagreements occur, it could result in negative commentary in many forms of media.	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 purpose is to contribute to society's greater good by managing a portfolio of businesses operating to the highest ethical principles and delivering significant financial returns to ATL and this is reflected in all our business activities and operations. More information on our Group's ambitions can be found in our Business Model and our Strategy sections starting on page 26 and 29 respectively. 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. The level of this risk is largely unchanged over the year.

Risk type and description	Why we have it	How we mitigate it

Operational risk

Competition

The risk of failure 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.	Financial services are highly competitive business. There are a number of companies operating within our markets which means that competitor activity remains a significant threat to our strategic objectives.	The GMB and SBUs monitor key competitors on a regular basis, reacting as appropriate to competitor developments. We have a strategy to deliver excellent customer service through multiple distribution channels to ensure diversification risk. The level of this risk has increased over the year due to competitor activity within our chosen markets.

Strategic risks

Increasing or strained expense base

The risk of failure to maintain the expense base within targets and in line with competitors.	While we do not seek to compete on price alone and service has been a key differentiator for us, the fact remains that we are competing in a highly commoditised and price-focussed insurance market. Therefore, controlling expenses relative to the size of the Group is important to ensure the continued profitability of our Business Model.	We manage our cost base closely and have taken many difficult decisions over the last few years to ensure our cost base remains sustainable. Our internal operating costs are 5% lower than they were five years ago, and the average rate of commission paid to our brokers has remained stable over the same period. Our costs have not reduced as quickly as our GWP has over the last three years, and we recognise that the level of this risk has increased over the year due to reduced GWP to support the expense base.

Strategic execution delivery

The risk of failure to deliver our strategic initiatives underpinning our strategic plan and failure to meet stakeholder expectations resulting in negative reactions from our owner, the regulator or rating agencies.	Delivering the initiatives underpinning our strategic plan is critical to ensuring the achievement of our corporate strategy and ensuring the ongoing confidence of key stakeholders, including our owner, the regulator and rating agencies.	A three-year Group-wide strategic programme of change is underway, with enhanced governance, agreed prioritisation, regular reporting (including to the Board) and alignment with incentive schemes implemented. A Group Programme Director is in place to oversee delivery of the group's strategic initiatives. The level of this risk has remained similar over the year.

Risk type and description	Why we have it	How we mitigate it
Group risks		
Governance and oversight of SBU		
The risk of failure to effectively manage the different parts of the Group across different territories in accordance with social, economic and regulatory expectations.	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 SBU have been defined and they have all confirmed the adoption of the required standard. Alongside this all SBU's have locally adopted risk appetites, which are regularly monitored with formal escalation processes in place for potential breaches. Annual risk reviews and CRSA's are undertaken. Additionally, Group Internal Audit reviews are carried out. The level of this risk has reduced over the year due to increased 2nd line oversight and challenge, and greater clarity around SBU expectations and obligations.

Longer-term viability statement

The directors confirm that they have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due over the next three years.

While the directors have no reason to believe the Group will not be viable over a longer period, the three-year outlook period has been selected as it aligns with the planning horizon in the business plan.

The directors have assessed the viability of the Group with reference to the business plan, which includes stress tests and scenario analysis, taking into account the current position of the Group and the potential impact of the principal risks.

Production of the business plan incorporates submissions from SBUs who consider the Strategy of the Group and use their expert knowledge, before submitting their financial plans. All of the plans are reviewed and challenged by the GMB and a Group-wide consolidated business plan is produced for consideration and approval by the Board.

The key assumptions underlying the business plan relate to premium retention, rate changes, new business, claims experience, inflation, investment performance and the cost of the reinsurance programme.

The stress testing and scenario analysis encompass a spectrum of potential outcomes designed to assess the impact of certain events on the Group's profitability, solvency and liquidity.

The stresses are designed to be severe but plausible and are linked to the key principal risks starting on page 51. They include:

- catastrophe claim events – insurance risks;
- the performance of equity markets – market risk;
- default of key reinsurers – credit risk;
- the loss of significant lines of business – operational risk;
- a sustained economic downturn – insurance risks and market risk; and
- premiums, claims and the expense base differing materially from expectations – strategic risks.

In addition, the solvency position of the Group has been projected as part of the Own Risk and Solvency Assessment, which has a forward-looking emphasis to ensure that business strategy and plans are formulated with full recognition of the risk profile and future capital needs, with the results showing the Group to have sufficient capital resources to cover its capital requirements for the period of the Business Plan.

In making their assessment, the directors have taken into account the Group's very strong capital position, the strong risk management framework in place and the Group's resilience to the variety of adverse circumstances as demonstrated in the results of the stress testing. The directors have also considered the potential mitigating actions management would take should any of these scenarios arise.

STRATEGIC REPORT
CORPORATE RESPONSIBILITY REPORT

Photograph by Oskar Proctor

2015 Highlights

£20M TOTAL CHARITABLE GRANTS TO ATL

ECCLESIASTICAL IS A BITC COMMUNITY MARK COMPANY

40% OF UK STAFF VOLUNTEERED

NEARLY £21M TOTAL ECCLESIASTICAL GROUP GIVING TO CHARITIES

38% ECCLESIASTICAL GROUP PRE-TAX PROFIT GIVEN TO CHARITY

TOP EMPLOYERS FOR YOUNG PEOPLE IN CANADA

OVER £400,000 GIVEN IN EMPLOYEE TIME, PARTNERSHIP FUNDING AND IN-KIND SUPPORT

SOAR

OVER €20,000 RAISED FOR IRELAND CHARITY PARTNER SOAR

We are a Living Wage Employer

LIVING WAGE STAUS ACHIEVED

ANSVAR AUSTRALIA HAS GIVEN OVER $10 MILLION to education and life skills programmes since 1994

Photograph by Oskar Proctor

Corporate Responsibility Report

Ecclesiastical has always been committed to giving back to the communities, where it operates. In 2015, we launched our 'Greater Giving' programme – the new shape of our Group-wide corporate responsibility (CR) approach. This new CR programme gives us an ambitious goal, clear focus and a strong structure to ensure we are fulfilling our responsibilities and challenging ourselves to improve. It's also very clearly aligned to our business strategy.

Structure and governance

Corporate responsibility at Ecclesiastical has an established structure and governance:

Board	overall responsibility for CR, review and sign-off of reporting
General Management Board	reviews policies and directs CR strategy and objectives
Strategic Business Units	local development and implementation of the Group CR strategy, monitoring and reporting on CR activities
CR Steering Group	drives the development and leadership of CR within the business
Pillar responsibility	functional responsibility for key aspects of CR, for example environmental management and workplace responsibilities
Community advocates	networks of advocates enthusiastically support local community investment at all of our locations

The external environment

We are facing many issues and trends in our markets – many of which are covered in our Strategy in action section starting on page 29, and Global trends in financial services section starting on page 22. These affect our customers, our partners and the future sustainability of our business.

Within EdenTree, we are fortunate to have colleagues whose business it is to monitor and advise on global corporate responsibility trends. Head of corporate governance and socially responsible investment analyst Neville White comments:

Neville White
Head of SRI Policy & Research
at EdenTree

“There are many macro and local issues affecting our business – in fact, there have never been more issues to consider and tackle. For Ecclesiastical in particular, technology, regulation, an ageing population, climate change and trust in financial services are major issues which will all have a varying impact now and in the near future.

“Ecclesiastical also faces specific issues such as the preservation of heritage properties – a key area of specialist insurance for the Group. The protection of vulnerable people is also a major consideration, whether from flood, abuse or financial mis-selling. And as a financial services business with charitable ownership we are in a strong position to face up to customers’ lack of trust in the sector.

Monitoring and auditing

Our community investment approach is audited and accredited independently by Business In The Community (BITC) through its CommunityMark standard. Ecclesiastical’s UK operation has completed BITC’s CR Index submission to guide its development.

Doing what's important

A key aspect of the Greater Giving programme involved a review and refresh of the themes around which our CR programme is aligned. To achieve this, we consulted with:

- our charitable owner ATL;
- our staff across the entire Group. Over 500 people responded to our survey, with over 95% supporting each of the first two themes and 84% the third. They also gave useful feedback on how we might support and embed them across all aspects of our business activity; and
- we also have plans to engage with stakeholders to build an even more thorough picture of materiality.

Our themes are:

- preserving heritage;
- engagement with our communities; and
- promoting ethics in financial services.

Our themes: what we achieved

	Why is this theme important?	What we planned to achieve
Promoting ethics in financial services	This theme, introduced formally in 2015, draws together several aspects of our performance and behaviour as an ethical financial services business, underpinning our business practices and ambition to achieve a leadership position as a responsible business.	To reach the highest standards of responsible business practice: • achieve and maintain BITC 'CommunityMark' status in 2016 • enter BITC's CR Index • achieve relevant business standards To promote ethical business practice through thought leadership: • produce at least three issue papers each year – generate positive media coverage and distribute to all advisors To select partnerships that promote ethical practice and measure their success: • including schools partnership – reach at least 100 students with employment advice and support, raise their aspirations and understanding.
Preserving heritage	Ecclesiastical is the UK's leading heritage insurer, protecting more Grade I listed buildings than any other insurer, including prestigious properties such as Stonehenge and Canterbury Cathedral. It is important that we play a leading role in the protection and preservation of UK heritage, by creating strong partnerships and raising the profile of issues.	To maintain our position as a thought leader in heritage preservation and protection, including our number 1 brand position as voted for by brokers in 2015. To build awareness and understanding of heritage protection issues, using dedicated research to identify issues and communicate them to leading heritage influencers. To specifically support the preservation and protection of Anglican Church buildings, providing risk management support to customers.

What are we doing and what has been achieved?

- We have reached the highest standards of responsible business practice. In the UK, we are a CommunityMark company accredited by BITC and will undertake the reaccreditation process in 2016. We achieved UK Living Wage status in 2015 and maintained our UK Chartered Insurance Institute status, being one of only five composite insurers who are chartered for their entire UK General Insurance operations and one of only 29 insurers who hold the Charter.
- EdenTree continued to promote ethical business practice through thought leadership. In 2015, our investment management business published five reports on healthcare, shipping, corporate misconduct, big data, and digital planet.
- We have participated in BITC's three-year Business Class programme to help educate young people about financial services and improve employability. This programme has delivered a range of benefits including:
  - Training eight staff and matching them to mentor students
  - Conducting mock interview sessions for 20 students
  - Careers event support, work experience placements and revision help
  - Supporting an employability day for 30 students – 85% of students agreed that it gave them a clearer idea of what they might do in the future and over 80% of business volunteers felt it improved their skills and gave them greater motivation for their organisation and role.

- Established strategic partnerships with, among others, English Heritage/Historic England, The Heritage Alliance, and the Historic Houses Association.
- Conducted research among around 200 heritage members and 79 insurance brokers, identifying wear and tear, lack of funding and weather/water damage as the biggest risks.
- Established a core stakeholder group, bringing together key heritage stakeholders for the first time in a roundtable discussion. 100% of attendees found it a useful networking event and everyone was interested in maintaining contact as part of this group to discuss future heritage issues.
- Supported initiatives which assure the long-term preservation of heritage. For example, we sponsor students completing the Sustainable Heritage degree at University College London and a stonemasonry apprenticeship scheme run by the Cathedrals Workshop Fellowship.
- Shared best practice in the insurance sector, with seminar and training programmes including a programme of six events covering topics such as architecture, construction and repair. Our flagship event at the Society of Antiquaries attracted over 70 leading insurance brokers; 100% rated the event as excellent or good and over 90% found the speakers useful and informative.
- As a leading voice in the heritage sector we attend and share our views at various forums including The Church Buildings Council, Institute of Fire Engineers, and Fire Sector Federation.
- We lead the market in risk management advice and support on heritage issues, with a team of over 50 field staff who survey and provide risk management support to our customers. We conduct 8,000 site assessments annually – two-thirds on heritage properties – and recommend 20,000 risk improvements.

	Why is this theme important?	What we planned to achieve
Engagement with our communities	This broad theme encapsulates our direct community investment activity, guiding how we structure our programme of giving to ensure it is focused and impactful.	To increase engagement and support from our employees for community investment activities. Specifically: • increase volunteering levels in 2015 to 30% (2014: 24%) • increase matching from £25,000 • target 60% of staff to give their personal grant with half of these volunteering for the same cause To focus our giving to charities and causes which align behind this theme, improving its effectiveness and impact: • at least 90% of charitable support to align with our core themes • give to every Disasters Emergency Committee international appeal.

85% OF STUDENTS AGREED THAT IT GAVE THEM A CLEARER IDEA OF WHAT THEY MIGHT DO IN THE FUTURE

OVER 8,000 SITE VISITS

What are we doing and what has been achieved?

- In 2015, we clarified the offer of support for employees by improving internal branding, launching a new publication and enhancing our policy.
- Following outperformance in 2014, we offered every member of staff a personal grant of £125 to give to any charity of their choice. Over 60% took up the grant, with 32% volunteering for their chosen cause to secure matched funding from the Company. In total, we have given over £90,000 to charities through the scheme.
- Overall, 40% of our employees volunteered in 2015 – the second-highest level of engagement ever recorded and above best practice benchmarks.
- We continued our community grant-giving programme through the Gloucestershire Community Foundation, investing a further £10,000 and are making plans to develop the Foundation further. Since establishing the fund, we have given 19 grants and invested over £75,000, benefiting from 50 or 100% Government matching of over £30,000. Projects supported have all been aligned to our core themes and have delivered measurable community impact.
- In 2015, we agreed an approach to international giving through a partnership with DEC, the Disasters Emergency Committee. We supported several appeals including the Ebola crisis, where our donation helped DEC to:
  - reach over 869,000 people with aid
  - give 807,000 people Ebola prevention messages
  - train 4,800 people to deliver Ebola education
  - provide 53,000 hygiene kits and 12,000 food packages
  - find homes for 150 orphans
- We broadened our support for charities. In 2015, this included subsidising rent for three charities based in our offices in Gloucester, increasing professional volunteering support, and increasing partner engagement with our giving, for example by taking part in a joint volunteering initiative with one of our brokers.

OVER £90,000 GIVEN TO GOOD CAUSES THROUGH OUR EMPLOYEE PERSONAL GRANT SCHEME

Our overall CR framework

Considering sustainability, community, workplace and marketplace

Our focus on core themes is central to our CR programme, as well as a balanced consideration of all aspects of being a responsible business, from environmental impact to workplace support and customer selling practices. The following infographic highlights our core priorities in each area, as well as some headline achievements and some detail on our activity.

COMMUNITY

"In the UK, we achieved our second-highest level of employee volunteering ever at nearly 40% – well above industry benchmarks. Nearly two-thirds of our employees used their £125 personal grant and we increased our fundraising matching to 100% for any cause. Further afield, we gave to several Disasters Emergency Committee appeals and our businesses worldwide all partnered with local causes. In total, we have given over £1m to charitable causes – and much more when considering in-kind support such as subsidising rent for several charities using our office space or donating old computer monitors to an IT initiative for Africa.

Caroline Taplin, Group HR Director

WORKPLACE

"We're proud to have achieved Living Wage status for our UK operation in 2015, marking our commitment to fair pay. We invested in many aspects of our working environment and the wellbeing of our people, including office refurbishments, free flu jabs and pedometers. We also ran over 3,000 training courses and tripled the number of 'bitesize' courses, many of which we extended to our broker partners. Our annual independent employee survey, 'MySay', saw a high response rate and strong levels of engagement, commitment and pride. We're improving communication; investing in systems, processes and learning and development; and staying true to delivering on our commitments.

Caroline Taplin, Group HR Director

SUSTAINABILITY

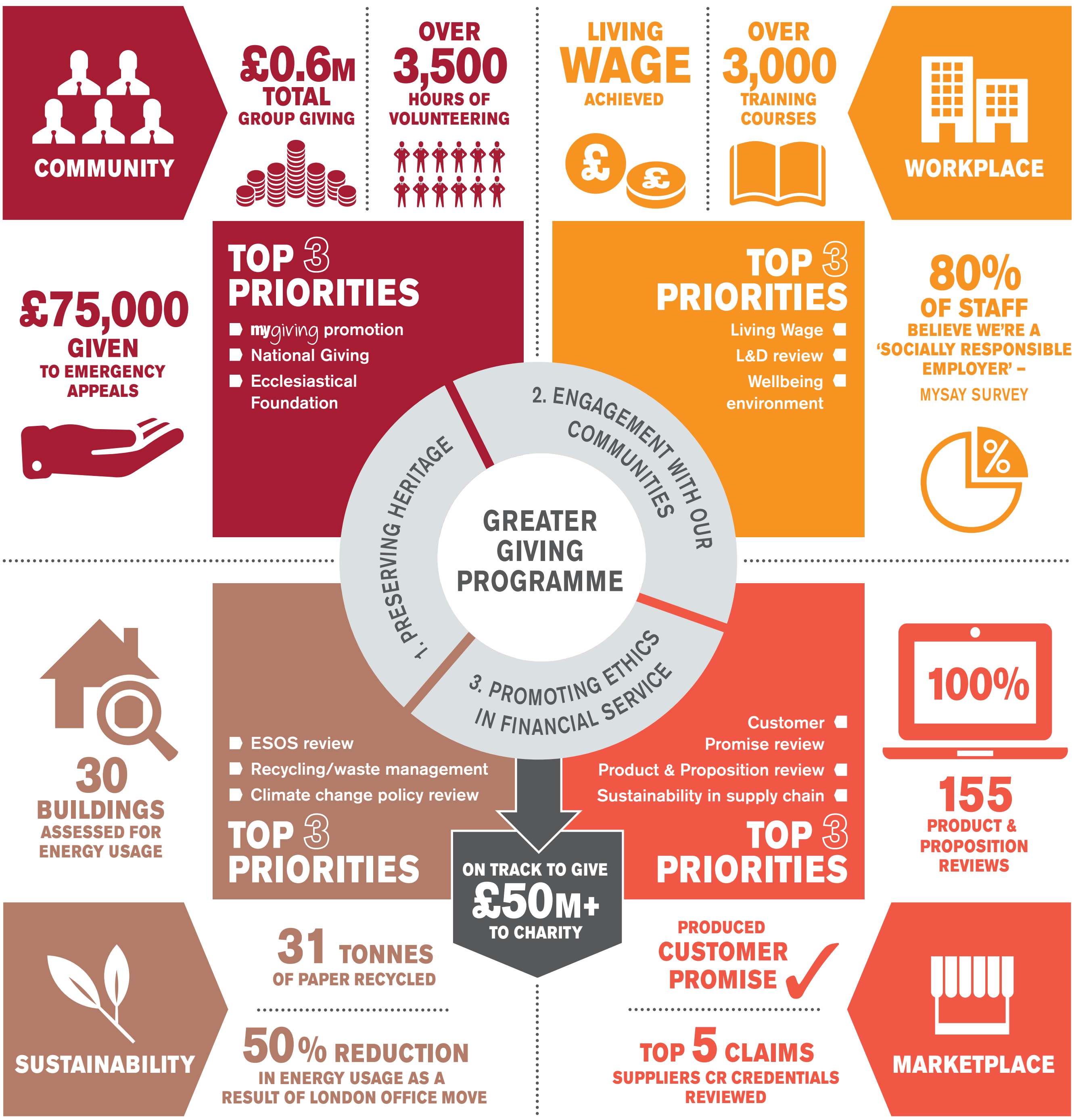
"In 2015, we completed the Government-backed Energy Saving Opportunity Scheme (ESOS) review in the UK, as well as independent reviews in other Group businesses. ESOS assessed 30 buildings as well as our business travel and we'll be making plans in 2016 based on the findings. We also continued with our ongoing programme of continuous improvement, reducing energy usage in our head office in Gloucester despite moving more people in; reducing our energy usage by half for our London office as a result of relocation; and recycling over 30 tonnes of paper. We're also reviewing our climate change policy in line with our Strategy.

Ian Campbell, Group Chief Financial Officer

MARKETPLACE

"In 2015, we spent a great deal of time internally and talking to our Board about our aspirations for our 'customer promise'. This will drive our future customer strategy and plans, and includes our conduct, our service, our advice, our products and our pricing. Alongside this, we completed a full product and proposition review and expect to be sharing this work with partners and customers in 2016. We also continued to improve our supply chain practices – focusing on the corporate responsibility approaches of our most material suppliers in our UK claims network.

John Schofield, Group Chief Risk Officer


COMMUNITY
£0.6M TOTAL GROUP GIVING
OVER 3,500 HOURS OF VOLUNTEERING
LIVING WAGE ACHIEVED
OVER 3,000 TRAINING COURSES
WORKPLACE
£75,000 GIVEN TO EMERGENCY APPEALS
TOP 3 PRIORITIES
mygiving promotion
National Giving
Ecclesiastical Foundation
TOP 3 PRIORITIES
Living Wage
L&D review
Wellbeing environment
80% OF STAFF BELIEVE WE'RE A 'SOCIALLY RESPONSIBLE EMPLOYER' – MYSAY SURVEY
1. PRESERVING HERITAGE
2. ENGAGEMENT WITH OUR COMMUNITIES
3. PROMOTING ETHICS IN FINANCIAL SERVICE
GREATER GIVING PROGRAMME
30 BUILDINGS ASSESSED FOR ENERGY USAGE
ESOS review
Recycling/waste management
Climate change policy review
TOP 3 PRIORITIES
ON TRACK TO GIVE £50M+ TO CHARITY
Customer Promise review
Product & Proposition review
Sustainability in supply chain
TOP 3 PRIORITIES
100%
155 PRODUCT & PROPOSITION REVIEWS
SUSTAINABILITY
31 TONNES OF PAPER RECYCLED
50% REDUCTION IN ENERGY USAGE AS A RESULT OF LONDON OFFICE MOVE
PRODUCED CUSTOMER PROMISE
TOP 5 CLAIMS SUPPLIERS CR CREDENTIALS REVIEWED
MARKETPLACE

Workplace – our people and culture

We are committed to giving opportunities to our employees, embracing initiatives which develop talent at all levels, supporting diversity, staff development and providing positive and engaging working environments.

We are focused on:

- Enabling our people to fulfil their potential, equipping them with the right skills to manage their career supported by our talent and learning approach
- Attracting, retaining and getting the best from our people with the right approach to remuneration and performance management
- Supporting the health, safety and wellbeing of our people

These core areas are underpinned by:

- **Values** – our core values are shaped by our unique Business Model
  - Our charitable purpose, our strong dedication to serving and supporting our customers and our commitment to supporting communities shape the way we do business
- **Engagement** – building an engaged and motivated team
  - Engagement is the sum of many parts. We regularly request our people's views through our independent 'MySay' survey. We look at all aspects of what it is like to work here, from management to strategy and wellbeing, and we act on what we hear
- **Diversity** – respecting and developing diversity in everything we do
  - We encourage diversity across all elements of our business, gathering and publishing key data such as gender by level, and analysing performance and pay by gender. We provide diversity training for all of our people and train recruiting managers in how to avoid unconscious bias

Talent and learning

We have actively developed a learning culture within our organisation. In 2015 we provided over 3,000 technical and personal development training courses for our people. We delivered over 500 management and personal development courses, many in conjunction with our broker partners. We retained our Corporate Chartered Insurer status, reflecting our high professional standards and our promise to provide expert and trusted advice to our customers. Our talent strategy focuses on continually developing our employees and ensuring that those with high potential have the opportunity to develop and add enhanced value across the Group.

Remuneration and performance

We develop our remuneration strategy in line with market practice and regulatory requirements, in particular Solvency II, and aim to attract and retain the very best people. Reward is linked strongly to how well we serve and support our customers, with customer conduct measures embedded in our bonus scheme.

Health and safety and wellbeing

Providing a safe working environment is of paramount importance to us. We also strive to provide a supportive and productive working environment for our people. For example, we moved our London team to a new office in 2015, providing a much improved working environment and, as an added bonus, halving our energy use. We also run a Wellbeing Week and provide a range of other benefits and support including a confidential employee assistance helpline and bespoke workplace assessments.

Employee diversity

Diversity is important to Ecclesiastical and we recognise that diversity at all levels in the business will enhance our business performance. The table below shows the split of employees by gender and level, and is based on the number of individual employees as at 31 December 2015.

	Gender	Numbers
Directors[1]	Male	7
	Female	4
Senior managers[2]	Male	23
	Female	13
Employees	Male	476
	Female	551

[1] This includes non-executive and executive directors for Ecclesiastical Insurance Office plc only.

[2] This includes the leadership teams and the direct reports to the Group Chief Executive.

Overall engagement scores:

74% OUR OVERALL ENGAGEMENT SCORE

77% I AM PROUD TO WORK FOR ECCLESIASTICAL INSURANCE GROUP

83% IN MY OPINION THIS COMPANY IS COMMITTED TO CUSTOMER SATISFACTION

80% ECCLESIASTICAL INSURANCE GROUP IS A SOCIALLY RESPONSIBLE EMPLOYER

Sustainability – responding to climate change

Climate change represents a material risk to the planet, people and society. It also represents a material business risk for the insurance industry and Ecclesiastical. As a Group, we are responding to climate change in several ways:

Our General Insurance business has:

- continued to support our customers in the aftermath of major weather events – for example the Cumbria floods. Our claims support plan was put into action, responding within our target timescales. In this instance, we worked with the Firefighters Charity to get the immediate clean-up task completed as quickly as possible;
- used our geographical mapping systems expertise and data analytics to map and plan the risks and impact of major weather events – to better understand and account for risk and to continually improve our approach to supporting our customers;
- worked in partnership with our customers and supply chain to find sustainable solutions to climate change impact – for example offering cash settlements where appropriate for customers to invest in flood-resilient improvements as part of the restoration process;
- managed our own energy and waste – making reductions and reducing our impact where we can.

Our Investment Management business, EdenTree has:

- taken a 'no oil sands or Arctic drilling' stance within the Amity range of ethically screened Funds;
- maintained a below-benchmark weighting to fossil fuels as the Amity Funds have no mining and very little oil-related investments. Coal-fired power generation is also minimal;
- produced an in-house carbon footprint analysis of the Amity UK Fund and commissioned an independently verified carbon footprint;
- joined the IIGCC to lead our collaborative investor public-policy engagement;
- participated in collaborative engagement on climate change with UNPRI investors on Arctic drilling and oil sands;
- lobbied the Alberta Government on emissions reduction;
- signed the Paris Pledge and the COP21 Investor Statement on Climate Change;
- supported 'Aiming for A' shareholder resolutions on climate change portfolio resilience at BP and Shell where these are held in institutional funds;
- produced a client SRI Expert Briefing on Fossil Fuel Divestment.

CR stories from around our Group

- Ecclesiastical Canada continued to be a proud sponsor of the Kids Help Phone (KHP). Staff across Canada rallied to fundraise $21,400 and participated in Canada's largest walk in support of KHP and the mental health of young Canadians.
- Broker teams at Lycetts and SEIB led a charity cycle ride of over 300 miles between their offices in South Essex and Newcastle, raising over £11,000 for seven charities.
- Ansvar Australia's 'Superheroes' community fundraising champions led company fundraising of over $30,000 and a 50% increase in volunteering.
- Ireland gave over €20,000 to their charity partner SOAR, including a cycle challenge from East to West Ireland.

Ansvar Superheroes

Ireland cycle challenge

Photographs by Oskar Proctor

Broker cycle challenge

- Our Canadian office was recognised as a 'Top Employer for Young People'. The award is given to employers that offer the nation's best workplaces and programs for young people just starting their careers.
- Our UK IT team gave 500 computer monitors to the IT Africa project – they used their volunteering time to box them up for shipping and donated their personal grants too.
- One of our UK volunteers gave their time to help set up a new accounting system at the Gloucester Academy of Music, using their professional skills to make a huge difference to the future running of the charity.
- Ansvar UK continued their partnerships with several charities including the UK Rock Challenge, a performing arts competition encouraging young people to take an active role in building safe and healthy communities.
- Our UK Group Internal Audit team spent some time volunteering at the National Trust's Lodge Park in Gloucestershire, repairing parts of the 40km of dry stone walls at the estate.
- Over 100 Ecclesiastical staff volunteered for 'Hamper Scamper', a Christmas campaign to give hampers and gifts to disadvantaged children and families in Gloucestershire.

Canada Top Employer

Flavia at the Academy

IT Africa monitors

Photographs by Oskar Proctor

National Trust volunteering

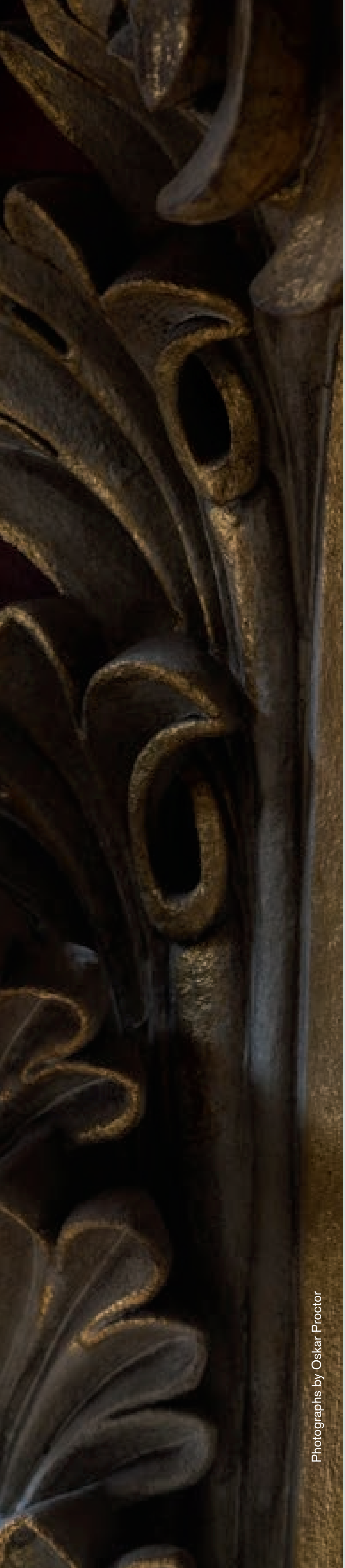
Strategic Report approval

The Strategic Report, outlined on pages 16 to 76, 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 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

16 March 2016



Photographs by Oskar Proctor

GOVERNANCE

Board of Directors

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

Chairman

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.

David Christie
BA, BSc (Econ) Dip. Ed.*
(a) (b) (e)

Deputy Chairman
and Senior Independent Director

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.

Mark Hews
BSc (Hons), FIA

Group Chief Executive

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

S. Jacinta Whyte
MC Inst. M, ACII (c)

Deputy Group Chief Executive

Appointed Deputy Group Chief Executive and to the Board in July 2013. She is responsible for the Group's General Insurance business globally. She is the Interim UK Managing Director and was also appointed to the Ansvar Australia Board during 2013. She joined Ecclesiastical in 2003 as a General Manager and Chief Agent of the Group's Canadian business, a role which she continues to hold. Having commenced 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.

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

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 The Insurance Board of Lloyd's Banking Group and of Alliance Trust PLC, Chairman of the trustees of the BOC Pension Schemes, a Governor of the Royal Conservatoire of Scotland and a school governor.

Anthony Latham ACII*
(a) (c) (d)

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

Key to membership of Group Board Committees

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

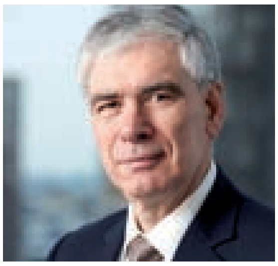
*** Non-executive directors (NEDs)**

The Venerable Christine Wilson* (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 was also a member of the Church of England General Synod from 2010 - 2015. 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.

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

Appointed to the Board in December 2010. She is currently CEO for the Lord Davies Review of Women on Boards, Chairman of the Friends Board at the Royal Academy of Arts. 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.



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

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

Ian Campbell BSc (Econ) Hons, ACA,

Group Chief Financial Officer

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.

Caroline Taylor BSc (Hons) Banking and International Finance* (e)

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.

Edward Creasy, MBA, MA (Cantab), FCII* (a)

Appointed to the Board on 10 February 2016. He has extensive experience in the insurance sector, in broking, underwriting and management. He is currently Chairman of insurance brokers Lycetts, one of the Ecclesiastical Insurance Group of companies, and is the non-executive Chairman of Charles Taylor plc and a Director of Pacific Horizon Investment Trust plc. He is also a Director of WR Berkley Insurance (Europe) Ltd and WR Berkley Syndicate Management Ltd. He is a member of The Lloyd's Market Supervisory and Regulatory Committee, and a previous Director of the Lloyd's Franchise Board. He was also Chairman and Chief Executive of the Kiln Group.

Directors' Report

The directors submit their Annual Report and Accounts for Ecclesiastical Insurance Office plc, together with the consolidated financial statements of the Company for the year ended 31 December 2015. 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.

Information about the use of financial instruments by the Group is given in note 23 to the financial statements.

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 201 and details of international branches are shown on page 200.

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 80 and 81.

Edward Creasy was appointed as a NED of the Company on 10 February 2016. Will Samuel and David Christie will resign as directors and Chairman and Deputy Chairman at the conclusion of the Board meeting on 16 March 2016. Edward Creasy will succeed Will Samuel as Chairman.

In line with the Financial Reporting Council's (FRC) 2012 UK Corporate Governance Code (the Code) the Board has voluntarily chosen to comply with the recommended annual re-election of directors. With the exception of Will Samuel and David Christie, all directors that have served since the last annual general meeting (AGM) will be proposed for re-election at the forthcoming AGM and Edward Creasy will be recommended for election at the forthcoming AGM following recommendation from the Group Nominations Committee.

The Company 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 2015. There has been no change in this position since the end of the financial year and the date of this report.

The following directors of the Company, and their connected persons, held Preference shares in the capital of the Company at 31 December 2015:

		Nature of interest	Number of Non-Cumulative Irredeemable Preference Shares held
Directors	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 existed 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 (2014: £9,181,000).

The directors do not recommend a final dividend on the Ordinary shares (2014: £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 £20.6 million (2014: £25.2 million).

During the last 10 years, a total of £130.0 million (2014: £115.2 million) has been provided by Group companies for church and charitable purposes.

It is the Company'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 of employees for alternative work 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 48.

Going concern

The Financial Performance section on page 44 and Risk Management section of the Strategic Report starting on page 48 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 £833.4m, 96% of which are liquid (2014: financial investments of £892.3m, 98% liquid); cash and cash equivalents of £118.4m and no borrowings (2014: cash and cash equivalents of £107.5m and no borrowings); and a regulatory enhanced capital cover of 3.0 (2014: 2.9). Liquid financial investments consist of listed equities and OEICs, government bonds and listed debt. 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 98.

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 (IFRSs) as adopted by the European Union and Article 4 of the International Accounting Standards (IAS) Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the European Union. Under company law, the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, IAS 1 requires that directors:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Responsibility statement

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.
- The Strategic Report (which is incorporated into this Directors' 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.
- 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	**Mark Hews** Group Chief Executive
16 March 2016	16 March 2016

Corporate Governance

The Board of directors is 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 throughout the year ended 31 December 2015, 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 or other legislation relating solely to quoted companies. The Corporate Governance disclosures include the Board Governance section, Group Nominations Committee Report, Group Risk Committee Report, Group Audit Committee Report and Group Remuneration Report.

Board Governance

The Board

The Chairman and Group Chief Executive

The roles of the Chairman and the Group Chief Executive are undertaken by separate individuals. The Chairman, Will Samuel, is responsible for leadership of the Board. The day-to-day management of the business is undertaken by the Group Chief Executive, Mark Hews, assisted by the Group Management Board. Will Samuel will resign as a director at the conclusion of the Board meeting held on 16 March 2016. Edward Creasy will succeed Will Samuel as Chairman.

Senior Independent Director

David Christie, Deputy Chairman, has been appointed as the Senior Independent Director (SID). The SID supports and acts as a sounding board for the Chairman and is responsible for overseeing the governance practices of the Company and leading the directors in their appraisal of the Chairman. Along with the Chairman, the SID is the primary contact for the shareholder and they meet regularly to share and understand views. David Christie will resign as a director at the conclusion of the Board meeting held on 16 March 2016. John Hylands will succeed David Christie as Deputy Chairman and SID.

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 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.

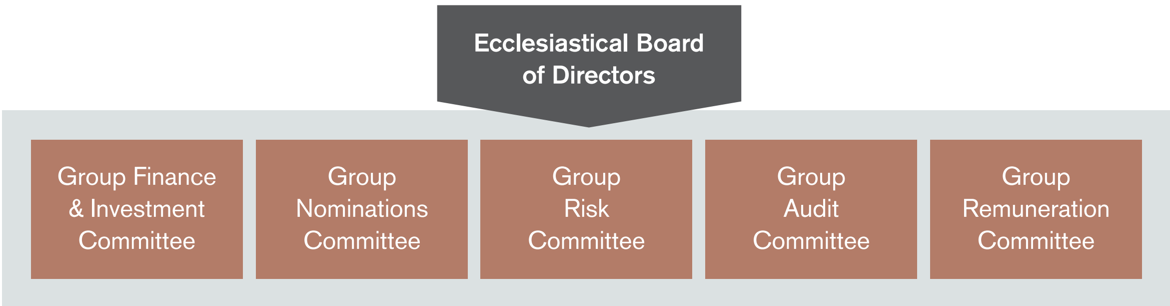
A one-year rolling plan of business for discussion is reviewed and agreed by the Board annually to ensure that the Board is focused on the right issues at the right times and sufficient time is allowed for appropriate consideration and debate.

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.

A Directors' and Officers' Insurance Policy is in place for all Group directors.

Board Committees

The Group has five Board Committees which are shown below:



Details of all the Board Committees are contained within their respective reports that follow: the Group Finance and Investment Committee Report on page 90; the Group Nominations Committee Report on page 92; the Group Risk Committee Report on page 96; the Group Audit Committee Report on page 98; and the Group Remuneration Report on page 106.

The Terms of Reference (ToR) for all five Board Committees can be obtained from either the Company's registered office address or the website at:

www.ecclesiastical.com/general/investorrelations/corporategovernance/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 2015, six scheduled Board meetings, and one off-site strategy day was held. In addition, four scheduled training sessions took place.

Will Samuel met with the non-executive directors (NEDs) without the executive directors present on a number of occasions throughout the year.

All directors receive papers and minutes for all meetings, unless restricted due a conflict of interest. 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.

It is the Board's policy to record any unresolved concerns about the running of the Company or any proposed action in the Board minutes. During 2015, no director had any such concerns.

Below is a record of the directors' attendance for the Board meetings (including the off-site strategy day) during 2015:

Board attendance table

		Director since	Meetings eligible to attend	Meetings attended
Executive directors	Mark Hews	June 2009	7	7
	S. Jacinta Whyte	July 2013	7	7
	Ian Campbell	April 2014	7	7
Non-executive directors	Will Samuel (Chairman)	January 2006	7	7
	David Christie (SID)	January 2001	7	6
	Tim Carroll	March 2013	7	7
	John Hylands	September 2007	7	7
	Anthony Latham	March 2008	7	6
	Caroline Taylor	September 2014	7	7
	Christine Wilson	June 2012	7	7
	Denise Wilson	December 2010	7	6

During 2015, the Board made decisions on the following business issues and routine matters:

Routine matters	Board's annual objectives Financial performance and statements Risk management, appetite, and registers Overview of compliance and audit work undertaken by the Group Audit Committee Dividends, charitable donations and Gift Aid Setting and reviewing budgets Committee reports and recommendations Health and safety
Operational matters	Performance, strategic and business plans for Group businesses Group reinsurance arrangements General insurance claims reserves Treating Customers Fairly and complaints handling Determining NEDs' fees for recommendation at a general meeting Stakeholder relationships Review of General Insurance business including niches Review of other strategic businesses Employee engagement Cyber security
Projects	Review of Group structure Proposition review Review of IT strategy Change programme and Group Vision Rebranding of the Investment division Review of corporate responsibility (CR) strategy
Governance and regulatory matters	Board composition Taxation matters Implementation of actions arising from the evaluation of the Board Capital requirements, solvency position and ORSA Relationship with the regulator

Internal controls

The Board is ultimately responsible for the systems of risk management and internal control maintained by the Group and reviews their appropriateness and effectiveness annually. The Board views the management of risk as a key accountability and is the responsibility of all management and believes that, for the period in question, the 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 Report starting on page 48.

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 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 is accessible to all staff via the intranet.

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

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

Relationship with shareholder

Ecclesiastical Insurance Group owns the entire issued Ordinary share capital of Ecclesiastical Insurance Office. Ecclesiastical Insurance Group in turn is wholly owned by ATL with whom the Board has an open and constructive relationship. The Chairman ensures that the views of ATL are communicated to the Board as a whole following regular meetings with Sir Philip Mawer (Chairman of ATL). In addition, David Christie and Denise Wilson have been appointed as 'Common Directors' of both companies which enables ATL to effectively communicate its views and expectations to the Board. In turn, the common directors are able to support the directors of ATL to understand the performance and strategic issues faced by the Company.

A conflict of interest policy which sets out how actual and perceived conflicts of interests between the two companies are managed is in place.

By order of the Board

Mrs. R. J. Hall
Group Company Secretary

16 March 2016

Group Finance and Investment Committee Report

Tim Carroll
Chairman of the Group Finance and Investment Committee

Chairman's introduction

I am pleased to present the 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 2015.

Membership

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

		Member since	Meetings eligible to attend	Meetings attended
Committee members	Tim Carroll (Chairman)	August 2013	4	4
	David Christie	September 2010	4	4
	Will Samuel	March 2006	4	4
	Anthony Latham	February 2009	4	4

The Committee reviews its ToR annually and during the year held four scheduled meetings. The remit of the Committee, in line with its ToR 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 the performance of delegated funds.

During 2015, the Committee's main activities were in line with its remit and included:

- review of the annual investment strategy;
- review of quarterly investment reports and investment performance against benchmark levels;
- consideration of a potential acquisition of a business;
- review of tax strategy;
- review of bond default risk;
- review of the Group's financial risk appetite statement;
- review of the acquisition strategy;
- oversight of a pension scheme triennial valuation; and
- consideration of the potential acquisition of shares in a business.

By order of the Board

Tim Carroll
Chairman of the Group Finance Investment Committee

16 March 2016

Group Nominations Committee Report

Will Samuel
Chairman of the Group Nominations Committee

Chairman's introduction

I am pleased to present the Group Nominations Committee's Report describing the work we have carried out in 2015. 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.

Membership

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

Committee members	Member since	Meetings eligible to attend	Meetings attended
Will Samuel (Chairman)	June 2008	5	5
David Christie	January 2001	5	5
John Hylands	May 2013	5	5

The Committee held three scheduled meetings during the year and two ad-hoc meetings. The remit of the Committee, in line with its ToR, 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 2015 included:

- review of the Board and Committee'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 Edward Creasy as a new NED and Chairman elect to the Board;
- consideration of a new Deputy Chairman and SID to succeed David Christie during 2016.
- monitoring the implementation of the actions arising from the external Board evaluation at the end of 2014;
- 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, eight 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.

Appointment of Edward Creasy, non-executive director and Chairman elect

In autumn 2014, it was agreed that the key priority for the Committee and the Board would be the appointment of a new Chairman. The incumbent Chairman, Will Samuel, did not take part in the selection process but was consulted given his extensive knowledge of the role.

A selection panel led by David Christie and comprising John Hylands, The Venerable Christine Wilson and Tim Carroll was established in February 2015.

An external search consultant, Egon Zehnder International (who had no other connection to the Group and are signatories to the Voluntary Code of Conduct on gender diversity and best practice) were engaged to support the selection process. In addition, a web-based search agent, Nurole, assisted the selection in the recruitment process. Nurole had assisted the Group's ultimate parent, ATL, in the recruitment of a Trustee in 2015.

A candidate profile was developed, which is summarised as follows:

- experience of leading a Board and displaying behaviours consistent with the culture and values of the Group;
- commercial business leader with significant experience in the management and governance of a financial services company;

- independent-minded and robust;
- able to voice well-grounded opinions and facilitate rigorous challenge and debate;
- a clear structured thinker with a strategic outlook; and
- a commitment to the highest standards of integrity and a reputation for sound judgement.

The initial candidate list was reduced to a short list for consideration by the selection panel. The short list was further reduced by the selection panel based on the skills and knowledge of the candidate and identified Board skills gaps. After a series of interviews and further due diligence, Edward Creasy emerged as the preferred candidate. This was based on consideration of personal attributes, external commitments and needs of the Board. Given the importance of the role to the Group, all members of the Board met with Edward Creasy and provided feedback. In addition, discussions were held with ATL.

At the end of the process the full Board approved the appointment of Edward Creasy, which was announced in December 2015. Edward has over 35 years' experience in the insurance industry as both a broker and underwriter. He brings robust leadership, integrity and expertise consistent with the Group's culture and values. In addition, his extensive insurance market background will assist the Board in giving consideration to its business strategies and in particular, meeting one of the Group's objectives of becoming the Most Trusted Specialist Insurer.

Edward Creasy was independent on appointment to the Group.

Board diversity

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

Currently, the representation of women on the Board stands at 33%, with four women members in a current membership of 12. As at 31 December 2015, the representation of women on the Board stood at 36%, with four women members in a membership of 11. The Board will take the opportunity, as and when appropriate, to improve further its gender balance.

The Board also recognises the importance of improving gender balance at senior levels within the organisation and is actively reviewing diversity across the Group. Further information is provided in the Corporate Responsibility Report.

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 led 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, the handling of price-sensitive information, directors' duties, share dealing, data protection and Board procedures; the Code; Board minutes for the current and past year; the Governance Framework (including Expectations of SBUs and Board Charter) 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 Group's trading 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 ATL, the Group Chairman, the Deputy Chairman and the SID, and each of the executive directors.

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

Training

Throughout the year, directors participate in the CPD programme, which includes internal training on topical issues (including business familiarisation) relevant to the Group's commercial and regulatory environment and attendance on relevant external CPD opportunities, funded by the Company. In 2015, four internal training sessions took place and covered Solvency II, Conduct Risk and Anti-Bribery.

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 by the Committee.

Performance evaluations

Given the anticipated changes to the Board, it was agreed that a formal Board evaluation would be deferred. During the year, the Board supported by the Group Nominations Committee, monitored the implementation of the agreed recommendations arising from the 2014 Board evaluation focusing on the Group's long-term strategy, developing a structured approach to succession plans, and enhancing the Board's understanding of competitors and markets. The Board evaluation in 2014 was conducted by Lintstock Limited; who are not connected to the Group. The Board was satisfied that the Board and its Committees were effective and that progress had been made against all objectives.

It is the Board's policy for its evaluations to be facilitated every two years with the next external evaluation expected to be undertaken 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 they are recommended for annual re-election. The report and accounts accompany the AGM notice. The biographical information for the Board members seeking election and re-election is contained within the Report and Accounts.

The Board believes that all the NEDs were independent throughout 2015. Independence is reviewed as part of each director's annual appraisal, considered by the Committee, and agreed by the Board annually. In 2015, two NEDs, Will Samuel and David Christie have served for more than nine years on the Board, and John Hylands and Anthony Latham have served for more than six years. In addition, two directors, David Christie and Denise Wilson are directors of ATL. The Committee has considered the circumstances and relationships of all NEDs and, following rigorous review, the Committee confirmed to the Board that all NEDs remained independent in character and judgement. No individual participated in the discussions relating to their own independence.

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

Will Samuel and David Christie will resign as directors on 16 March 2016. All other directors are proposed for re-election at the forthcoming AGM.

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 2015, 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

16 March 2016

Group Risk Committee Report

Anthony Latham
Chairman of the
Group Risk Committee

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 48.

The Group Risk Committee was created in June 2010 and comprises the directors shown in the table below 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.

Membership

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

Committee members	Member since	Meetings eligible to attend	Meetings attended
Anthony Latham (Chairman)	June 2010	5	5
S. Jacinta Whyte	February 2014	5	5
Tim Carroll	August 2013	5	4
John Hylands	September 2010	5	5

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;
- ensure a risk management culture is embedded across the Group;
- recommend to the Board the Group's strategy, policy and processes for risk management, and monitor compliance;
- monitor the operational 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 Own Risk and Solvency Assessment (ORSA) and Internal Model changes;
- 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 2015, the Committee held five 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);
- the ORSA at Group level;
- a review of the risk impact of remuneration proposals and the Group Chief Risk Officer's reports to the Group Remuneration Committee;
- discussion and approval of reverse stress test results and recommendations arising there from;
- capital requirements across the Group including reviewing the Group's Internal Capital Assessment;
- amendments to and implementation of the Control and Risk Self-Assessment process at Group level;
- the implementation of Solvency II and the implications for the Group, including Board training;
- the implications of the Senior Insurance Manager's Regime;
- the appropriateness of the Standard Formula;
- continuing development and integration of the Group's Internal Model, and the approach to validation;
- review of the Governance and Overarching Policy Framework;
- reports from Group Compliance;
- the implications of FloodRe; and
- the Group's relationship with its regulators including reviewing statutory returns and the output from PRA and FCA visits.

By order of the Board

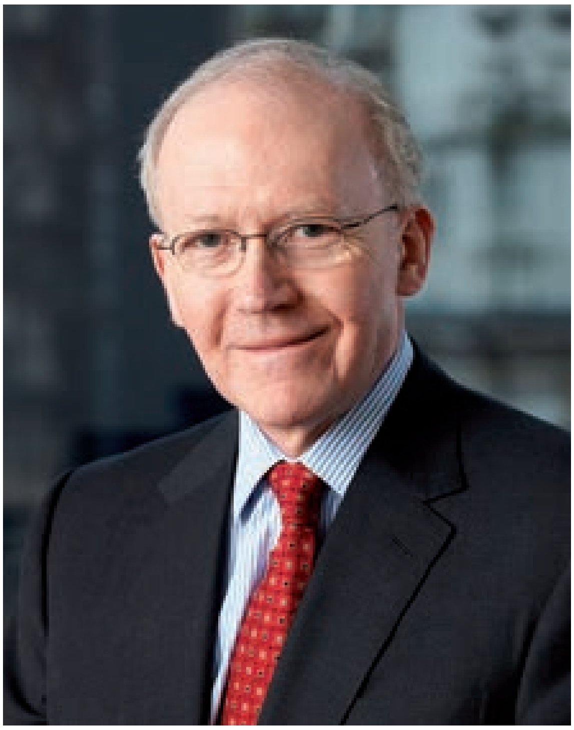
Anthony Latham
Chairman of the
Group Risk Committee

16 March 2016

Group Audit Committee Report

Chairman's overview

A key aspect of the Group Audit Committee's work this year was to oversee a formal and comprehensive tender process for the external auditor appointment. After careful consideration of the strength of each proposal, the Board accepted the recommendation from the Group Audit Committee (the Committee) to retain the services of our external auditor, Deloitte LLP (Deloitte). The audit tender process is described in more detail in the following pages, together with the Committee's other principal activities during the year.



John Hylands
Chairman of the
Group Audit Committee

A particular focus of the Committee last year was the appropriateness of the Group's general insurance liability claims reserves and, in particular, the reserves held in respect of physical and sexual abuse (PSA) claims. We have continued to focus on both PSA and other liability reserves during 2015 and undertook a detailed review of changes to the approach to setting reserves in respect of asbestos-related diseases in the second half of the year.

From an accounting and reporting perspective, the significant issues considered in detail by the Committee are set out on pages 100 and 101.

The Committee seeks to ensure that the identification and management of significant risks is embedded across all areas of the business, with continued and effective oversight from the Group Management Board (GMB). We are satisfied that the business has maintained a robust risk management and internal controls culture, supported by strong overall governance processes.

The Group's principal risks and uncertainties are set out on pages 51 to 58. We have reviewed these in detail and are comfortable that the business has addressed them appropriately within its ongoing operating model and identification of strategic priorities.

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 UK Corporate Governance Code.

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

Committee members	Member since	Meetings eligible to attend	Meetings attended
John Hylands (Chairman)	March 2008	6	6
Tim Carroll	April 2013	6	5
Anthony Latham	December 2008	6	6
Denise Wilson	August 2011	6	5

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 (GIA) attend meetings by invitation. Other relevant people from the business are invited to attend certain meetings in order to provide a deeper level of insight into key issues and developments. Deloitte is invited to attend meetings, and during 2015 they attended five of the six meetings held.

The Committee meets with the Director of GIA on an annual basis, in the absence of management to discuss the GIA function and any issues arising from its activity. In addition, the Committee meets with Deloitte on an annual basis, without management present, to discuss the external audit and any issues arising from it.

The Committee's key responsibilities include:

- monitoring the integrity of the financial statements;
- challenging the Group's financial reporting, and reporting upon anything that it is not satisfied with;
- reviewing the Group's whistleblowing arrangements;
- reviewing the Group's audit arrangements, both externally and internally; and
- reviewing the effectiveness of the Group's systems of internal financial controls and the management of financial risks.

A summary of the main activities of the Committee during the year are shown on the next few pages.

Appropriateness of the Group's external financial reporting

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

- the quality and acceptability of the Group's accounting policies and practices;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- material areas in which significant judgements have been made by the Group or there has been discussion with the external auditor;
- whether the Group's Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, Business Model and Strategy; and
- any correspondence from regulators in relation to financial reporting.

The Committee gave consideration to the presentation of the financial statements, and in particular the coherence and consistency between the risks, critical accounting estimates and accounting policies disclosed within the Annual Report.

To aid their review, the Committee considered reports from the GMB, the Group Chief Financial Officer and reports from Deloitte on the outcomes of their half-year review and annual audit.

The significant areas of focus considered by the Committee in relation to the 2015 accounts, and how these were addressed, are outlined below. These were discussed and agreed with management during the course of the year, and we also discussed them with Deloitte at both the half year and year end. The nature of these issues and how they are mitigated is explained in more detail in the Risk Management Report on page 51, and also note 2 to the financial statements on page 148.

Issue	Assessment
General insurance claims reserves	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. 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. We also considered reports from Deloitte following their audit. There was evidence of an improvement in the performance of general liability claims in the UK during the year and the Committee considered in detail the resulting favourable development of prior year reserves recommended by management, taking into account the Group Reserving Actuary's assessment of the sufficiency of these reserves. The Committee agreed that the proposed releases were reasonable and that the reserves remained appropriately prudent. At the half year, management also reviewed the historic exposure profile and claims resulting from asbestos-related diseases and increased the reserves accordingly. The Committee held had a detailed session with the Group's Reserving Actuary to consider changes to the basis of modelling these reserves. After consideration, the Committee agreed it was appropriate to strengthen reserves for this long-tail risk in line with the management recommendation. There was a particular focus on PSA reserves last year, and the Committee reviewed actual claims experience against expectations throughout the year. It was noted that experience was better than expected over 2015, but after discussions with management we agreed that it was appropriate to maintain reserves at their current level given the likely volatility in claims patterns from year to year. Following all of our reviews and discussions, the Committee was satisfied that the reserving process and outcomes were robust and well managed and that the overall reserves set were reasonable.
Life insurance reserves	The calculation of the Group's life insurance reserves requires management to make significant judgements about bond yields, discount rates, credit risk, mortality rates and current expectations of future expense levels. The Actuarial Function Holder's proposed assumptions are reviewed, challenged and agreed by the Ecclesiastical Life Limited Board. Any one-off or unusual items are referred to the Committee for further approval. During 2015, the Committee considered proposed changes to mortality assumptions and the assumptions for the pattern of reductions in the Group's expenses as the business runs off. Following their review and consideration of Deloitte's report, the Committee was satisfied that the changes proposed were appropriate and overall the judgements made in respect of the reserves were reasonable.

Issue	Assessment
Carrying value of goodwill	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. During 2015, the Committee considered management's proposal to change the discount rate used. The Committee was satisfied that the proposed rate better reflected current market assessments of the time value of money and the asset-specific risk. After review, the Committee agreed with management's conclusions that no material impairment was required for any of the businesses under review.
Valuation of defined benefit pension scheme liability	Although the Group's main defined benefit pension scheme remains in surplus, the liabilities of the schemes are material in comparison to the Group's net assets and the valuation requires many actuarial assumptions, including judgements in relation to long-term interest rates, inflation, longevity and investment returns. 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 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. The Committee noted the recent clarification of International Financial Reporting Interpretations Committee (IFRIC) 14 regarding the continuance of a minimum funding requirement for contributions relating to future service. After review of the assumptions used, the external advice provided, benchmark data and careful consideration of the requirements of IAS 19(R) and IFRIC 14, the Committee concluded that reasonable assumptions had been used and recognition of part of the surplus as an asset of the Group was appropriate.
Carrying value of tax liabilities	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 Committee considered the tax provisions proposed by management and the material judgements management had applied. We reviewed the calculation for the release of deferred tax provision following the recently enacted changes in the future corporation tax rate. Following our review, the Committee concluded that tax provisions were appropriate.

Fair, balanced and understandable

At the request of the Board, the Committee as considered whether, in its opinion, the 2015 Annual Report and Financial Statements are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, Business Model and Strategy. An early draft of the Annual Report was provided to the Committee for initial review and feedback at its February meeting. Feedback was provided by the Committee highlighting any areas where they believed further clarity was required in the final version. The final draft was provided one week prior to the meeting at which it would be requested to provide its final opinion, and further minor feedback from the Committee was incorporated into the final version.

The Committee was provided with comprehensive verification of all the information and facts in the Annual Report, and any statements of belief were highlighted and considered separately by the Committee. When forming its opinion, the Committee reflected on information it had received and its discussions throughout the year as well as their own knowledge of the business and its performance.

The Committee also asked an employee of the Group, who does not work in a financial or actuarial area and is not involved in the production of the Annual Report or financial results, to review a near-final draft and give their opinion on whether they consider it to be fair, balanced and understandable. Guidance on what is meant by these statements and aspects the employee may wish to consider when forming an opinion was provided. The employee produced a written report for the Committee which gave their overall opinion on the Annual Report and also set out their view of the strengths and any areas for development for the future.

Following its review, the Committee was of the opinion that the 2015 Annual Report is representative of the year and presents a fair, balanced and understandable overview, providing the necessary information for shareholders to assess the Group's performance, Business Model and Strategy.

There has been no correspondence from regulators in relation to financial reporting during the year.

Overseeing the relationship with and performance of the external auditor

External audit tender

Last year, we advised that Deloitte had been the external auditor of the Group since 1998 and that there had been no tender held for audit services since their appointment. We advised that, after considering the longer-term implications of the recently adopted EU legislation requiring mandatory audit firm rotation, which will apply from June 2016 and The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, the Committee had determined that an external audit tender would commence in the spring of 2015 for the 2015 year-end audit.

The Committee took the decision to invite three firms to tender for the audit. It was the Committee's intention to complete this process in time to make a recommendation to the Board at its August 2015 meeting with a view to making any new appointment on 1 September 2015. The Committee felt this gave any new audit firm sufficient time to prepare for the year-end audit.

Governance

The proposal to tender for the audit work of the Group was overseen by the Committee Chairman. The tender process involved several stages, which are summarised below:

- **Consideration of firms to invite.** After consideration of the skills and resources required to undertake the external audit of the Group and any potential conflicts of interest, the Committee decided to invite three firms to tender, one of which was the incumbent Deloitte.
- **Identification of key criteria and development of documentation.** The Committee considered and agreed the key criteria and the format of the invitation to tender. These were then shared with the invited firms.
- **Interview phase.** Each firm was invited to an extensive series of interviews with members of the Committee, members of the Board and a number of the Group's senior management team. These interviews formed part of a formal assessment process where each firm was scored against the key criteria, including matters such as the strength and experience of senior team members and their firm's ability to serve effectively the Group's diverse operations.

- **Submission** of a written proposal document. Each firm was asked to provide detailed information in writing on certain matters in support of their proposal.
- **Tender presentations.** All three of the firms were invited to present their audit proposition to the full Committee. The Group Chief Executive and Group Chief Financial Officer were also in attendance for these presentations. Following the presentations, the Committee considered the strength of each proposal, discussed the strengths and weaknesses of each firm against the key criteria and considered feedback and scoring provided by the Board members and senior managers who had met the firms during the tender process. The Committee in turn provided a recommendation to the Board for consideration and approval.
- **Outcome.** The Committee unanimously agreed to recommend to the Board that the services of Deloitte be retained, and the Board accepted this recommendation. Accordingly, subject to shareholders' approval, Deloitte will be reappointed as auditor. The Committee also recommended that the Group move the external audit of all its subsidiaries to Deloitte and no longer use any non-Deloitte component audit firms, which the Board also agreed.

We believe that the audit tender was a valuable exercise, and the Group expects to achieve a number of improvements to its audit service as a result.

Audit planning

The Committee oversees the plans for the external audit to ensure it is comprehensive, risk based and cost effective. Deloitte drafted an initial audit plan for the 2015 audit in conjunction with executive management and presented it for review by the Committee at its November meeting. 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.

The Committee discussed the audit plan for the 2015 audit with Deloitte. The proposed change in approach to setting materiality was considered reasonable, and the Committee agreed that the right key audit risks had been identified.

External audit process effectiveness

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 shortly before the start of the external audit tender process and was based on 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 points were identified for improving the overall external audit process which was taken into account in the external audit tender process. The Committee is satisfied that the changes made and agreed for the future as a result of that process will address these points.

Independence of the external auditor

Both the Board and the external auditor have safeguards in place to protect the independence and objectivity of the external auditor.

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

The policy covers a number of areas including:

- the Group's restrictions, procedures and safeguards, relative to the engagement of the external auditor on non-audit services;

- the Group's requirements for the pre-approval and reporting of fees for non-audit services;
- policy on the appointment of former audit employees of the external auditor; and
- the requirement to keep a register of all former employees of the current external auditor employed by the Group.

The 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 2015, the Group was charged £411,000 (exc VAT) by Deloitte and its associates for audit services. The fees for other assurance services required by legislation and/or regulation amounted to £92,000, making total fees from Deloitte of £503,000. 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 166.

Oversight of the Group's systems of internal control including the internal audit function

Assessment of internal controls

The Group's approach to internal control and risk management is set out in the Corporate Governance Report on page 86.

In reviewing the effectiveness of the system of internal control and risk management during 2015 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; and
- considered a report prepared by the Director of GIA giving his assessment of the strength of the Group's internal controls based on internal audits performed during the year.

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 should be 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 (GIA)

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

The Committee has oversight responsibility for GIA and the Director of GIA is accountable to the Committee Chairman, reports administratively to the Group Chief Executive and has access to the Chairman of the Board.

GIA's annual programme of work is risk based and designed to cover areas of higher risk or specific focus across the Group. The plan is approved annually in advance by the 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 Committee summarising findings from audit activity undertaken and the responses and action plans agreed with management. During the year, the 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.

Whistleblowing

The Committee is responsible for reviewing the Group's whistleblowing procedures and receives regular updates. No concerns were raised through these channels in 2015.

During the year, the Group's approach to whistleblowing was refreshed and set out in a new Standard and Guidance Document (which is available internally on the Group's intranet). The Chairman of the Group Audit Committee was designated the Group's 'Whistleblowing Champion' having responsibility to ensure the independence, autonomy and effectiveness of the Group's policies and procedures on whistleblowing including the procedures for protection of staff that raise concerns from detrimental treatment. On behalf of the Whistleblowing Champion, the Director of GIA is responsible for ensuring the effectiveness of internal whistleblowing arrangements, including arrangements for protecting whistleblowers against detrimental treatment.

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

16 March 2016

Group Remuneration Report

Group Remuneration Committee Chairman's statement

As Chair of the Group Remuneration Committee, I am pleased to introduce the Group Remuneration Report for the year ending 31 December 2015 and to highlight some of the key aspects of the Committee's work during the financial year.

Denise Wilson OBE
Chair of the Group Remuneration Committee

About this report

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. This introductory statement summarises: the business context for the executive remuneration in 2015; major decisions taken by the Committee during the year; and, changes made to directors' remuneration. The Directors' Remuneration Policy on pages 111 to 122 sets out the Group's policy in relation to the structure and elements of pay for our directors, and the Annual Report on Remuneration on pages 122 to129 describes how the Group's remuneration policies have been implemented in 2015, providing retrospective disclosures on directors' remuneration for 2015 and setting out how the policy will be implemented in 2016.

Review of performance and incentive outcomes

As described in the Strategic Report starting on page 14, the Group has delivered another set of strong and consistent results in 2015, continuing the transformation in its performance over the last two years. Our profit before tax (PBT) grew by 11% to

£54m (2014: £48m), with underwriting profits and investment returns performing well. During 2015, the Group once again delivered a strong underwriting profit, with the Combined Operating Ratio (COR) for the Group improving to 92.0% (2014: 95.2%).

Given the Group's strong performance over the year, the Committee is satisfied that (i) the annual bonus awards of 88% (Group Chief Executive), 81% (Deputy Group Chief Executive) and 78% (Group Chief Financial Officer) of the maximum potential value and (ii) the extent to which the LTIP granted in 2013 vested, were appropriate.

The Committee reviews risk management across the Group as part of its deliberations on remuneration, to ensure that the financial results achieved over the one- and three-year periods applicable to the directors' annual bonus and long-term incentive plan (LTIP) outcomes have been achieved within the risk appetite limits set for the Group. The Committee is advised by the Group Chief Risk Officer (CRO) in relation to the risk impact of incentive scheme design, targets, and whether the outturns have been achieved within the Group's risk appetite. I am pleased to report that following this review for the period ending 31 December 2015, no adjustments were considered necessary to the 2015 Group annual bonus or the 2013-2015 LTIP.

Key Committee activities during the year

Following the strategic review of the Group's Remuneration Policy in 2014, revised Group annual bonus and Group LTIP arrangements came into force in 2015. During the year, the Committee worked with the CRO to further refine the measures underpinning the Customer and Conduct performance condition within the Group annual bonus.

The remuneration package of the Deputy Group Chief Executive was reviewed during 2015. During the year, S. Jacinta Whyte continued to exercise her responsibilities as General Manager and Chief Agent for Canada and as Managing Director of UK General Insurance, alongside her responsibilities as Deputy Group Chief Executive. In recognition of the continuing requirement for S. Jacinta Whyte to lead the UK and General Insurance transformation programme and to fulfil the role of Managing Director of UK General Insurance, the Deputy Group Chief Executive's incentive plan was extended in duration from two to three years with a pro-rata increase in the potential value.

During the year, the Committee continued to oversee the development of remuneration policy and incentive scheme design across the wider Group. In particular, revised annual bonus and LTIP arrangements were reviewed and approved for EdenTree Investment Management Limited (EdenTree), South Essex Insurance Brokers Limited (SEIB) and Ansvar Australia, further aligning these with the Group Remuneration Policy.

The regulatory and corporate governance environment for executive remuneration continues to develop apace. During the year the Committee considered, amongst other developments, the implications of the European Banking Authority (EBA) consultation on sound remuneration principles for EdenTree and the implications of Solvency II on the Group's remuneration governance, structures and risk adjustment approaches. In line with Solvency II remuneration requirements, the deferral period for the Group annual bonus will be increased in 2016 from a period of two years to three years. The Committee additionally benefited from an in-depth update provided by PricewaterhouseCoopers LLP (PwC) on developments in remuneration arrangements and regulation in asset management firms.

The Committee undertook a competitive tender process during 2015 to appoint an external adviser to the Committee. As a result of the tender process, New Bridge Street were appointed as adviser to the Committee with effect from December 2015.

The Board also reviewed fees for non-executive directors (NEDs) during 2015, in line with its two-year review cycle. The increases (set out on page 127) reflect the continuing increases in workloads in recent years and are designed to bring fees in line with those paid at similar-sized companies, ensuring that the Group will continue to be able to attract NEDs with the range of experience and skills to oversee the implementation of our Strategy.

Finally, I value the continued support from our charitable owner and shareholder 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.

Denise Wilson OBE
Chair of the Group Remuneration Committee

16 March 2016

The Remuneration Committee

Purpose and membership

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.

The Committee's roles and responsibilities are set out in full in the ToR. The Committee's ToR is reviewed annually and there were no substantive changes in 2015. The Committee reviews its effectiveness annually.

During 2015, the Committee held five meetings in total, four scheduled meetings and one additional meeting. The Group Remuneration Committee members and their attendance at meetings during the year are set out in the table below. All members are independent NEDs and have the necessary experience and expertise to meet the Committee's responsibilities.

Committee members	Appointed to the Committee	Meetings eligible to attend	Meetings attended
Denise Wilson (Chair)	December 2011	5	5
David Christie	April 2013	5	5
Christine Wilson	April 2013	5	4
Caroline Taylor	November 2014	5	5

Advisers to the Committee

During the year, the Committee received external advice from FIT Remuneration Consultants LLP (FIT) in relation to the implementation of the Group Remuneration Strategy Review and the determination of appropriate remuneration packages for executive directors, members of the Group Management Board (GMB) and heads of strategic business units. The Committee received external advice from PwC in relation to remuneration arrangements and regulation in asset management firms and in relation to the Solvency II remuneration requirements. FIT has no other advisory function within the Group. PwC acted as advisors to the Group during 2015 in relation to non-remuneration aspects of Solvency II and also provided services in respect of tax compliance.

Fees paid to FIT and PwC during 2015 for professional advice to the Committee were £38,658 and £29,220 respectively. The Committee is satisfied that the advice received during 2015 from its advisers was impartial, as both FIT and PwC are signatories to the voluntary code of conduct of the Remuneration Consultants Group.

As set out earlier, in the Chairman's statement, a competitive tender process was undertaken in 2015 to appoint an external adviser to the Committee. As a result of the tender process, New Bridge Street has been appointed with effect from December 2015.

The Committee is satisfied that the advice that will be received from New Bridge Street will be impartial, as New Bridge Street is a signatory to the voluntary code of conduct of the Remuneration Consultants Group.

The Committee also had access to benchmarking reports from Towers Watson and McLagan, each of which also provide data to support the determination of pay and conditions throughout the Group.

Where appropriate, the Committee received input from the Chairman, Group Chief Executive, Group HR Director, Director of Group Finance, CRO, Director of Group Internal Audit and Group Reward Manager. Such input never relates to their own remuneration.

Activities of the Remuneration Committee in 2015

The Committee discussed the following key matters during 2015:

- approving the new Group Remuneration Policy;
- setting of performance conditions and targets for 2015 annual bonuses and 2015-2017 LTIPs applicable to executive directors, members of the GMB and heads of strategic business units and employees;

- considering the CRO's opinion on the risk impact of incentive scheme design and targets;
- approving the 2015 salaries and vesting outcomes of 2014 annual bonuses and 2012-2014 LTIPs for the above population;
- approving a revised annual and LTIP for code staff within EdenTree;
- approving a revised annual bonus plan for the Chief Executive Officer and employees of Ansvar Australia, and the LTIP applicable to the Chief Executive Officer of Ansvar Australia;
- approving a revised annual incentive plan for the directors of SEIB;
- approving, in relation to EdenTree, the code staff population, remuneration policy and Pillar 3 remuneration disclosure, together with the annual audit of compliance with the Remuneration Code;
- considering the change in Remuneration Code applicable to EdenTree (to SYSC 19C);
- approving the 2014 Directors' Remuneration Report;
- reviewing external market developments and trends;
- evaluating the Committee's performance in 2015 and setting the Committee's objectives for 2016;
- reviewing the pension policy for executives and designated senior managers;
- approving changes to the discretionary incentive plan applicable to the Deputy Group Chief Executive;
- approving the appointment of New Bridge Street as external adviser to the Committee following a tender process;
- considering remuneration regulation and market best practice applicable to asset management firms;
- reviewing the implications of the EBA consultation on sound remuneration policies on remuneration policy for code staff; and
- reviewing the implications of Solvency II on remuneration policy.

Photograph by Oskar Proctor

Directors' Remuneration Policy

The Directors' Remuneration Policy (the 'Policy') described in this part of the report is intended to apply for the year from January to December 2016 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 implemented in 2015. The Policy set out below reflects the outcomes of this review and is largely unchanged from 2015.

As outlined in the Group's Strategic Report, starting on page 14, 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, we need to attract, motivate and retain highly capable, productive and motivated employees who are aligned to the Group'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 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 LTIP will reflect and support the Group'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, the Group 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 reviews the Group's Remuneration Policy annually to ensure that it remains aligned with the needs of the Group and its longer-term strategy and that it remains appropriately aligned with the external market.

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 above. 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 the Group successful on a sustainable basis.

Future policy table (executive directors)

	How the element supports our strategic objectives	Operation of the element
Salary	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.
Benefits	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.
Pension	To aid retention and provide a market competitive provision for post-retirement income.	**UK Defined Contribution Scheme**: UK-based executive directors are eligible to participate in the Group Personal Pension plan. Contributions are made by the employee and employer. **Canadian EIO plc Defined Contribution Pension plan**: the Canadian Defined Contribution 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.
Group annual bonus scheme	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.	This cash bonus is paid annually, normally three months after the end of the financial year to which it relates. 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 CRO on the extent to which the scheme meets the Group's risk appetite. Any bonus earned in excess of 75% of an individual's maximum bonus opportunity is deferred over a period of three years. Bonus already paid, or deferred, is subject to malus/clawback in certain circumstances: (i) mis-statement of performance; (ii) regulatory censure, material reputational damage and/or material non-adherence to the Group's risk tolerances; and (iii) misconduct. A three-year time limit applies. The Committee has discretion to reduce any bonus prior to award in certain circumstances, including (but not limited to): (i) there are issues regarding the Group'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 the Group is held by its customer base through mismanagement.

Maximum potential value and payment at threshold	Performance measures used, weighting and time period applicable	Change from 2015
When the annual review is conducted various factors are taken into account, including Group and individual performance, relevant market information and levels of pay increases in the wider UK or relevant territory population. Relevant pay data including market practice among a chosen set of comparator organisations in the financial services sector is also considered.	Group and individual 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
The level of pension contribution takes into account the seniority of the role and pension benefits offered by comparable organisations for comparable roles. The employer contribution rate to the UK Defined Contribution Scheme will be 15% of basic salary. Any contributions to the UK Defined Contribution Scheme that are above the annual or lifetime earnings limit are paid in cash, net of National Insurance (NI) contributions charge. The employer contribution rate to the Canadian EIO plc Defined Contribution Pension plan will be 12% of basic salary. 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.	Not applicable	None
Maximum opportunity of 100% of salary of which 50% is payable for a target level of performance.	The Group annual bonus is subject to a range of challenging metrics linked to key strategic priorities. For 2016, the following performance metrics will apply: • Ecclesiastical Insurance Group (EIG) PBT (including fair value investment gains/losses) • Group COR • Strategic targets • Customers and conduct and • Personal performance rating.	Deferral period increased from two to three years, for any bonus earned in excess of 75% of an individual's maximum bonus opportunity.

Future policy table (executive directors)

	How the element supports our strategic objectives	Operation of the element
Group LTIP	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.	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. Targets are set annually for each successive three-year LTIP period. When agreeing targets, the Committee also receives advice from the CRO on the extent to which the scheme meets the Group's risk appetite. Any LTIP already vested and any unvested LTIP is subject to malus/clawback in certain circumstances: (i) mis-statement of performance; (ii) regulatory censure, material reputational damage and/or material non-adherence to the Group's risk tolerances; and (iii) misconduct. A three-year time limit applies. The Committee has discretion to reduce any LTIP award in certain circumstances, including (but not limited to): (i) there are issues regarding the Group'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 the Group is held by its customer base through mismanagement.

Additional targeted incentive

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 arrangements set out in the table above, the following discretionary incentive arrangements are in existence for the Group Chief Executive and Deputy Group Chief Executive.

	How the element supports our strategic objectives	Operation of the element
Group Chief Executive's three-year incentive plan	To incentivise the Group Chief Executive to achieve specific goals that have been set for the period 2014-2016.	No mandatory deferral provision. Staged payments: ▪ Year 1 up to 25% of salary. ▪ Year 2 up to 50% of salary, less payments made in the previous year. ▪ Year 3 up to 100% of salary, less payments made in Year 1 and Year 2 above. Payments under the plan are subject to clawback in respect of mis-statement and misconduct.

Maximum potential value and payment at threshold	Performance measures used, weighting and time period applicable	Change from 2015
Under the rules of the LTIP, awards of up to 100% of salary can be made. At on-target performance a target opportunity of 50% of the award applies. Threshold business performance would result in vesting of no more than 20% of the award. The Group LTIP plan granted in respect of 2014-2016 will continue to vest under the previously applicable policy. The Group LTIP plan granted in respect of 2015-2017 will continue to vest under this policy.	The Group LTIP is subject to a range of challenging conditions linked to key strategic priorities. For 2016 awards relating to a performance period 2016-2018, the following performance conditions will apply: ▪ Group EIG PBT (excluding fair value investment gains/losses) ▪ Group EIG PBT (including fair value investment gains/losses) ▪ Group COR ▪ Strategic targets and ▪ Customers and conduct. There is a 36-month performance period from the date of grant.	None

Maximum potential value and payment at threshold	Performance measures used, weighting and time period applicable	Change from 2015
Maximum opportunity of 100% of salary over the 2014-2016 performance period.	There are three areas of performance conditions that apply to this award: ▪ 50% dependent upon financial performance ▪ 25% dependent on achievement of measurable, non-financial results ▪ 25% dependent upon achievement of qualitative targets.	None

Discretionary bonus arrangements

	How the element supports our strategic objectives	Operation of the element
Deputy Group Chief Executive's three-year incentive plan	To incentivise the Deputy Group Chief Executive to achieve specific goals that have been set for the period 12 June 2013 to 30 June 2016.	No mandatory deferral provision. Staged payments: • Jun-Dec 2013 up to £25.6k[1] • Jan-Dec 2014 up to £51.2k[1] • Jan-Dec 2015 up to £51.2k[1] • Jan-Jun 2016 up to £25.6k[1].

[1] An average 2015 exchange rate of 1.9524 Canadian dollars to 1 GBP has been used.

Notes to the policy table

Performance measures and targets

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 CRO.

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.

Changes to the Policy from that operating in 2015

The following changes to the Group's Remuneration Policy will be made in 2016 and are reflected in the Future Policy table above. Unless indicated below, the Policy remains unchanged from that implemented in 2015.

- The deferral period for the Group annual bonus will be increased for the financial year 2016 from a period of two years to three years, for any bonus earned in excess of 75% of an individual's maximum bonus opportunity, reflecting Solvency II remuneration requirements.
- The Deputy Group Chief Executive's incentive plan has been extended in duration from two to three years with a pro-rata increase in the value attaching to this plan. This change reflects the continuing requirement for S. Jacinta Whyte to lead the UK and general insurance transformation programme and to fulfil the role of UK Managing Director.

Remuneration arrangements elsewhere in the Group

The Group's approach to executive director and wider employee remuneration is based on the common set of principles set out in the Group's Remuneration Policy starting on page 122. However, given the size of the Group and the range of its operations, the manner in which these principles are implemented varies with seniority and, where appropriate, with the nature of the business transacted by a Group entity.

	Maximum potential value and payment at threshold	Performance measures used, weighting and time period applicable	Change from 2015
	Maximum opportunity of £153.7k[1] for the performance period from 12 June 2013 to 30 June 2016.	There are three areas of performance conditions that apply to this award: ▪ 40% dependent upon financial performance ▪ 40% dependent on achievement of measurable, non-financial results ▪ 20% dependent upon achievement of qualitative targets.	Duration extended to three years with pro-rata increase in the value attaching to the plan.

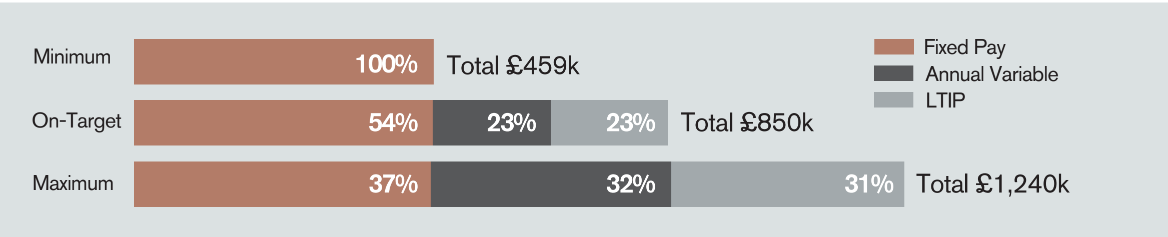
All employees of the Group are entitled to a salary, benefits, pension and annual bonus. However, remuneration for executive directors is more heavily weighted towards variable remuneration, through a higher annual bonus opportunity and participation in the three year incentive plan and the Group LTIP. Such variable remuneration is conditional on the achievement of performance targets that are linked to the successful delivery of the Group Strategy. The greater weighting towards variable remuneration thereby aligns the interests of executive directors with those of the shareholders.

Remuneration scenario charts

The remuneration scenario charts below illustrate what each executive director could earn in respect of the policy for 2016, under different performance scenarios:

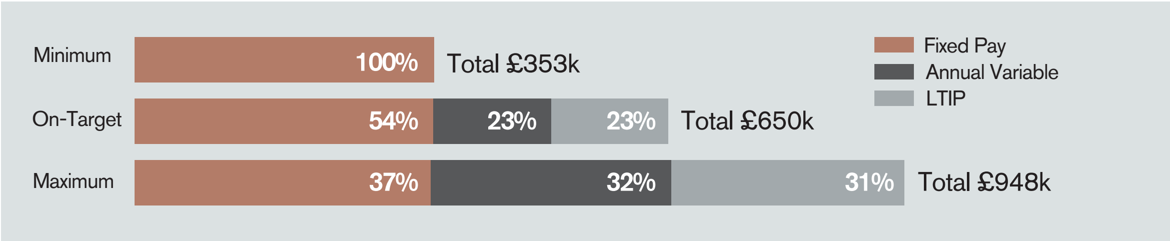
- Minimum: fixed pay only (being basic salary, pension or cash in lieu of pension and benefits) with no annual bonus and no vesting of the LTIP;
- On target: fixed pay (being basic salary, pension or cash in lieu of pension and benefits) with annual bonus of 50% of basic salary and 50% vesting of the 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 2016



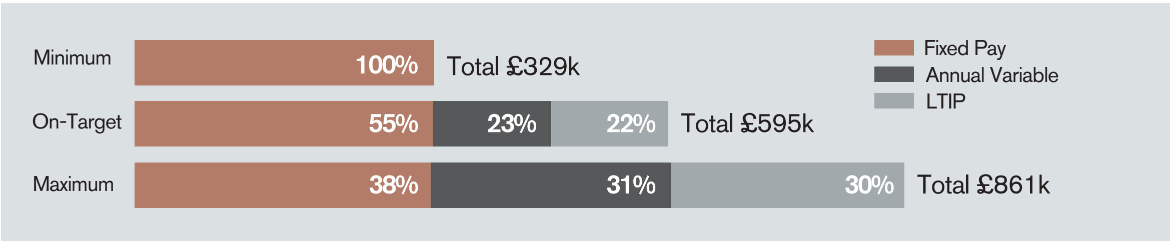
The Group Chief Executive's three-year incentive plan is not included in the above illustration as the three-year incentive plan is an additional multi-period bonus arrangement granted in a prior year. The amount earnable under the Group Chief Executive's three-year incentive plan in 2016 is £107k at target and £213k at maximum.

S. Jacinta Whyte:
Effect of the application of this policy in financial year 2016



The Deputy 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. The amount earnable under the Deputy Group Chief Executive's three-year incentive plan in 2016 is £16k at target and £33k at maximum.

Ian Campbell:
Effect of the application of this policy in financial year 2016



Notes to the charts:

- Fixed pay is base salary for 2016 plus the value of pension and benefits.
- Base salary is the aggregate of the salary applicable at 1 January for January to March 2016 and the salary applicable at 1 April 2016 for April to December 2016.
- The value of pension is calculated as described in the future policy table. The value of pensions for the Group Chief Executive and the CFO is the sum of pension contributions to the UK Defined Contribution scheme and, to the extent applicable in 2016, the pension cash allowance applicable where contributions would be above the Annual or Lifetime Allowance.
- The value of benefits in-kind is taken from the single figure table for 2015 which can be found on page 122.
- 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.
- The Group Chief Executive's and the Deputy Group Chief Executive's three-year incentive plans are not included in the above illustrations as the three-year incentive plans are an additional multi-period bonus arrangement granted in a prior year.

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 for an individual's awards from previous employment, the Committee may, as far as practicable, seek to match the expected value of such awards through the use of the Group'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 the vesting timetable of the awards foregone) and will also (where possible) be subject to some form of clawback if the individual leaves Ecclesiastical within a set timeframe.

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	15% UK Defined Contribution Scheme
	12% Canadian EIO plc Defined Contribution Pension Plan

Service contracts and policy on payment for loss of office

Standard provision	Policy	Details
Notice periods in executive directors' service contracts	Twelve months by the Group or executive director for the Group Chief Executive and six months by the Group 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 Group 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 Group 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.	The executive's entitlement arises in the case of any termination by the Group for 'No Cause' as defined and represents the sum of £445k 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. 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 £131k.

Standard provision	Policy	Details
Mitigation	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 allow for payment in instalments over the balance of the notice period.	The Committee will take account of the circumstances of the termination and the director's performance during the period of qualifying service to determine whether the exercise of any discretion is appropriate.
Treatment of annual bonus on termination or change of control under plan rules	No payment unless employed on date of bonus payment except for 'good leavers' as defined in the plan rules (e.g. death, ill health, redundancy, retirement) and other circumstances at the Committee's discretion. If there is a change of control event, then an early payment can be calculated and made.	Good leavers 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. Bonus payments for good leavers are subject to deferral, malus and clawback.
Treatment of long-term incentive awards on termination or change of control under plan rules	All awards lapse except for 'good leavers' as defined in the plan rules (e.g. death, ill health, redundancy, retirement) and other reason at the discretion of the Committee. If there is a change of control event, then an early payment can be calculated as stated in the rules of the plan.	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. For good leavers grants vest on the original anniversary date.
Exercise of discretion	Intended to be relied upon only in certain circumstances as set out in the Future Policy table.	The Committee's determination will take into account the circumstances of the executive director's departure and the recent performance of the Group when using discretion in relation to short- or long-term bonus payments.
Group Chief Executive's three-year incentive plan	If the Group Chief Executive ceases to be employed in this capacity, the award will lapse unless he is a 'good leaver'. There is an express provision for clawback in respect of mis-statement and misconduct.	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.
Deputy Group Chief Executive's three-year incentive plan	If the Deputy Group Chief Executive ceases to be employed in this capacity, the award will be treated in accordance with her contract.	
Other matters	The Group'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. There are no other provisions for termination payments or payments for loss of office in standard directors' service contracts.	

Standard provision	Policy	Details
Non-executive directors	Each NED is appointed for an initial three year term, and is subject to re-election by shareholders at the first annual general meeting (AGM) following their appointment and the relevant AGM every three years. In addition, the Board has agreed that all directors (including NEDs) will be subject to annual re-election by shareholders. Notwithstanding any mutual expectation, there is no right to re-nomination either annually or after any three-year period. Each NED is provided with a letter of appointment, which sets out the circumstances in which their appointment can be terminated. NEDs are entitled to receive a pro-rata proportion of their fees that they have accrued to the date of termination, together with reimbursement of properly incurred expenses prior to that date.	

NEDs' fees policy

How the element supports our strategic objectives	Operation of the element	Maximum potential value and payment at threshold	Performance measures used, weighting and time period applicable
To attract NEDs who have a range of experience and skills to oversee the implementation of our Strategy.	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. 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. NEDs are not eligible to receive benefits and do not participate in incentive or pension plans. NEDs' travel and accommodation costs for attendance at Board meetings are reimbursed by the Group and are classed as a taxable benefit when they are in respect of travel to their permanent workplace.	Current fee levels are shown in the section on implementation of policy.	NEDs are not eligible to participate in any performance-related arrangements.

Consideration of employment conditions elsewhere in the Group

When reviewing and setting the policy for executive directors' remuneration, the Committee takes into account the pay and employment conditions of employees elsewhere within the Group. In particular, the level of the pay review for UK Ecclesiastical employees is a key consideration in setting the level of any salary increase for executive directors.

The Committee is informed about the Group's approach on salary increases; benefits arrangements including pensions and the distribution of remuneration outcomes throughout the wider organisation. When reviewing and setting the performance measures for executive directors' annual bonuses the Committee considers the extent to which these should be cascaded to other employees. The Committee has oversight of the incentive arrangements that are in operation for all Group entities and reviews the remuneration arrangements for designated senior management below the executive directors. The Committee uses this information to work with the HR function to ensure consistency of approach throughout the Group.

Although the Committee does not consult directly with employees on remuneration policy for executive directors, it reviews proposals in the context of the above understanding of the remuneration arrangements for the wider employee population.

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. The above Policy reflects the consultation undertaken with the shareholders in 2014 on the proposed changes to the Group's Remuneration Policy and incentive arrangements for executives.

Annual Report on Remuneration

This section of the Directors' Remuneration Report sets out how the above Remuneration Policy was implemented in 2015 and the resulting payments each executive director received. The financial information contained in this report has been audited where indicated.

Single total figure of remuneration for executive directors (audited)

The table below shows a single total figure of remuneration received in respect of qualifying services for the 2015 financial year for each executive director, together with comparative figures for 2014, where applicable. Aggregate executive directors' emoluments are shown on page 128. Details of NEDs' fees are set out in a separate table on page 127.

Executive directors	Fixed Pay (£000)				Variable Pay (£000)				Pension (£000)		Total Remuneration (£000)	
	Salary		Benefits[1]		Annual bonus		LTIP[2]		Pension benefit		Total	
	2015	2014	2015	2014	2015[3]	2014	2015	2014	2015	2014	2015	2014
Mark Hews[4]	381	363	15	15	338	287	306	191	49	51	1,089	907
S. Jacinta Whyte[5]	294	276	18	17	239	151	90	76	35	33	676	553
Ian Campbell	259	250	26	33	235[6]	161	0	0	38	34	558	478
Total	**934**	**889**	**59**	**65**	**812**	**599**	**396**	**267**	**122**	**118**	**2,323**	**1,938**

[1] 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. Provision of benefits during 2015 was in line with the previous year and the directors' remuneration policy, and no exceptional benefits were paid.

[2] LTIP represents the amount payable in respect of the three-year LTIP performance period 2013-2015 for 2015 and 2012-2014 for 2014, together with the amounts payable in respect of the Group Chief Executive's three-year incentive plan (2015: £98k; 2014: £85k) and the Deputy Group Chief Executive's 3-year incentive plan (2015: £44k; 2014: £51k). All executive directors hold unvested LTIP awards in accordance with the rules of the LTIP plan.

[3] In line with the deferral policy introduced in 2015, annual bonus earned in excess of 75% of the maximum bonus opportunity is deferred over a period of two years. In 2015 the value of executive directors' annual bonuses that were deferred is: £48k (Group Chief Executive); £18k (Deputy Group Chief Executive) and £7k (CFO).

[4] Mark Hews received a cash allowance in lieu of pension during 2015, 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 and or lifetime allowance.

[5] Contributions to the Canadian pension plan that are above the Canadian government maximum contribution limit are paid into a SERP. These contributions for S. Jacinta Whyte are included in the figures shown. An average 2015 exchange rate of 1.9524 Canadian dollars to 1 GBP have been used in respect of both 2015 and 2014.

[6] Ian Campbell received a discretionary award of £32k in respect of his contribution to financial and strategic deliverables over the period to 2015, notably his contribution towards the successful run-off of the former New Zealand subsidiary.

Mark Hews is also a NED for MAPFRE RE and was appointed to their Board in December 2013. The fee of £17k that Mark earns in respect of this role is paid directly to the Group by MAPFRE RE and is not received by Mark Hews.

Additional requirements in respect of the single total figure table

Annual bonus outcomes for 2015 (audited)

The annual bonuses payable to executive directors in respect of 2015 are assessed taking into account both Group and individual performance.

Individual performance is subject to delivery of personal performance objectives and performance in line with the Group's behavioural competency framework for strategic leaders. A personal performance percentage of between 0% and 75% may be awarded in respect of this element of the annual bonus. The personal performance percentage is reviewed and agreed by the Committee.

Group performance is subject to the four performance conditions which together form the Group performance multiplier. For 2015, these were Group EIG PBT (including fair value investment gains and losses) (30%); Group COR (40%); delivery of Group strategic initiatives in line with the Group's strategic plan (15%); Customer and Conduct performance (15%). Results in respect of each performance condition are assessed against the required performance levels set at threshold, target and maximum, in order to calculate the aggregate Group performance multiplier as shown in the second table below.

The overall bonus outturn for each executive director is the product of personal performance percentage and the aggregate Group performance multiplier. The maximum opportunity under the annual bonus plan is 100% of salary.

The targets relating to the Group annual bonus for the financial year 2015 were:

Performance conditions

	Threshold (0.5x)	Target (1.0x)	Maximum (1.5x)	Weighting
Group EIG PBT	£21.0m	£55.8m	£79.9m	30%
Group COR	99.0%	93.9%	92.0%	40%
Strategic Targets	50%	75%	100%	15%
Customer and Conduct	80%	90%	100%	15%

The results relating to the Group annual bonus for the financial year 2015, and the resultant aggregate Group performance multiplier, are shown below.

Performance conditions

	Result	Multiplier	Weighting	Weighted multiplier
Group EIG PBT	£56.4m	1.0	30%	0.3
Group COR	92.0%	1.5	40%	0.6
Strategic Targets	83%	1.2	15%	0.2
Customer and Conduct	94%	1.2	15%	0.2
Aggregate Group performance multiplier				**1.25**

Bonuses are earned in respect of the financial year and are paid in March following the end of the financial year. Any proportion of a bonus outcome above 75% of the maximum bonus outcome is deferred over two years, in cash. All annual bonus outcomes are subject to malus and clawback as set out in the Future Policy table starting on page 112.

LTIP outcomes in 2015 (audited)

The LTIP amount included in the single total figure of remuneration is the cash award resulting from the Group LTIP grant in 2013 for the period 2013-2015. Vesting was dependent on performance over the three financial years ending on 31 December 2015 and continued service until March 2016.

The 2013-2015 Group LTIP is subject to the two performance conditions: Group PBT (50%) and Group COR (50%). Results in respect of each performance condition are assessed against the required performance levels set at threshold, target and maximum as shown below.

Performance conditions

	Threshold 20% vesting	Target 50% vesting	Maximum 100% vesting	Actual	Vesting (% of maximum for performance condition)
Group COR	100.0%	98.0%	95.0%	97.6%	56.2%
Group PBT	£100m	£140m	£200m	£169m	73.9%
Total					**65.0%**

The Group LTIP outcome that vests in respect of each executive director in respect of 2013-2015 is shown below.

	LTIP grant	Total LTIP vesting	
	% of salary	£000	% of maximum
Mark Hews[1]	30% / 100%	208	65%
S. Jacinta Whyte[2]	30%	45	65%

[1] Mark Hews LTIP entitlement increased from 30% to 100% of salary on appointment as Group Chief Executive on 1 May 2013. The 2013-2015 LTIP that vests is the sum of the pro-rated award in relation to the January-April 2013 period under the LTIP grant at 30% and the pro-rated award in relation to the May 2013-December 2015 period under the LTIP grant at 100%.

[2] An average 2015 exchange rate of 1.9524 Canadian dollars to 1 GBP has been used in respect of 2015.

Scheme interests awarded during 2015 (audited)

During 2015, awards over a cash sum were granted under the 2015-2017 Group LTIP to each executive director as set out below. These awards will vest, and the cash sum will be transferred to the award holder, in March 2018, to the extent that the applicable performance targets are met. The vesting date for these awards is the date the Group's 2017 results are announced, in March 2018.

Executive directors	Award Date	Maximum cash sum subject to the Award (% base salary)	Face value of award at grant £000s	Cash award if threshold performance achieved (% base salary)	End of the period over which the performance targets have to be fulfilled	Performance measures[2]
2015-2017 Group LTIP						
Mark Hews	17 June 2015	100%	368	20%	31 December 2017	▸ Group EIG PBT (excluding fair value investment gains /losses) (20%) ▸ Group EIG PBT (including fair value investment gains /losses) (20%) ▸ Group COR (20%) ▸ Strategic targets (20%) ▸ Customers and conduct. (20%)
S. Jacinta Whyte[1]	17 June 2015	100%	280	20%	31 December 2017	
Ian Campbell	17 June 2015	100%	250	20%	31 December 2017	

1 An average 2015 exchange rate of 1.9524 Canadian dollars to 1 GBP has been used.

2 Vesting occurs on a straight line basis between pre-determined milestones set in relation to threshold, target and maximum performance. These will be disclosed on a retrospective basis in the Directors' Remuneration Report for the year for which the Group LTIP awards vest.

Percentage change in remuneration of Group Chief Executive

The table below shows the percentage year-on-year change in salary, benefits and annual bonus (from 2014 to 2015) for the Group Chief Executive compared with UK-based employees[1]. The Committee has selected this comparator group as being the most appropriate because the composition and structure of remuneration for this group most closely reflects that of the Group Chief Executive.

	Group Chief Executive % change	Average UK-based employees [1] % change
Salary	5.0%	4.4%
Taxable benefits[2]	5.7%	5.7%
Annual bonus	17.5%[3]	(5.5)%

1 UK-based employees of Ecclesiastical Insurance Office plc; excluding employees in SEIB.

2 Based on contractual P11D taxable benefits for the tax year ending 5 April in the relevant year.

3 As set out in the Directors' Remuneration Report for 2014, a revised Group annual bonus arrangement was introduced for executive directors in 2015. The Group annual bonus award in 2014 was made under the previous scheme.

Relative importance of spend on pay

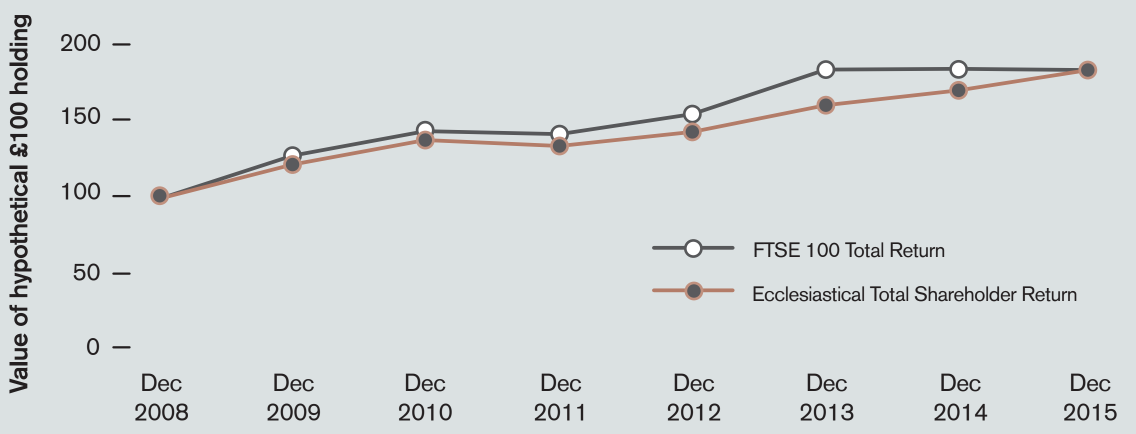
The table below sets out for 2015 and 2014, the actual expenditure on employee remuneration; grants paid to ATL and dividends paid to Preference shareholders. PBT in each year is provided for context.

	2015 £000	2014 £000	% change
Remuneration paid to all Group employees	62,706	62,660	0.1%
Gross charitable grants to the ultimate parent company, Allchurches Trust Limited	20,000	23,500	(14.9)%
Non-Cumulative Irredeemable Preference share dividend	9,181	9,181	Nil
PBT	53,605	48,154	11.3%

Group Chief Executive pay for performance comparison

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 100. Total equity excludes Preference shareholders' capital since this is not attributable to ATL.

Ecclesiastical Insurance Office plc 7-year to 2015 TSR performance against the FTSE 100



The table below shows the single figure of total remuneration for the incumbent and prior Group Chief Executive for the seven years to 31 December 2015.

Financial year	Group Chief Executive[1]	Financial year ending 31 December						
		2009	2010	2011	2012	2013	2014	2015
Total remuneration (single figure) £000	Mark Hews	N/A	N/A	N/A	N/A	569	907	1,089
	Michael Tripp	516	430	416	390	330	162	N/A
Annual bonus received (% of maximum)	Mark Hews	N/A	N/A	N/A	N/A	45%	78%	88%
	Michael Tripp	88%	23%	0%	0%	N/A[2]	N/A	N/A
Long-term incentive vesting (% of maximum)	Mark Hews	N/A	N/A	N/A	N/A	4%	60%	70%
	Michael Tripp[3]	27%	27%	34%	0%	4%	47%	N/A

1 Michael Tripp resigned from the Board on 21 May 2013 and Mark Hews was appointed Group Chief Executive on 1 May 2013, having previously held the position of Group Chief Financial Officer. The total remuneration single figure value for both Michael Tripp and Mark Hews is shown for 2013.

2 Michael Tripp received no payment under the annual bonus or the executive director's LTIP for performance in 2013. He did, however, receive a payment (£100k) under the terms of a discretionary arrangement put in place to incentivise the delivery of a smooth transition of the management to the successor in the role of Group Chief Executive. The maximum opportunity was capped at three months' salary.

3 Michael Tripp received a 2013 LTIP payment in respect of performance in the years 2011 and 2012 (only) under the 2011-2013 LTIP. He received a 2014 LTIP payment in respect of performance in 2012 (only) under the 2012-2014 LTIP.

Statement of directors' shareholdings and share interests

Directors' shareholdings and share interests are set out in the Directors' Report on page 83.

Directors' service agreements

All directors are proposed for re-election at the next general meeting (excluding Will Samuel and David Christie as they will resign as directors on 16 March 2016).

Mark Hews has a service contract which provides for a notice period of twelve months by the Company. S. Jacinta Whyte and Ian Campbell have service contracts which provide for a notice period of six months by the Company. No non-executive director has a service contract.

Payments for loss of office (audited)

No termination payments were made to executive directors in 2015.

Early vesting of LTIP award

There is no early vesting of the executive directors' LTIP. For good leavers, grants 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 (audited)

No payments were made to past directors.

Single total figure of remuneration for NEDs (audited)

NEDs do not participate in any of the Group's incentive arrangements nor do they receive any benefits. NEDs' travel and accommodation costs for attendance at Board meetings are reimbursed by the Group and are classed as a taxable benefit when they are in respect of travel to their permanent workplace.

NED fees were reviewed in December 2015 with increased fees becoming effective from 1 January 2016. 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.

The increases (set out below) reflect the continuing increases in workloads in recent years and are designed to bring fees in line with those paid at similar-sized companies, ensuring that the Group will continue to be able to attract NEDs with the range of experience and skills to oversee the implementation of our Strategy.

Non-executive directors

	Fees (£000) **2015**	**Fees** (£000) **2014**
Will Samuel[1]	68	68
David Christie	60	60
John Hylands	55	55
Anthony Latham	55	55
Denise Wilson	53	53
The Venerable Christine Wilson [2]	45	45
Tim Carroll	53	53
Caroline Taylor[3]	45	16
Total	**434**	**405**

[1] The Chairman has waived £27k of his 2015 fee, which was increased to £95k from 1 January 2014.

[2] The Venerable Christine Wilson's fees are paid directly to charity at her request.

[3] Caroline Taylor was appointed to the Board on 8 September 2014.

Total aggregate emoluments of directors

The total aggregate remuneration of the directors in respect of qualifying services during 2015 was £2,257k (2014: £1,958k).

After inclusion of amounts receivable under long-term incentive schemes and pension benefits, the total aggregate emoluments of the directors was £2,775k (2014: £2,382k).

The 2014 figures have been adjusted to reflect changes made to prior year figures as mentioned in the single figure table on page 122.

EdenTree

During 2015, EdenTree applied to the FCA for a Variation of Permission to remove its permission to hold client assets and limit the client money permission to its non-MiFID business. As a result of the approval by the FCA of the Variation of Permission on 7 October 2015, EdenTree was re-categorised as a limited licence investment management firm under BIPRU, at proportionality level 3 for reporting purposes. EdenTree has been subject to the FCA Remuneration Code since 1 January 2011. EdenTree operates a remuneration policy which is compliant with the Remuneration Code, details of which can be found in the EdenTree Pillar 3 statement on EdenTree's website (www.edentreeim.com).

Statement of implementation of Remuneration Policy in 2016

The implementation of the remuneration policy will be consistent with that outlined in the Directors' Remuneration Policy above. Details of how this policy will apply in 2016 are set out below.

Salary (executive directors)

Executive directors' salaries are reviewed annually in line with the Directors' Remuneration Policy. The following salaries will apply from 1 April 2016.

Executive directors

	Salary (£000) 1 April 2016	**Salary** (£000) 1 April 2015	**Percentage increase**
Mark Hews	396	386	2.5%
S. Jacinta Whyte[1]	301	294	2.5%
Ian Campbell	269	263	2.5%

[1] An average 2015 exchange rate of 1.9524 Canadian dollars to 1 GBP has been used.

These increases are consistent with the average increases awarded across the broader employee population.

Annual bonus for 2016

The annual bonus performance conditions and targets will be set in accordance with the Directors' Remuneration Policy above, on the same basis as 2015.

As in 2015, the annual bonuses payable to executive directors in respect of 2016 will be assessed based on both Group and individual performance. Individual performance is subject to delivery of personal performance objectives and performance in line with the Group's behavioural competency framework for strategic leaders. Group performance is subject to the four performance conditions which together form the Group performance multiplier. For 2016, these will continue to be Group EIG PBT (including fair value investment gains and losses) (30%); Group COR (40%); delivery of Group strategic initiatives in line with the Group's strategic plan (15%); and Customer and Conduct performance (15%). The overall bonus outturn for each executive director is the product of personal performance percentage and the aggregate Group performance multiplier. The maximum opportunity under the annual bonus plan in 2016 is unchanged at 100% of salary.

Annual bonuses in respect of 2016 will be subject to deferral over a period of three (2014: two) years of any bonus earned in excess of 75% of an executive director's maximum bonus opportunity.

LTIP for 2016-2018

The 2016-2018 LTIP performance conditions and targets will be set in accordance with the Directors' Remuneration Policy above, on the same basis as the 2015-2017 LTIP.

The 2016-2018 Group LTIP will be subject to the following performance conditions (which are unchanged from 2015): Group EIG PBT (excluding fair value investment gains and losses) (20%); Group EIG PBT (including fair value investment gains and losses) (20%); Group COR (20%); delivery of Group strategic initiatives in line with the Group's strategic plan (20%); and Customer and Conduct performance (20%). Awards under the 2016-2018 Group LTIP will be up to 100% of salary (unchanged from 2015).

Discretionary bonus arrangements

The Group Chief Executive's three-year incentive plan and the Deputy Group Chief Executive's three-year incentive plan will continue to operate during 2016, as set out on pages 114 to 117.

Fees (non-executive directors)

Non-executive directors' fees are reviewed every two years and were reviewed during 2015. The following fees will apply from 1 January 2016. The increases shown reflect the increased workloads in recent years and are designed to bring fees in line with those paid at similar-sized companies.

	Fees (£000)
All-inclusive fee for the Group Chairman	125
All-inclusive fee for the Deputy Chairman / SID	65
Basic Fee for a non-executive director (including Committee Membership)	50
Fee for chairing the Group Finance and Investment Committee	8
Fee for chairing the Group Nominations Committee	8
Fee for chairing the Group Audit Committee	10
Fee for chairing the Group Remuneration Committee	10
Fee for chairing the Group Risk Committee	10

Independent Auditor's Report

To the Members of Ecclesiastical Insurance Office plc

Opinion on financial statements of Ecclesiastical Insurance Office plc

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent company's affairs as at 31 December 2015 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 International Accounting Standards ("IAS") Regulation.

The financial statements comprise 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 35. 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 and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to in relation to:

- the directors' confirmation on page 84 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 51 to 58 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- director's explanation on page 58 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Independence

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. 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

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

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
General Insurance Technical Reserves 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 £552m (2014: £564m), with IBNR a portion of this, as set out in note 28 to the financial statements. 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 100.	We challenged the key judgements within the calculation of the general insurance reserves 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 and specific peer benchmarking. Particular areas of focus were PSA, asbestos, employers' and public liability and UK flooding IBNR, as the most judgemental reserves. We also evaluated the design and implementation of key controls around reserving, including, with the input of our IT audit specialists, the IT controls, and the completeness and accuracy of the underlying data used in the reserving.
Carrying Value of Goodwill 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 (2014: £24m) of goodwill relating to acquisitions; material goodwill is held in respect of the brokers SEIB and Lansdown, as set out in note 17 to the financial statements.	We challenged management's key assumptions used in the impairment model for goodwill, relating to estimated future cash flows, growth rates and the discount rate applied. Our valuation experts calculated independently a discount rate range which we would consider appropriate and we compared this to management's selected rate. We also compared the cash flows used in the value in use calculation to the most recent signed off business plans and challenged the appropriateness of growth rates applied into the future. Furthermore, we tested the mathematical accuracy of management's calculations and developed a sensitivity analysis, having evaluated the design and implementation of controls around the impairment review process.
Life Insurance Reserves 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's maintains reserves for existing business of £85m (2014: £94m), as set out in note 28 to the financial statements.	We evaluated the key judgements underpinning the calculation of the life insurance reserves by working with our internal life actuarial specialists to benchmark the key assumptions to those used in the market and against the company's experience. We also evaluated the design and implementation of key controls around the life reserving and the completeness and accuracy of underlying data used in the reserving, including whether key assumptions were used appropriately in the model.

Risk	How the scope of our audit responded to the risk
Assumptions Underpinning the Calculation and Recognition of Retirement Benefit Obligations and recognition of surpluses 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 makes significant judgements in respect of mortality, medical expense inflation, discount rates and inflation rate. The Group recognises a total of £11m (2014: £21m) for pension schemes in surplus and a deficit of £240k (2014: £250k) for one scheme; the post-employment medical benefits scheme has a liability of £9m (2014: £13m), as set out in note 19 to the financial statements, along with the key assumptions and a sensitivity analysis.	We evaluated the appropriateness of the assumptions used in deriving the defined benefit pension and post-retirements medical benefits balances by working with our internal pension actuarial experts to benchmark the assumptions in respect of the discount rate, inflation rate and mortality assumptions to those observed in the market. We evaluated the design and implementation of key controls around DB pension scheme balances and the completeness and accuracy of underlying data used in the calculation of the retirement benefit obligations. Furthermore, we assessed management's ownership and valuation of pension scheme assets, held at fair value, by comparison to observable market prices and custodian statements. Finally, we evaluated the accessibility of the surplus on the main scheme with reference to the latest interpretations of the applicable accounting standards and advice received by management from external parties.
Revenue Recognition 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 £308m (2014: £329m) for the year, EdenTree Investment Management's management fee income totalled £10m (2014: £10m).	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. EdenTree management fee income was tested by recalculation and we performed analytical procedures, focussing on fees earned compared to funds under management, throughout the year.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 100 and 101. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

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

We determined materiality for the Group to be £5.0m (2014: £3.1m), which is 1% of total shareholders' equity (2014: 1%) and 1.6% (2014: 1%) of gross written premiums. We have used total shareholders' equity as a base for our materiality, which is a change from 2014, where we used gross written premium as our base. We have used 1% of total shareholders' equity in determining an appropriate materiality in line with size and risk profile of the Group. We have changed the basis as the main focus of the Group is long-term value generation; the strategic focus of the Group has shifted in recent years away from targeting GWP growth and towards the ambition to deliver longer-term value and support charitable giving. This ensures our judgement on materiality remains in line with the focus and risk profile of the Group.

We agreed with the Group Audit Committee that we would report to the Committee all audit differences in excess of £96k (2014: £62k) for the Group, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements and smaller differences relating to small subsidiaries, in the context of their entity materialities.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope primarily on the audit work for the insurance businesses in the UK, Ireland, Australia and Canada. All non-dormant subsidiaries, consolidated in the financial statements, were subject to a full scope statutory audit, executed at levels of materiality applicable to each individual entity, in the range £0.1k to £4.3m.

The Group audit team continued to follow a programme of planned visits that has been designed so that a senior member of the Group audit team visits each of the locations where the Group audit scope was focused at least once every three years. We include the component audit teams in our team briefings, discuss their risk assessments, and review documentation of the findings from their work. This year, the Group Audit Senior Manager visited the Canadian Branch of EIO plc, as well as usual visits to UK-based components.

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

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters

Directors' remuneration

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

Corporate Governance Statement

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

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

Our duty to read other information in the Annual Report

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

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

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

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). 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.

Paul Stephenson BA FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

16 March 2016


Photograph by Oskar Proctor

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2015

	Notes	2015 £000	2014 £000
Revenue			
Gross written premiums	5, 6	308,199	328,797
Outward reinsurance premiums	6	(113,115)	(135,132)
Net change in provision for unearned premiums	6	4,677	31,178
Net earned premiums		199,761	224,843
Fee and commission income		53,009	62,258
Net investment return	7	43,228	46,197
Total revenue		295,998	333,298
Expenses			
Claims and change in insurance liabilities	8	(163,916)	(197,170)
Reinsurance recoveries	8	66,925	62,306
Fees, commissions and other acquisition costs	9	(61,202)	(70,813)
Other operating and administrative expenses		(84,099)	(79,381)
Total operating expenses		(242,292)	(285,058)
Operating profit		53,706	48,240
Finance costs		(101)	(86)
Profit before tax	5	53,605	48,154
Tax expense	13	(6,988)	(7,837)
Profit for the year (attributable to equity holders of the Parent)	10	46,617	40,317

CONSOLIDATED AND PARENT STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2015

	2015		2014	
	Group £000	Parent £000	Group £000	Parent £000
Profit for the year	46,617	42,759	40,317	31,359
Other comprehensive income				
Items that will not be reclassified to profit or loss:				
Fair value gains on property	30	30	30	30
Actuarial losses on retirement benefit plans	(5,809)	(5,809)	(13,184)	(13,184)
Attributable tax	1,061	1,061	2,647	2,647
	(4,718)	(4,718)	(10,507)	(10,507)
Items that may be reclassified subsequently to profit or loss:				
Losses on currency translation differences	(6,461)	(3,913)	(1,697)	(405)
Net other comprehensive income	(11,179)	(8,631)	(12,204)	(10,912)
Total comprehensive income attributable to equity holders of the Parent	35,438	34,128	28,113	20,447

CONSOLIDATED AND PARENT STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2015

Group	Share capital £000	Share premium £000	Equalisation reserve £000	Revaluation reserve £000	Translation reserve £000	Retained earnings £000	Total £000
At 1 January 2015	120,477	4,632	25,299	541	12,643	331,041	494,633
Profit for the year	-	-	-	-	-	*46,617*	*46,617*
Other net income/(expense)	-	-	-	*52*	*(6,461)*	*(4,770)*	*(11,179)*
Total comprehensive income	-	-	-	52	(6,461)	41,847	35,438
Dividends	-	-	-	-	-	(9,181)	(9,181)
Gross charitable grant	-	-	-	-	-	(20,000)	(20,000)
Tax relief on charitable grant	-	-	-	-	-	4,050	4,050
Group tax relief in excess of standard rate	-	-	-	-	-	(6)	(6)
Reserve transfers	-	-	(342)	(97)	-	439	-
At 31 December 2015	120,477	4,632	24,957	496	6,182	348,190	504,934
At 1 January 2014	120,477	4,632	25,837	700	14,340	328,157	494,143
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	-
At 31 December 2014	120,477	4,632	25,299	541	12,643	331,041	494,633
Parent							
At 1 January 2015	120,477	4,632	25,299	541	6,053	263,370	420,372
Profit for the year	-	-	-	-	-	*42,759*	*42,759*
Other net income/(expense)	-	-	-	*52*	*(3,913)*	*(4,770)*	*(8,631)*
Total comprehensive income	-	-	-	52	(3,913)	37,989	34,128
Dividends	-	-	-	-	-	(9,181)	(9,181)
Gross charitable grant	-	-	-	-	-	(20,000)	(20,000)
Tax relief on charitable grant	-	-	-	-	-	4,050	4,050
Group tax relief in excess of standard rate	-	-	-	-	-	(246)	(246)
Reserve transfers	-	-	(342)	(97)	-	439	-
At 31 December 2015	120,477	4,632	24,957	496	2,140	276,421	429,123
At 1 January 2014	120,477	4,632	25,837	563	6,458	270,327	428,294
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	-
At 31 December 2014	120,477	4,632	25,299	541	6,053	263,370	420,372

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 2015

	Notes	2015		2014	
		Group	Parent	Group	Parent
		£000	£000	£000	£000
Assets					
Goodwill and other intangible assets	17	29,104	4,206	28,998	4,230
Deferred acquisition costs	18	28,394	24,582	31,117	26,974
Deferred tax assets	30	1,674	-	1,295	11
Pension assets	19	10,893	10,893	21,068	21,068
Property, plant and equipment	20	7,704	6,922	6,405	5,693
Investment property	21	98,750	98,750	69,775	69,775
Financial investments	22	833,390	682,549	886,186	714,428
Reinsurers' share of contract liabilities	28	170,740	130,414	157,465	115,004
Current tax recoverable		331	331	-	-
Other assets	24	124,842	96,547	119,394	102,239
Cash and cash equivalents	25	118,441	84,779	107,526	77,774
Current assets classified as held for sale	26	-	-	6,204	-
Total assets		1,424,263	1,139,973	1,435,433	1,137,196
Equity					
Share capital	27	120,477	120,477	120,477	120,477
Share premium account		4,632	4,632	4,632	4,632
Retained earnings and other reserves		379,825	304,014	369,524	295,263
Total shareholders' equity		504,934	429,123	494,633	420,372
Liabilities					
Insurance contract liabilities	28	790,690	605,824	820,328	618,887
Finance lease obligations		1,431	1,431	1,259	1,259
Provisions for other liabilities	29	4,066	3,890	3,588	2,770
Pension liabilities	19	240	240	250	250
Retirement benefit obligations	19	9,193	9,193	12,547	12,547
Deferred tax liabilities	30	34,124	33,511	36,014	35,559
Current tax liabilities		3,403	2,308	5,767	4,962
Deferred income		15,532	13,079	16,432	13,443
Other liabilities	31	60,650	41,374	44,615	27,147
Total liabilities		919,329	710,850	940,800	716,824
Total shareholders' equity and liabilities		1,424,263	1,139,973	1,435,433	1,137,196

The financial statements of Ecclesiastical Insurance Office plc, registered number 24869, on pages 136 to 195 were approved and authorised for issue by the Board of Directors on 16 March 2016 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 2015

	2015		2014	
	Group	Parent	Group	Parent
	£000	£000	£000	£000
Profit before tax	53,605	47,926	48,154	35,644
Adjustments for:				
Depreciation of property, plant and equipment	1,708	1,555	1,638	1,464
Revaluation of property, plant and equipment	(140)	(90)	-	-
Loss/(profit) on disposal of property, plant and equipment	16	(18)	(32)	(13)
Amortisation and impairment of intangible assets	1,397	1,116	1,751	1,092
Loss on disposal of intangible assets	11	-	19	-
Net fair value (gains)/losses on financial instruments and investment property	(7,737)	(10,665)	(8,918)	739
Dividend and interest income	(29,934)	(25,792)	(34,709)	(26,150)
Finance costs	101	101	86	86
Changes in operating assets and liabilities:				
Net decrease in insurance contract liabilities	(15,193)	(5,004)	(21,413)	(41,066)
Net (increase)/decrease in reinsurers' share of contract liabilities	(17,068)	(16,666)	(26,814)	6,087
Net decrease in deferred acquisition costs	1,754	1,670	3,327	3,377
Net (increase)/decrease in other assets	(6,316)	5,825	3,792	4,725
Net increase in operating liabilities	14,884	12,935	8,814	1,777
Net increase/(decrease) in other liabilities	866	1,484	(3,498)	(4,177)
Cash (used)/generated by operations	(2,046)	14,377	(27,803)	(16,415)
Purchases of financial instruments and investment property	(103,333)	(75,141)	(152,899)	(123,780)
Sale of financial instruments and investment property	122,519	81,436	185,401	144,870
Dividends received	8,714	11,194	8,624	7,863
Interest received	23,868	16,984	26,889	18,774
Interest paid	(101)	(101)	(86)	(86)
Tax (paid)/recovered	(6,886)	(5,218)	1,127	2,512
Net cash from operating activities	42,735	43,531	41,253	33,738
Cash flows from investing activities				
Purchases of property, plant and equipment	(2,657)	(2,437)	(1,369)	(1,171)
Proceeds from the sale of property, plant and equipment	260	260	677	126
Purchases of intangible assets	(1,817)	(1,392)	(1,548)	(1,547)
Acquisition of business, net of cash acquired	-	-	(5,000)	-
Acquisition of shares issued by subsidiary	-	-	-	(300)
Disposal of business	5,260	-	-	-
Net cash from/(used by) investing activities	1,046	(3,569)	(7,240)	(2,892)
Cash flows from financing activities				
Payment of finance lease liabilities	(331)	(331)	(359)	(359)
Payment of group tax relief in excess of standard rate	-	(746)	(15)	(122)
Dividends paid to Company's shareholders	(9,181)	(9,181)	(9,181)	(9,181)
Donations paid to ultimate parent undertaking	(20,000)	(20,000)	(23,500)	(23,500)
Net cash used by financing activities	(29,512)	(30,258)	(33,055)	(33,162)
Net increase/(decrease) in cash and cash equivalents	14,269	9,704	958	(2,316)
Cash and cash equivalents at beginning of year	107,526	77,774	107,241	80,430
Exchange losses on cash and cash equivalents	(3,354)	(2,699)	(673)	(340)
Cash and cash equivalents at end of year	118,441	84,779	107,526	77,774

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 & Ireland, Australia and Canada. 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 2015 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, financial, operational and strategic risk. The Group has considerable financial resources: financial investments of £833.4m, 96% of which are liquid (2014: financial investments of £892.4m (including current assets classified as held for sale), 98% liquid); cash and cash equivalents of £118.4m and no borrowings (2014: cash and cash equivalents of £107.5m and no borrowings); and a regulatory enhanced capital cover of 3.0 (2014: 2.9). Liquid financial investments consist of listed equities and OEICs, government bonds and listed debt. 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 materially 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, *Financial Instruments*	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 certain 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. Although expected to be deferred until 2020 or 2021 for entities that issue insurance contracts.
IFRS 15, *Revenue from Contracts with Customers*	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 2018 (effective date deferred by one year during the current year).
IFRS 16, *Leases*	Provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the term is 12 months or less or the underlying asset has a low value.	The Group is currently assessing the full impact of IFRS 16. As operating leases (as disclosed in note 32) are in place for the majority of the Group's offices, these changes will significantly increase the value of both assets and liabilities recognised in the financial statements.	Annual periods beginning on or after 1 January 2019 (subject to EU endorsement).

The other Standards in issue but not yet effective are not expected to materially 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 use its power 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 International Accounting Standard (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 fair value of contingent consideration, the non-controlling interests and, for an acquisition achieved in stages, the fair value of previously held equity interest over the fair value of the identifiable net assets acquired. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised directly through profit or loss.

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

Investment vehicles

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

Foreign currency translation

The assets and liabilities of foreign operations are translated from their functional currencies into the Group's presentation currency using year end exchange rates, and their income and expenses using average exchange rates for the year. Exchange differences arising from the translation of the net investment in foreign operations are taken to the currency translation reserve within equity. On disposal of a foreign operation, such exchange differences are transferred out of this reserve and are recognised in the statement of profit or loss as part of the gain or loss on sale.

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

Product classification

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

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

Premium income

General insurance business

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

Premiums written include adjustments to premiums written in prior periods and estimates for pipeline premiums and are shown net of insurance premium taxes.

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

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

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.

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.

1 Accounting policies (continued)

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. Estimates are included for premiums not notified by the year end and provision is made for the anticipated lapse of renewals not yet confirmed. The proportion of premiums ceded in a year which relates to periods of risk extending beyond the current year is carried forward as unearned. 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 the 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 acquired 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. Goodwill is allocated to cash-generating units for the purpose of impairment testing. 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.

- 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.

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 in 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 in 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 in 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 in 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. Lease incentives are recognised 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 it is virtually certain that the reimbursement will be received.

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 the present value economic benefits of available in the form of refunds from the plan or 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, after any adjustment in respect of prior periods.

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

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

Deferred tax assets and liabilities are not discounted.

Appropriations

Dividends

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

Charitable grant to ultimate parent undertaking

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

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. 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 28. 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 28.

(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 28.

(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 medical expense increases over a portfolio of UK-based post-retirement medical plans with the rate of inflation, making an allowance for the size of the plan and actual medical expense experience. 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 19.

(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 17.

(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 reserves) and reinsurance risk (the risk of failing to access and manage reinsurance capacity at a reasonable price).

(a) Risk mitigation

Statistics demonstrate 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 the Group's needs. The optimum reinsurance structure provides the Group with sustainable, long-term capacity to support its specialist business strategy, with effective balance sheet and profit and loss protection at a reasonable cost.

Catastrophe protection is purchased following an extensive annual modelling exercise of gross and net (of proportional reinsurance) exposures. In conjunction with reinsurance brokers the Group utilises the full range of proprietary catastrophe models and continues to develop bespoke modelling options that better reflect the specialist nature of the 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.

Below is a table summarising written premiums for the financial year, before and after reinsurance, by territory and by class of business:

2015		General insurance				Life insurance	
		Property	Liability	Motor	Accident	Funeral plans	Total
Group		£000	£000	£000	£000	£000	£000
Territory							
United Kingdom and Ireland	Gross	170,371	52,316	210	7,831	113	230,841
	Net	92,631	47,183	209	7,510	113	147,646
Australia	Gross	20,708	15,062	550	1,131	-	37,451
	Net	1,936	12,993	545	1,089	-	16,563
Canada	Gross	28,194	11,713	-	-	-	39,907
	Net	19,995	10,880	-	-	-	30,875
Total	Gross	219,273	79,091	760	8,962	113	308,199
	Net	114,562	71,056	754	8,599	113	195,084
Parent							
Territory							
United Kingdom and Ireland	Gross	170,371	52,316	210	7,831	-	230,728
	Net	92,631	47,183	209	7,510	-	147,533
Canada	Gross	28,194	11,713	-	-	-	39,907
	Net	19,995	10,880	-	-	-	30,875
Total	Gross	198,565	64,029	210	7,831	-	270,635
	Net	112,626	58,063	209	7,510	-	178,408

2014		General insurance				Life insurance	
		Property	Liability	Motor	Accident	Funeral plans	Total
Group		£000	£000	£000	£000	£000	£000
Territory							
United Kingdom and Ireland	Gross	179,362	55,895	183	13,742	167	249,349
	Net	94,506	49,787	(924)	13,272	167	156,808
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
Total	Gross	229,918	82,874	946	14,892	167	328,797
	Net	105,639	73,649	(167)	14,377	167	193,665
Parent							
Territory							
United Kingdom and Ireland	Gross	179,362	55,895	183	13,742	-	249,182
	Net	94,506	49,787	(924)	13,272	-	156,641
Canada	Gross	27,918	11,447	-	-	-	39,365
	Net	19,691	10,562	-	-	-	30,253
Total	Gross	207,280	67,342	183	13,742	-	288,547
	Net	114,197	60,349	(924)	13,272	-	186,894

(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, escape of water, subsidence, accidental damage to insured vehicles and theft. Subsidence claims are particularly difficult to predict because the damage is often not apparent for some time. The ultimate settlements can be small or large with a risk of a settled claim being reopened 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 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, 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 restoration 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 often uncertainty as to the extent and type of injury, 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, during which time there can be particular uncertainty as to the number of future potential claims and their cost. 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 28 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. This is not one of the Group's principal risks and the life fund is closed to new entrants, with only minimal premiums now being received each year.

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.

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						
	Designated at fair value £000	Held for trading £000	Loans and receivables* £000	Held for trading £000	Financial liabilities** £000	Other assets and liabilities £000	Total £000
At 31 December 2015							
Financial investments	832,661	713	16	-	-	-	833,390
Other assets	-	-	121,840	-	-	3,002	124,842
Cash and cash equivalents	-	-	118,441	-	-	-	118,441
Other liabilities	-	-	-	(1,466)	(54,177)	(5,007)	(60,650)
Net other	-	-	-	-	-	(511,089)	(511,089)
Total	832,661	713	240,297	(1,466)	(54,177)	(513,094)	504,934
At 31 December 2014							
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)
Total	886,170	-	230,231	-	(40,338)	(581,430)	494,633

Parent							
At 31 December 2015							
Financial investments	631,757	713	14	-	-	50,065	682,549
Other assets	-	-	93,950	-	-	2,597	96,547
Cash and cash equivalents	-	-	84,779	-	-	-	84,779
Other liabilities	-	-	-	(1,466)	(35,547)	(4,361)	(41,374)
Net other	-	-	-	-	-	(393,378)	(393,378)
Total	631,757	713	178,743	(1,466)	(35,547)	(345,077)	429,123
At 31 December 2014							
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)
Total	664,349	-	177,440	-	(23,885)	(397,532)	420,372

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

** Financial liabilities are held at amortised cost.

(b) Fair value hierarchy

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

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

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

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

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

Analysis of fair value measurement bases	Fair value measurement at the end of the reporting period based on			
Group	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
At 31 December 2015				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	274,293	221	31,218	305,732
Debt securities	524,453	2,289	187	526,929
Derivatives	-	713	-	713
Total financial assets at fair value through profit or loss	798,746	3,223	31,405	833,374
At 31 December 2014				
Financial assets at fair value through profit or loss				
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	860,889	4,694	20,587	886,170
Parent				
At 31 December 2015				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	242,797	221	31,217	274,235
Debt securities	355,570	1,765	187	357,522
Derivatives	-	713	-	713
Total financial assets at fair value through profit or loss	598,367	2,699	31,404	632,470
At 31 December 2014				
Financial assets at fair value through profit or loss				
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	642,518	1,245	20,586	664,349

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:

	Financial assets at fair value through profit and loss		
Group	Equity securities £000	Debt securities £000	Total £000
At 31 December 2015			
Opening balance	20,349	238	20,587
Total gains/(losses) recognised in profit or loss	5,146	(51)	5,095
Purchases	5,723	-	5,723
Closing balance	31,218	187	31,405
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	5,146	(51)	5,095
At 31 December 2014			
Opening balance	19,390	317	19,707
Total gains/(losses) recognised in profit or loss	959	(79)	880
Closing balance	20,349	238	20,587
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	959	(79)	880
Parent			
At 31 December 2015			
Opening balance	20,348	238	20,586
Total gains/(losses) recognised in profit or loss	5,146	(51)	5,095
Purchases	5,723	-	5,723
Closing balance	31,217	187	31,404
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	5,146	(51)	5,095
At 31 December 2014			
Opening balance	19,386	317	19,703
Total gains/(losses) recognised in profit or loss	962	(79)	883
Closing balance	20,348	238	20,586
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	962	(79)	883

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.

4 Financial risk and capital management (continued)

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, an illiquidity discount and a credit rating discount applied to the valuation to account for the risks associated with holding the asset. If the price-to-book ratio, illiquidity discount and credit rating 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 and a decrease in the illiquidity margin applied to one of the stocks. The illiquidity assumption was updated based on observable market inputs.

Unlisted debt (level 3)
Unlisted debt is valued using an adjusted net asset method whereby management uses a look-through approach to the underlying assets supporting the loan, discounted using observable market interest rates of similar loans with similar risk, and allowing for unobservable future transaction costs. Where material, these valuations are reviewed by the Group Audit Committee.

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

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

(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 (2014: 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 28 (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.

	Maturity			
Group long-term business	Within 1 year £000	Between 1 & 5 years £000	After 5 years £000	Total £000
At 31 December 2015				
Assets				
Debt securities	6,065	23,119	67,572	96,756
Cash and cash equivalents	2,648	-	-	2,648
	8,713	23,119	67,572	99,404
Liabilities (discounted)				
Long-term business provision	6,354	21,976	57,092	85,422
At 31 December 2014				
Assets				
Debt securities	1,053	24,311	79,490	104,854
Cash and cash equivalents	1,924	-	-	1,924
	2,977	24,311	79,490	106,778
Liabilities (discounted)				
Long-term business provision	6,014	21,816	66,494	94,324

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 2015 reinsurance programme having a minimum rating of 'A-' from Standard & Poor's or an equivalent agency at the time of purchase.

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 that 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:

	2015			2014	
	Group	Parent		Group	Parent
	£000	£000		£000	£000
UK	381,087	284,331	UK	424,480	319,625
Australia	73,429	778	Australia	87,037	-
Canada	52,350	52,350	Canada	60,162	60,162
Europe	15,876	15,876	Europe	24,586	24,586
Other	4,187	4,187	Other	-	-
Total	526,929	357,522	Total	596,265	404,373

(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 28. 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 31.

(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 when considered necessary.

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.

	2015			2014	
	Group	Parent		Group	Parent
	£000	£000		£000	£000
Aus $	45,431	6,839	Aus $	45,571	2,614
Can $	32,544	32,544	Can $	34,757	34,757
Euro	19,598	19,598	Euro	14,625	14,625
USD $	2,598	2,598	NZ $	10,969	10,969
NZ $	2,125	2,125	Japanese Yen	1,047	1,047

(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:

	2015			2014	
	Group	Parent		Group	Parent
	£000	£000		£000	£000
UK	269,724	238,227	UK	264,716	234,787
Europe	31,440	31,440	Europe	20,442	20,442
Canada	2,257	2,257	Canada	2,583	2,583
US	2,139	2,139	US	1,950	1,950
Other	172	172	Other	214	214
Total	305,732	274,235	Total	289,905	259,976

(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 table below. This table does not include the impact of variables on retirement benefit schemes. Financial risk sensitivities for retirement benefit schemes are disclosed separately in Note 19.

Group		Potential increase/ (decrease) in profit		Potential increase/ (decrease) in other equity reserves	
Variable	Change in variable	2015 £000	2014 £000	2015 £000	2014 £000
Interest rate risk	-100 basis points	(6,377)	(4,284)	(29)	(15)
	+100 basis points	2,154	1,243	29	18
Currency risk	-10%	3,627	2,930	7,052	8,010
	+10%	(2,968)	(2,397)	(5,770)	(6,554)
Equity price risk	+/-10%	24,382	22,758	-	-

Parent		Potential increase/ (decrease) in profit		Potential increase/ (decrease) in other equity reserves	
Variable	Change in variable	2015 £000	2014 £000	2015 £000	2014 £000
Interest rate risk	-100 basis points	(5,786)	(1,583)	(33)	-
	+100 basis points	3,524	299	33	5
Currency risk	-10%	3,628	2,930	2,764	3,237
	+10%	(2,968)	(2,397)	(2,262)	(2,649)
Equity price risk	+/-10%	21,870	20,408	-	-

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. With effect from 1 January 2016 a new Europe-wide regulatory capital regime (Solvency II) has been adopted by the PRA. The Group is well placed to comply with the new Solvency II reporting requirements and has separately calculated its capital requirement under the new regime. The Group holds capital resources in excess of its expected Solvency II capital requirement and its internal capital standard will continue to be set above the PRA's minimum requirement.

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 28 (b).

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. Expenses relating to Group management activities are included within 'Corporate costs'. 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. Changes have been made to segments during 2015 as follows:

- The United Kingdom and Ireland segments have been combined on the basis of their similar economic characteristics, products and customer base.
- Corporate costs which were previously included in 'Central operations' have been identified as a discrete segment and the definition of corporate costs has been widened during the period.
- The 'Central operations' segment has been renamed 'Other insurance operations'.

The prior period has been restated to the revised basis.

The activities of each operating segment are described below.

- General business

United Kingdom and Ireland

The Group's principal general insurance business operation is in the UK, where it operates under the Ecclesiastical and Ansvar brands. The Group also operates an Ecclesiastical branch in the Republic of Ireland underwriting general business across the whole of Ireland.

Australia

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

Canada

The Group operates a general insurance Ecclesiastical branch in Canada.

Other insurance operations

This includes the Group's internal reinsurance function, 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 EdenTree 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.

- Corporate costs

This includes costs associated with Group management activities.

- Other activities

This includes costs relating to acquisition 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.

5 Segment information (continued)

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.

	2015			*(restated)* 2014		
	Gross written premiums £000	Non-insurance services £000	Total £000	Gross written premiums £000	Non-insurance services £000	Total £000
General business						
United Kingdom and Ireland	228,056	-	228,056	245,528	-	245,528
Australia	37,451	-	37,451	40,083	-	40,083
Canada	39,907	-	39,907	39,365	-	39,365
Other insurance operations	2,672	-	2,672	3,654	-	3,654
Total	308,086	-	308,086	328,630	-	328,630
Life business	113	-	113	167	-	167
Investment management	-	11,394	11,394	-	12,045	12,045
Broking and Advisory	-	9,586	9,586	-	9,865	9,865
Group revenue	308,199	20,980	329,179	328,797	21,910	350,707

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.

2015	*Combined operating ratio*	Insurance £000	Investments £000	Other £000	Total £000
General business					
United Kingdom and Ireland	90.4%	14,454	34,683	4	49,141
Australia	102.3%	(370)	2,468	(96)	2,002
Canada	96.5%	1,017	1,090	-	2,107
Other insurance operations		792	-	-	792
	92.0%	15,893	38,241	(92)	54,042
Life business		1,001	2,161	(4)	3,158
Investment management		-	1,812	-	1,812
Broking and Advisory		-	-	1,934	1,934
Corporate costs		-	-	(7,341)	(7,341)
Profit before tax		16,894	42,214	(5,503)	53,605

2014 (restated)	*Combined operating ratio*	Insurance £000	Investments £000	Other £000	Total £000
General business					
United Kingdom and Ireland	94.0%	10,359	23,648	70	34,077
Australia	106.2%	(1,129)	7,619	(139)	6,351
Canada	94.2%	1,662	1,598	-	3,260
Other insurance operations		(172)	-	-	(172)
	95.2%	10,720	32,865	(69)	43,516
Life business		(178)	1,522	(4)	1,340
Investment management		-	3,164	-	3,164
Broking and Advisory		-	-	2,071	2,071
Corporate costs		-	-	(1,521)	(1,521)
Other activities		-	-	(416)	(416)
Profit before tax		10,542	37,551	61	48,154

(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:

	2015		*(restated)* 2014	
	Gross written premiums £000	Non-current assets £000	Gross written premiums £000	Non-current assets £000
United Kingdom and Ireland	230,841	153,674	249,349	123,971
Australia	37,451	190	40,083	257
Canada	39,907	3,154	39,365	2,407
	308,199	157,018	328,797	126,635

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
For the year ended 31 December 2015			
Gross written premiums	308,086	113	308,199
Outward reinsurance premiums	(113,115)	-	(113,115)
Net written premiums	194,971	113	195,084
Change in the gross provision for unearned premiums	3,889	-	3,889
Change in the provision for unearned premiums, reinsurers' share	788	-	788
Change in the net provision for unearned premiums	4,677	-	4,677
Earned premiums, net of reinsurance	199,648	113	199,761
For the year ended 31 December 2014			
Gross written premiums	328,630	167	328,797
Outward reinsurance premiums	(135,132)	-	(135,132)
Net written premiums	193,498	167	193,665
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
Earned premiums, net of reinsurance	224,676	167	224,843

7 Net investment return

	2015 £000	2014 £000
Income from financial assets at fair value through profit or loss		
- equity income	8,720	8,575
- debt income	20,510	22,936
Income from financial assets not at fair value through profit or loss		
- interest income on mortgages and other loans	26	327
- cash and cash equivalents income, net of exchange movements	(154)	50
- other income received	1,412	1,573
Other income		
- rental income	4,977	3,818
Investment income	35,491	37,279
Fair value movements on financial instruments at fair value through profit or loss	2,892	6,459
Fair value movements on investment property	4,845	2,459
Net investment return	43,228	46,197

Included within cash and cash equivalents income are exchange losses of £1,405,000 (2014: £1,346,000 losses).

Included within fair value movements on financial instruments at fair value through profit or loss are £2,133,000 gains (2014: £158,000 losses) in respect of derivatives classified as held for trading.

8 Claims and change in insurance liabilities and reinsurance recoveries

	General business £000	Long-term business £000	Total £000
For the year ended 31 December 2015			
Gross claims paid	167,364	6,899	174,263
Gross change in the provision for claims	(1,448)	3	(1,445)
Gross change in long-term business provisions	-	(8,902)	(8,902)
Claims and change in insurance liabilities	165,916	(2,000)	163,916
Reinsurers' share of claims paid	(50,721)	-	(50,721)
Reinsurers' share of change in the provision for claims	(16,204)	-	(16,204)
Reinsurance recoveries	(66,925)	-	(66,925)
Claims and change in insurance liabilities, net of reinsurance	98,991	(2,000)	96,991
For the year ended 31 December 2014			
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)
Claims and change in insurance liabilities, net of reinsurance	125,944	8,920	134,864

9 Fees, commissions and other acquisition costs

	2015 £000	2014 £000
Fees paid	665	533
Commission paid	45,086	51,886
Change in deferred acquisition costs	1,754	3,327
Other acquisition costs	13,697	15,067
Fees, commissions and other acquisition costs	61,202	70,813

10 Profit for the year

	2015 £000	2014 £000
Profit for the year has been arrived at after charging/(crediting)		
Net foreign exchange losses	1,405	1,346
Depreciation of property, plant and equipment	1,708	1,638
Loss/(profit) on disposal of property, plant and equipment	16	(32)
Amortisation of intangible assets	1,333	1,684
Increase in fair value of investment property	(4,845)	(2,459)
Employee benefits expense including termination benefits	63,606	62,683
Operating lease rentals	3,391	3,576

11 Auditor's remuneration

	2015 £000	2014 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	292	247
Fees payable to the Company's auditor and its associates for other services:		
- The audit of the Company's subsidiaries	119	102
Total audit fees	411	349
- Audit-related assurance services	86	84
- Other assurance services	6	6
Total non-audit fees	92	90
Total auditor's remuneration	503	439

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 £17,000 (2014: £15,000).

12 Employee information

The average monthly number of full-time equivalent employees of the Group, including executive directors, during the year by geographical location was:

	2015			*(restated)* 2014		
	General business No.	Long-term business No.	Other No.	General business No.	Long-term business No.	Other No.
United Kingdom and Ireland	709	1	127	724	1	116
Australia	92	-	-	101	-	-
Canada	68	-	-	63	-	-
	869	1	127	888	1	116

Average numbers of full-time equivalent employees have been quoted rather than average numbers of employees to give a better reflection of the split between business areas, as some employees work is divided between more than one business area.

	2015 £000	2014 £000
Wages and salaries	52,204	53,479
Social security costs	4,539	4,469
Pension costs - defined contribution plans	2,734	2,696
Pension costs - defined benefit plans	2,770	1,465
Other post-employment benefits	459	551
	62,706	62,660

The above figures do not include termination benefits of £900,000 (2014: £23,000).

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

		2015 £000	2014 £000
Current tax	- current year	7,771	11,063
	- prior years	474	(3,716)
Deferred tax	- temporary differences	2,421	14
	- prior years	2	476
	- reduction in tax rate	(3,680)	-
Total tax expense		6,988	7,837

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:

	2015 £000	2014 £000
Profit before tax	53,605	48,154
Tax calculated at the UK standard rate of tax of 20.25% (2014: 21.5%)	10,853	10,353
Factors affecting charge for the year:		
Expenses not deductible for tax purposes	450	(245)
Non-taxable income	(979)	(1,849)
Life insurance and other tax paid at non-standard rates	71	424
Utilisation of tax losses for which no deferred tax asset has been recognised	(203)	(116)
Impact of reduction in deferred tax rate	(3,680)	-
Adjustments to tax charge in respect of prior periods	476	(730)
Total tax expense	6,988	7,837

A deferred tax credit on fair value movements on owner-occupied property of £22,000 (2014: £10,000 credit) and tax relief on charitable grants of £4,050,000 (2014: £5,053,000) are taken directly to equity.

A change in the UK standard rate of corporation tax from 21% to 20% became effective from 1 April 2015. Where appropriate, current tax has been provided at the blended rate of 20.25%. A further reduction in the rate of corporation tax to 19% will become effective from April 2017, reducing again to 18% effective from April 2020. These changes were substantively enacted on 18 November 2015. Deferred tax has been provided at an average rate of 18.2% (2014: 20%).

14 Appropriations

	2015 £000	2014 £000
Amounts recognised as distributions to equity holders in the period:		
Dividends		
Non-Cumulative Irredeemable Preference share dividend	9,181	9,181
Charitable grants		
Gross charitable grants to the ultimate parent company, Allchurches Trust Limited	20,000	23,500
Tax relief	(4,050)	(5,053)
Net appropriation for the year	15,950	18,447

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
Total identifiable assets	1,178
Goodwill	4,392
Total consideration	5,570
Satisfied by:	
Cash	5,000
Contingent consideration arrangement	570
Total consideration	5,570

The contingent consideration arrangement required £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.

In 2014, the fair value of the contingent consideration was estimated to be £570,000 based on commission forecasts, without discounting as the payment was payable after exactly one year from the date of acquisition. The actual contingent consideration paid in 2015 was £587,000.

16 Disposal of business

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 2015.

	£000
The net assets at the date of disposal were:	
Financial investments	6,084
Consideration and costs of sale:	
Cash received	(5,260)
Contingent consideration arrangement	(824)
Sale costs and related net expenses	19
Loss on disposal	19

The net cash inflow arising on disposal was £5,260,000.

The contingent consideration is deferred over the next seven years and is dependent on the development of the mortgage book.

At the prior year end date, the assets were classified as held for sale (see note 26).

17 Goodwill and other intangible assets

Group	Goodwill £000	Computer software £000	Other intangible assets £000	Total £000
Cost				
At 1 January 2015	23,779	20,698	5,084	49,561
Additions	-	1,817	-	1,817
Disposals	-	(1,799)	-	(1,799)
Exchange differences	-	(428)	-	(428)
At 31 December 2015	23,779	20,288	5,084	49,151
Accumulated impairment losses and amortisation				
At 1 January 2015	139	16,414	4,010	20,563
Amortisation charge for the year	-	1,203	130	1,333
Impairment losses for the year	64	-	-	64
Disposals	-	(1,788)	-	(1,788)
Exchange differences	-	(125)	-	(125)
At 31 December 2015	203	15,704	4,140	20,047
Net book value at 31 December 2015	23,576	4,584	944	29,104
Cost (restated)				
At 1 January 2014	19,387	22,540	3,918	45,845
Additions	-	1,548	-	1,548
Acquisition	4,392	-	1,166	5,558
Disposals	-	(3,348)	-	(3,348)
Exchange differences	-	(42)	-	(42)
At 31 December 2014	23,779	20,698	5,084	49,561
Accumulated impairment losses and amortisation (restated)				
At 1 January 2014	72	18,587	3,502	22,161
Amortisation charge for the year	-	1,176	508	1,684
Impairment losses for the year	67	-	-	67
Disposals	-	(3,329)	-	(3,329)
Exchange differences	-	(20)	-	(20)
At 31 December 2014	139	16,414	4,010	20,563
Net book value at 31 December 2014	23,640	4,284	1,074	28,998

£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 prior 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% (2014: 2.3%), sourced from the Office for Budget Responsibility. The discount rate of 11% reflects the way that the market would assess the specific risks associated with the estimated cash flows (2014: 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 two years on a weighted average basis.

Parent	Computer software £000
Cost	
At 1 January 2015	19,629
Additions	1,392
Disposals	(1,462)
Exchange differences	(418)
At 31 December 2015	19,141
Amortisation	
At 1 January 2015	15,399
Charge for the year	1,116
Disposals	(1,462)
Exchange differences	(118)
At 31 December 2015	14,935
Net book value at 31 December 2015	4,206
Cost	
At 1 January 2014	19,873
Additions	1,547
Disposals	(1,741)
Exchange differences	(50)
At 31 December 2014	19,629
Amortisation	
At 1 January 2014	16,078
Charge for the year	1,092
Disposals	(1,741)
Exchange differences	(30)
At 31 December 2014	15,399
Net book value at 31 December 2014	4,230

18 Deferred acquisition costs

	2015		2014	
	Group £000	Parent £000	Group £000	Parent £000
At 1 January	31,117	26,974	34,757	30,542
Increase in the period	28,626	24,831	31,267	26,964
Release in the period	(30,380)	(26,501)	(34,594)	(30,341)
Exchange differences	(969)	(722)	(313)	(191)
At 31 December	28,394	24,582	31,117	26,974

All balances are current.

19 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 2013. Actuarial valuations were reviewed and updated by the actuary at 31 December 2015 for IAS 19 (R) purposes. In the current year, the IAS 19 (R) surplus in the scheme has been restricted in accordance with International Financial Reporting Interpretations Committee 14 (IFRIC 14).

The Parent is also 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. The most recent triennial valuation was at 31 December 2013. The scheme had not previously been reported within the Group accounts, and was therefore shown as a transfer in, in the prior year.

On 30 June 2015, formal notice was given to the Trustee of the Ecclesiastical Insurance Office plc Pension & Life Assurance Scheme (EIOPLA) to wind up the defined benefit pension scheme. The wind-up formally commenced on 1 July 2015. On 18 December 2015, the scheme’s defined benefit obligations were discharged, resulting in nil obligations at the year end date. The wind-up is expected to complete in the first half of 2016. In the prior year, the IAS 19 (R) surplus in the scheme was derecognised in full due to the uncertainty of its recoverability. In the current year, part of the IAS 19 (R) surplus has been recognised in line with the amount of surplus that the Parent expects to receive when the scheme wind-up is completed in 2016.

The Irish defined benefit plan closed on 31 March 2014 and was accounted for as a curtailment and settlement in the prior year.

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.

The Group's main defined benefit plan is now closed to new entrants but remains 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.

Group and Parent	2015 £000	2014 £000
The amounts recognised in the statement of financial position are determined as follows:		
Present value of funded obligations	(276,562)	(277,459)
Fair value of plan assets	294,498	298,840
	17,936	21,381
Restrictions on asset recognised	(7,283)	(563)
Net asset in the statement of financial position	10,653	20,818
Movements in the net asset recognised in the statement of financial position are as follows:		
At 1 January	20,818	32,288
Exchange differences	-	22
Expense charged to profit or loss*	(3,305)	(1,894)
Amounts recognised in other comprehensive income	(9,462)	(12,693)
Contributions paid	2,602	3,095
At 31 December	10,653	20,818
The amounts recognised through profit or loss are as follows:		
Current service cost	3,645	3,516
Administration cost	342	392
Interest expense on liabilities	10,125	11,549
Interest income on plan assets	(10,962)	(13,151)
Gains on settlements/curtailments	155	(412)
Total, included in employee benefits expense	3,305	1,894
The amounts recognised in the statement of other comprehensive income are as follows:		
Return on plan assets, excluding interest income	(8,594)	2,391
Experience gains on liabilities	197	5,569
Gains from changes in demographic assumptions	-	5,273
Gains/(losses) from changes in financial assumptions	5,655	(26,051)
Change in asset ceiling	(6,720)	125
Total included in other comprehensive income	(9,462)	(12,693)

* Charge to profit or loss includes £535,000 (2014: £429,000) 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	2015 £000	2014 £000
Pension assets	10,893	21,068
Pension liabilities	(240)	(250)
	10,653	20,818

NOTES TO THE FINANCIAL STATEMENTS

19 Retirement benefit schemes (continued)

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

	2015 %	2014 %
Discount rate	3.80	3.70
Inflation (RPI)	3.10	3.10
Inflation (CPI)	2.10	2.10
Future salary increases	4.60	4.60
Future increase in pensions in deferment	2.10	2.10
Future pension increases (linked to RPI)	3.10	3.11
Future pension increases (linked to CPI)	2.10	2.10

Mortality rate	2015	2014
The average life expectancy in years of a pensioner retiring at age 65, at the year end date, is as follows:		
Male	24.0	23.7
Female	25.6	25.3
The average life expectancy in years of a pensioner retiring at age 65, 20 years after the year end date, is as follows:		
Male	26.3	26.0
Female	27.9	27.6

Plan assets are weighted as follows:	2015 %	2014 %
Cash and cash equivalents	3	5
Equity instruments		
UK quoted	24	25
Overseas quoted	23	25
	47	50
Debt instruments		
UK public sector quoted - fixed interest	2	2
UK non-public sector quoted - fixed interest	20	18
UK quoted - index-linked	14	15
	36	35
Property	14	10
	100	100

The actual return on plan assets was a gain of £2,368,000 (2014: gain of £15,542,000).

The movements in the fair value of plan assets and the present value of the defined benefit obligation over the year are as follows:

	2015 £000	2014 £000
Plan assets		
At 1 January	298,840	287,892
Transfer in	-	2,947
Interest income	10,962	13,151
Return on plan assets, excluding interest income	(8,594)	2,391
Pension benefits paid and payable	(7,113)	(6,079)
Contributions paid	2,602	3,095
Assets distributed on settlements	(2,199)	(4,416)
Exchange differences	-	(141)
At 31 December	294,498	298,840
Defined benefit obligation		
At 1 January	277,459	255,604
Transfer in	-	2,259
Current service cost	3,645	3,516
Administration cost	342	392
Interest cost	10,125	11,549
Pension benefits paid and payable	(7,113)	(6,079)
Experience gains on liabilities	(197)	(5,569)
Gains from changes in demographic assumptions	-	(5,273)
(Gains)/losses from changes in financial assumptions	(5,655)	26,051
Liabilities extinguished on settlements/curtailments	(2,044)	(4,828)
Exchange differences	-	(163)
At 31 December	276,562	277,459
Asset ceiling		
At 1 January	563	-
Transfer in	-	688
Change in asset ceiling	6,720	(125)
At 31 December	7,283	563

History of plan assets and liabilities	2015 £000	2014 £000	2013 £000	2012 £000	2011 £000
Present value of defined benefit obligations	(276,562)	(277,459)	(255,604)	(225,164)	(199,087)
Fair value of plan assets	294,498	298,840	287,892	261,685	234,314
	17,936	21,381	32,288	36,521	35,227
Restrictions on asset recognised	(7,283)	(563)	-	-	-
Surplus	10,653	20,818	32,288	36,521	35,227

The weighted average duration of the defined benefit obligation at the end of the reporting period is 23 years (2014: 23 years).

The contribution expected to be paid by the Group during the year ending 31 December 2016 is £2.5 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 based on reasonably possible changes in 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 2015	Impact on plan liabilities 2014
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%/9%
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%

19 Retirement benefit schemes (continued)

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	2015 £000	2014 £000
Present value of unfunded obligations and net obligations in the statement of financial position	9,193	12,547
Movements in the net obligations recognised in the statement of financial position are as follows:		
At 1 January	12,547	11,744
Total expense charged to profit or loss	459	551
Net actuarial (gains)/losses during the year, recognised in other comprehensive income	(3,653)	491
Benefits paid	(160)	(239)
At 31 December	9,193	12,547
The amounts recognised through profit or loss are as follows:		
Current service cost	-	33
Interest cost	459	518
Total, included in employee benefits expense	459	551

The weighted average duration of the net obligations at the end of the reporting period is 19 years (2014: 22 years).

The main actuarial assumptions for the plan are a long-term increase in medical costs of 9.1% (2014: 12.0%) and a discount rate of 3.8% (2014: 3.7%). The reduction in medical cost inflation is the result of a change in the calculation methodology following actuarial advice received. The change in methodology generated an actuarial gain of £3.5m. The sensitivity analysis below has been determined based on reasonably possible changes in 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	
		2015	2014
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 8%/10%	Decrease/increase by 10%/11%
Medical expense inflation	Increase/decrease by 1.0%	Increase/decrease by 19%/15%	Increase/decrease by 23%/18%
Life expectancy	Increase/decrease by 1 year	Increase/decrease by 9%/8%	Increase/decrease by 11%/8%

20 Property, plant and equipment

Group	Land and buildings £000	Motor vehicles £000	Furniture, fittings and equipment £000	Computer equipment £000	Total £000
Cost or valuation					
At 1 January 2015	2,595	2,524	5,414	5,995	16,528
Additions	-	737	1,868	772	3,377
Disposals	(225)	(742)	(290)	(884)	(2,141)
Revaluation	170	-	-	-	170
Exchange differences	-	-	(93)	(76)	(169)
At 31 December 2015	2,540	2,519	6,899	5,807	17,765
Depreciation					
At 1 January 2015	-	1,078	4,373	4,672	10,123
Charge for the year	-	394	604	710	1,708
Disposals	-	(508)	(280)	(860)	(1,648)
Exchange differences	-	-	(72)	(50)	(122)
At 31 December 2015	-	964	4,625	4,472	10,061
Net book value at 31 December 2015	2,540	1,555	2,274	1,335	7,704
Cost or valuation					
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
Depreciation					
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
Net book value at 31 December 2014	2,595	1,446	1,041	1,323	6,405

All properties were revalued at 31 December 2015, with the exception of a certain property, which was revalued at 31 December 2014. Valuations were carried out by Cluttons LLP, 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 £2,723,000 (2014: £2,867,000).

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

Included within net book value of motor vehicles is £1,364,000 (2014: £1,182,000) in respect of assets held under finance leases.

20 Property, plant and equipment (continued)

Parent	Land and buildings £000	Motor vehicles £000	Furniture, fittings and equipment £000	Computer equipment £000	Total £000
Cost or valuation					
At 1 January 2015	2,295	2,386	5,204	5,486	15,371
Additions	-	737	1,803	619	3,159
Disposals	(225)	(742)	(278)	(775)	(2,020)
Revaluation	120	-	-	-	120
Exchange differences	-	-	(89)	(59)	(148)
At 31 December 2015	2,190	2,381	6,640	5,271	16,482
Depreciation					
At 1 January 2015	-	1,017	4,247	4,414	9,678
Charge for the year	-	374	562	619	1,555
Disposals	-	(508)	(278)	(775)	(1,561)
Exchange differences	-	-	(70)	(42)	(112)
At 31 December 2015	-	883	4,461	4,216	9,560
Net book value at 31 December 2015	2,190	1,498	2,179	1,055	6,922
Cost or valuation					
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	2,295	2,386	5,204	5,486	15,371
Depreciation					
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	-	1,017	4,247	4,414	9,678
Net book value at 31 December 2014	2,295	1,369	957	1,072	5,693

The Company's properties were revalued at 31 December 2015, with the exception of a certain property, which was revalued at 31 December 2014. Valuations were carried out by Cluttons LLP, 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 £2,323,000 (2014: £2,467,000).

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

Included within net book value of motor vehicles is £1,364,000 (2014: £1,182,000) in respect of assets held under finance leases.

21 Investment property

Group and Parent	2015 £000	2014 £000
Net book value at 1 January	69,775	45,099
Additions	24,130	23,817
Disposals	-	(1,600)
Fair value gains	4,845	2,459
Net book value at 31 December	98,750	69,775

The Group's investment properties were last revalued at 31 December 2015 by Cluttons LLP, an external firm of chartered surveyors, with the exception of one property purchased close to the year end which has been valued at its purchase price. 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 £4,977,000 (2014: £3,818,000) and is included in net investment return. Other operating and administrative expenses include £742,000 (2014: £391,000) relating to investment property.

22 Financial investments

Financial investments summarised by measurement category are as follows:

	2015		2014	
	Group £000	Parent £000	Group £000	Parent £000
Financial investments at fair value through profit or loss				
Equity securities				
- listed	274,514	243,018	269,556	239,628
- unlisted	31,218	31,217	20,349	20,348
Debt securities				
- government bonds	160,691	95,874	196,179	118,947
- listed	366,051	261,461	399,848	285,188
- unlisted	187	187	238	238
Derivative financial instruments				
- options	713	713	-	-
	833,374	632,470	886,170	664,349
Loans and receivables				
Other loans	16	14	16	14
Parent investments in subsidiary undertakings				
Shares in subsidiary undertakings	-	50,065	-	50,065
Total financial investments	833,390	682,549	886,186	714,428
Current	408,439	370,387	327,552	296,566
Non-current	424,951	312,162	558,634	417,862

All investments in subsidiary undertakings are unlisted.

23 Derivative financial instruments

The Group utilises non-hedge derivatives to mitigate equity price risk arising from investments held at fair value.

Group and Parent	2015			2014		
	Contract/ notional amount £000	Fair value asset £000	Fair value liability £000	Contract/ notional amount £000	Fair value asset £000	Fair value liability £000
Equity/Index contracts						
Futures	30,763	-	1,466	-	-	-
Options	7,501	713	-	-	-	-
	38,264	713	1,466	-	-	-

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.

Derivative fair value assets are recognised within financial investments (note 22) and derivative fair value liabilities are recognised within other liabilities (note 31).

Amounts pledged as collateral in respect of derivative contracts are disclosed in note 25.

24 Other assets

	2015		2014	
	Group £000	Parent £000	Group £000	Parent £000
Receivables arising from insurance and reinsurance contracts				
- due from contract holders	27,310	27,310	24,469	24,468
- due from agents, brokers and intermediaries	40,095	28,733	40,645	29,735
- due from reinsurers	9,481	4,432	7,230	5,437
Other receivables				
- accrued interest and rent	6,109	4,725	7,032	5,317
- other prepayments and accrued income	3,173	2,756	3,074	2,745
- amounts owed by related parties	20,673	26,760	20,586	34,596
- other debtors	18,001	1,831	16,358	(59)
	124,842	96,547	119,394	102,239
Current	103,384	70,567	97,936	69,323
Non-current	21,458	25,980	21,458	32,916

The Group has recognised a credit of £63,000 (2014: charge of £449,000) 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 credit of £67,000 (2014: charge of £502,000).

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.

Included within amounts owed by related parties of the Parent is £4,948,000 (2014: £4,808,000) pledged as collateral in respect of an insurance liability.

Movement in the allowance for doubtful debts	2015 Group £000	2015 Parent £000	2014 Group £000	2014 Parent £000
Balance at 1 January	214	169	323	189
Movement in the year	(63)	(63)	(109)	(20)
Balance at 31 December	151	106	214	169

Included within trade receivables of the Group is £3,457,000 (2014: £3,365,000) overdue but not impaired, of which £3,178,000 (2014: £3,020,000) is not more than three months overdue at the reporting date. Included within trade receivables of the Parent is £2,533,000 (2014: £2,095,000) overdue but not impaired, of which £2,255,000 (2014: £1,844,000) is not more than three months overdue at the reporting date.

25 Cash and cash equivalents

	2015 Group £000	2015 Parent £000	2014 Group £000	2014 Parent £000
Cash at bank and in hand	51,454	29,318	48,167	29,428
Short-term bank deposits	66,987	55,461	59,359	48,346
	118,441	84,779	107,526	77,774

Included within short-term bank deposits of the Group and Parent are cash deposits of £3,122,000 (2014: £nil) pledged as collateral by way of cash margins on open derivative contracts and cash to cover derivative liabilities.

26 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 prior year management 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 prior 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 consisted 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	6,204

The effective interest rate on the mortgages in the prior year was 4.71%.

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 were no debts which were past due at the prior reporting date and no amounts were impaired during the prior year.

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

27 Called up share capital

	Issued, allotted and fully paid	
	2015 £000	2014 £000
Ordinary shares of 4p each	14,027	14,027
8.625% Non-Cumulative Irredeemable Preference shares of £1 each	106,450	106,450
	120,477	120,477
The number of shares in issue are as follows:		
Ordinary shares of 4p each		
At 1 January and 31 December	350,678	350,678
8.625% Non-Cumulative Irredeemable Preference shares of £1 each		
At 1 January and 31 December	106,450	106,450

On winding up, the assets of the Company remaining after payment of its liabilities are to be applied to holders of the Non-Cumulative 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 Non-Cumulative 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.

28 Insurance liabilities and reinsurance assets

	2015		2014	
	Group	Parent	Group	Parent
	£000	£000	£000	£000
Gross				
Claims outstanding	551,571	472,542	564,380	477,881
Unearned premiums	153,697	133,282	161,624	141,006
Long-term business provision	85,422	-	94,324	-
Total gross insurance liabilities	790,690	605,824	820,328	618,887
Recoverable from reinsurers				
Claims outstanding	120,753	90,646	107,331	75,324
Unearned premiums	49,987	39,768	50,134	39,680
Total reinsurers' share of insurance liabilities	170,740	130,414	157,465	115,004
Net				
Claims outstanding	430,818	381,896	457,049	402,557
Unearned premiums	103,710	93,514	111,490	101,326
Long-term business provision	85,422	-	94,324	-
Total net insurance liabilities	619,950	475,410	662,863	503,883
Gross insurance liabilities				
Current	321,812	279,883	324,979	280,408
Non-current	468,878	325,941	495,349	338,479
Reinsurance assets				
Current	98,967	82,913	92,728	75,532
Non-current	71,773	47,501	64,737	39,472

(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 the chain ladder, 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 historical 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 using actuarial methods including the Mack method and Bootstrapping techniques, based on at least the 75th percentile confidence level for each portfolio. The Mack method was used in current and prior periods, while Bootstrapping techniques were intorduced in 2015. For smaller portfolios, where these methods 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, 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.

28 Insurance liabilities and reinsurance assets (continued)

(iv) Discounting

General insurance outstanding claims provisions are undiscounted, except for designated long-tail classes of business for which discounted provisions are held in the following territories:

	Discount rate		Mean term of discounted liabilities (years)	
Geographical territory	2015	2014	2015	2014
UK and Ireland	1.0% to 3.5%	0.8% to 3.3%	15	14
Canada	1.1% to 3.2%	1.3% to 3.0%	14	14
Australia	2.0%	2.3%	4	4

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 £603,735,000 for the Group (2014: £606,259,000), and £520,085,000 for the Parent (2014: £514,453,000).

At 31 December 2015, it is estimated that a fall of 1% in the discount rates used would increase the Group's net outstanding claims provisions by £14,380,000 (2014: £13,865,000). 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 regular 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:

		2015		2014	
		Gross £000	Net £000	Gross £000	Net £000
Liability	- UK	26,000	24,000	28,100	25,600
	- Overseas	8,400	7,200	11,000	8,500
Property	- UK	9,300	4,700	5,500	3,100
	- Overseas	4,900	1,600	4,700	2,000
Motor	- UK	2,200	1,100	2,200	1,100

(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 ultimate gross claims

Group	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	Total £000
At end of year	45,688	50,840	56,420	74,742	84,476	82,095	100,612	81,725	61,901	46,464	
One year later	45,900	47,307	53,552	59,807	75,550	76,371	88,046	80,027	50,571		
Two years later	40,092	43,270	47,643	55,250	62,239	71,543	78,196	69,860			
Three years later	36,168	35,510	44,658	57,134	66,422	68,587	72,516				
Four years later	30,791	35,556	40,433	55,695	61,330	60,841					
Five years later	28,470	34,925	37,546	58,631	62,074						
Six years later	27,154	34,036	37,864	54,942							
Seven years later	27,377	33,917	37,289								
Eight years later	28,534	33,028									
Nine years later	28,637										
Current estimate of ultimate claims	28,637	33,028	37,289	54,942	62,074	60,841	72,516	69,860	50,571	46,464	516,222
Cumulative payments to date	(22,954)	(27,910)	(30,915)	(43,347)	(45,397)	(38,339)	(30,248)	(21,720)	(4,973)	(826)	(266,629)
Outstanding liability	5,683	5,118	6,374	11,595	16,677	22,502	42,268	48,140	45,598	45,638	249,593
Effect of discounting											(16,085)
Present value											233,508
Discounted liability in respect of earlier years											119,772
Total discounted gross liability (for liability classes) included in insurance liabilities in the statement of financial position											353,280

Parent	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	Total £000
At end of year	38,332	41,927	46,882	60,810	69,230	66,864	84,511	71,798	52,350	34,769	
One year later	37,518	38,967	43,344	46,660	60,202	63,770	77,629	60,950	40,153		
Two years later	33,711	33,464	37,204	43,853	50,834	62,587	69,580	54,792			
Three years later	30,329	28,093	37,669	49,444	53,390	60,653	63,068				
Four years later	24,731	28,569	34,514	47,970	50,526	52,985					
Five years later	24,821	28,679	33,384	47,482	51,031						
Six years later	24,450	29,217	33,667	45,534							
Seven years later	24,710	29,904	33,020								
Eight years later	25,717	29,037									
Nine years later	25,606										
Current estimate of ultimate claims	25,606	29,037	33,020	45,534	51,031	52,985	63,068	54,792	40,153	34,769	429,995
Cumulative payments to date	(20,889)	(24,663)	(27,650)	(35,672)	(37,349)	(34,357)	(27,090)	(12,667)	(3,826)	(629)	(224,792)
Outstanding liability	4,717	4,374	5,370	9,862	13,682	18,628	35,978	42,125	36,327	34,140	205,203
Effect of discounting											(12,872)
Present value											192,331
Discounted liability in respect of earlier years											104,372
Total discounted gross liability (for liability classes) included in insurance liabilities in the statement of financial position											296,703

28 Insurance liabilities and reinsurance assets (continued)

Estimate of ultimate net claims

Group	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	Total £000
At end of year	41,007	46,235	51,795	64,476	73,218	75,302	88,247	76,729	59,633	42,739	
One year later	40,976	43,107	48,432	53,700	64,796	72,336	79,272	66,475	47,690		
Two years later	35,783	38,979	44,498	50,805	57,758	68,057	73,735	60,075			
Three years later	33,145	34,180	42,524	50,168	59,353	66,822	69,837				
Four years later	30,283	35,004	39,321	50,062	55,975	60,314					
Five years later	28,230	34,688	37,208	49,879	57,012						
Six years later	26,926	33,702	37,606	48,960							
Seven years later	27,150	33,718	37,089								
Eight years later	28,016	32,819									
Nine years later	28,237										
Current estimate of ultimate claims	28,237	32,819	37,089	48,960	57,012	60,314	69,837	60,075	47,690	42,739	484,772
Cumulative payments to date	(22,808)	(27,723)	(30,715)	(39,551)	(41,253)	(37,972)	(29,679)	(14,932)	(4,937)	(809)	(250,379)
Outstanding liability	5,429	5,096	6,374	9,409	15,759	22,342	40,158	45,143	42,753	41,930	234,393
Effect of discounting											(16,085)
Present value											218,308
Discounted liability in respect of earlier years											101,878
Total discounted net liability (for liability classes) included in insurance liabilities in the statement of financial position											320,186

Parent	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	Total £000
At end of year	33,318	36,959	41,631	51,226	57,135	59,011	74,361	67,690	50,025	33,122	
One year later	32,547	34,656	38,270	39,841	49,060	59,873	69,805	57,538	38,944		
Two years later	29,284	29,650	33,814	40,198	48,250	59,997	65,297	51,828			
Three years later	27,449	26,905	34,983	43,879	51,827	59,352	61,795				
Four years later	24,103	28,322	34,458	44,064	49,171	52,850					
Five years later	24,707	28,670	33,366	43,640	49,598						
Six years later	24,407	29,203	33,666	41,966							
Seven years later	24,696	29,904	33,021								
Eight years later	25,699	29,037									
Nine years later	25,575										
Current estimate of ultimate claims	25,575	29,037	33,021	41,966	49,598	52,850	61,795	51,828	38,944	33,122	417,736
Cumulative payments to date	(20,889)	(24,663)	(27,650)	(34,163)	(36,795)	(34,299)	(27,087)	(12,567)	(3,825)	(629)	(222,567)
Outstanding liability	4,686	4,374	5,371	7,803	12,803	18,551	34,708	39,261	35,119	32,493	195,169
Effect of discounting											(12,872)
Present value											182,297
Discounted liability in respect of earlier years											91,248
Total discounted net liability (for liability classes) included in insurance liabilities in the statement of financial position											273,545

(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 investment expenses for the current valuation are as follows:

	2015	2014
UK and overseas government bonds: non-linked	1.66%	1.52%
UK and overseas government bonds: index-linked	-0.78%	-0.98%
Corporate debt instruments: index-linked	-0.10%	-0.32%

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 gross of tax.

Funeral plans renewal expense level and inflation

Numbers of policies in force and both projected and actual expenses have been considered when setting the base renewal expense level. The unit renewal expense assumption for this business is £2.70 per annum (2014: £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 3.54% per annum (2014: 3.68%).

Tax

It has been assumed that tax legislation and rates applicable at 1 January 2016 will continue to apply. All in-force business is classed as protection business and is expected to be taxed on a profits basis.

(ii) Changes in assumptions

Projected investment returns have been revised in line with the changes in the actual yields of the underlying assets. As a result, liabilities have decreased by £2.2 million (2014: £7.3 million increase).

Changes to unit renewal expense assumptions (described in (b)(i) above), was a £0.3 million increase (2014: no effect on insurance liabilities).

Mortality assumptions have been revised for funeral plan policies to be based on a more recent population mortality table and to reflect experience of the portfolio over recent years. The impact of this change was a reduction in liabilities of £0.4million.

(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.

	Change in variable	Potential increase/ (decrease) in the result	
Variable		2015 £000	2014 £000
Deterioration in annuitant mortality	+10%	300	500
Improvement in annuitant mortality	-10%	(400)	(600)
Increase in fixed interest/cash yields	+1% pa	(100)	1,000
Decrease in fixed interest/cash yields	-1% pa	(400)	(1,700)
Worsening of base renewal expense level	+10%	(600)	(600)
Improvement in base renewal expense level	-10%	500	500
Increase in expense inflation	+1% pa	(800)	(900)
Decrease in expense inflation	-1% pa	700	700

28 Insurance liabilities and reinsurance assets (continued)

(iv) Available capital resources

	Non-profit life fund £000	Share-holders' fund £000	Total life business £000	Other activities £000	Group total £000
2015					
Shareholders' equity	(312)	44,833	44,521	460,413	504,934
Adjustments to assets/liabilities	7,500	(7,500)	-	(133,643)	(133,643)
Total available capital resources	7,188	37,333	44,521	326,770	371,291
Policyholder liabilities					
- life insurance business	85,422	-	85,422		
Net actuarial liabilities on statement of financial position	85,422	-	85,422		
2014					
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	6,186	35,508	41,694	337,471	379,165
Policyholder liabilities					
- life insurance business	94,324	-	94,324		
Net actuarial liabilities on statement of financial position	94,324	-	94,324		

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.

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 2014	6,186	35,508	41,694
Variance between actual and expected experience	249	-	249
Effect of changes to valuation interest rates	670	-	670
Effect of change in expense assumption	(393)	-	(393)
Effect of change in inflation assumption	32	-	32
Other movements	444	1,825	2,269
Capital resources as at 31 December 2015	7,188	37,333	44,521

(c) Movements in insurance liabilities and reinsurance assets

Group	Gross £000	Reinsurance £000	Net £000
Claims outstanding			
At 1 January 2015	564,380	(107,331)	457,049
Cash (paid)/received for claims settled in the year	(174,263)	50,721	(123,542)
Change in liabilities/reinsurance assets			
- arising from current year claims	200,148	(74,035)	126,113
- arising from prior year claims	(27,330)	7,110	(20,220)
Exchange differences	(11,364)	2,782	(8,582)
At 31 December 2015	551,571	(120,753)	430,818
Provision for unearned premiums			
At 1 January 2015	161,624	(50,134)	111,490
Increase in the period	154,575	(50,038)	104,537
Release in the period	(158,464)	49,250	(109,214)
Exchange differences	(4,038)	935	(3,103)
At 31 December 2015	153,697	(49,987)	103,710
Long-term business provision			
At 1 January 2015	94,324	-	94,324
Effect of claims during the year	(7,111)	-	(7,111)
Changes in assumptions	(1,988)	-	(1,988)
Other movements	197	-	197
At 31 December 2015	85,422	-	85,422
Claims outstanding			
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
Provision for unearned premiums			
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
Long-term business provision			
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

28 Insurance liabilities and reinsurance assets (continued)

Parent	Gross £000	Reinsurance £000	Net £000
Claims outstanding			
At 1 January 2015	477,881	(75,324)	402,557
Cash (paid)/received for claims settled in the year	(131,803)	25,730	(106,073)
Change in liabilities/reinsurance assets			
- arising from current year claims	158,464	(50,836)	107,628
- arising from prior year claims	(25,801)	8,918	(16,883)
Exchange differences	(6,199)	866	(5,333)
At 31 December 2015	472,542	(90,646)	381,896
Provision for unearned premiums			
At 1 January 2015	141,006	(39,680)	101,326
Increase in the period	134,253	(39,865)	94,388
Release in the period	(139,159)	39,462	(99,697)
Exchange differences	(2,818)	315	(2,503)
At 31 December 2015	133,282	(39,768)	93,514
Claims outstanding			
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
Provision for unearned premiums			
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

29 Provisions for other liabilities and contingent liabilities

Group	Regulatory and legal provisions £000	Restructuring and other provisions £000	Total £000
At 1 January 2015	2,022	1,566	3,588
Additional provisions	3,542	196	3,738
Used during year	(1,106)	(651)	(1,757)
Not utilised	(1,215)	(277)	(1,492)
Exchange differences	-	(11)	(11)
At 31 December 2015	3,243	823	4,066
Current	1,743	102	1,845
Non-current	1,500	721	2,221
Parent			
At 1 January 2015	2,022	748	2,770
Additional provisions	3,542	161	3,703
Used during year	(1,106)	-	(1,106)
Not utilised	(1,215)	(261)	(1,476)
Exchange differences	-	(1)	(1)
At 31 December 2015	3,243	647	3,890
Current	1,743	-	1,743
Non-current	1,500	647	2,147

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 the estimated 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 expected redress and associated administration costs that would be payable in relation to any complaints we may uphold.

Restructuring and other provisions

The provision for restructuring and other costs relates to costs in respect of redundancies, dilapidations and deferred consideration.

30 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 £000	Net retirement benefit assets £000	Equalisation reserve £000	Other differences £000	Total £000
At 1 January 2014	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
Charged/(credited) to profit or loss	1,469	(183)	(62)	1,199	2,423
(Credited)/charged to profit or loss - resulting from reduction in tax rate	(3,190)	(166)	(506)	182	(3,680)
Credited to other comprehensive income	-	(1,039)	-	(10)	(1,049)
Credited to other comprehensive income - resulting from reduction in tax rate	-	-	-	(12)	(12)
Exchange differences	(52)	-	-	101	49
At 31 December 2015	30,033	266	4,491	(2,340)	32,450
Parent					
At 1 January 2014	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
Charged/(credited) to profit or loss	1,930	(183)	(62)	907	2,592
(Credited)/charged to profit or loss - resulting from reduction in tax rate	(3,048)	(165)	(506)	176	(3,543)
Credited to other comprehensive income	-	(1,038)	-	(11)	(1,049)
Credited to other comprehensive income - resulting from reduction in tax rate	-	-	-	(12)	(12)
Exchange differences	-	-	-	(25)	(25)
At 31 December 2015	29,359	268	4,491	(607)	33,511

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

	2015		2014	
	Group £000	Parent £000	Group £000	Parent £000
Deferred tax liabilities	34,124	33,511	36,014	35,559
Deferred tax assets	(1,674)	-	(1,295)	(11)
	32,450	33,511	34,719	35,548

The Group has unused tax losses of £21,135,000 (2014: £21,392,000) 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.

31 Other liabilities

	2015		2014	
	Group	Parent	Group	Parent
	£000	£000	£000	£000
Creditors arising out of direct insurance operations	1,277	724	831	416
Creditors arising out of reinsurance operations	24,671	17,894	13,034	7,578
Derivative liabilities	1,466	1,466	-	-
Other creditors	15,762	7,106	14,254	5,775
Amounts owed to related parties	45	556	103	721
Accruals	17,429	13,628	16,393	12,657
	60,650	41,374	44,615	27,147
Current	60,344	41,374	44,285	27,147
Non-current	306	-	330	-

Derivative liabilities are in respect of equity futures contracts and are detailed in note 23.

32 Commitments

Capital commitments

At the year end, the Group and Parent had capital commitments of £nil relating to computer software (2014: £63,000) and £nil relating to furniture, fittings and equipment (2014: £37,000).

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:

	2015		2014	
	Group	Parent	Group	Parent
	£000	£000	£000	£000
Within 1 year	5,263	5,263	3,749	3,749
Between 1 & 5 years	16,649	16,649	13,239	13,239
After 5 years	28,858	28,858	24,724	24,724
	50,770	50,770	41,712	41,712

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

	2015		2014	
	Group	Parent	Group	Parent
	£000	£000	£000	£000
Within 1 year	2,711	1,866	2,285	1,223
Between 1 & 5 years	8,481	7,806	8,416	7,189
After 5 years	5,001	4,341	6,668	5,928
	16,193	14,013	17,369	14,340
Operating lease rentals charged to profit or loss during the year	3,391	2,380	3,576	2,009

33 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 197. 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 2015 is as follows:

Subsidiary undertakings	Share capital	Holding of shares by	
		Parent	Subsidiary
Incorporated and operating in Great Britain, engaged in investment, insurance and financial services or other insurance-related business			
Ecclesiastical Financial Advisory Services Limited	Ordinary shares	100%	-
EdenTree 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%
Incorporated in Great Britain, dormant			
E.I.O. Trustees Limited * (Company Registration Number 00941199)	Ordinary shares	100%	-
Incorporated and operating in Australia, engaged in insurance business			
Ansvar Insurance Limited	Ordinary shares	100%	-
Incorporated in Australia, dormant			
Ansvar Insurance Services Pty Limited * (Company Number 162612286)	Ordinary shares	-	100%

* Not audited

34 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
2015			
Group			
Trading, investment and other income, including recharges, and amounts received	249	-	1,565
Trading, investment and other expenditure, including recharges, and amounts paid	51	-	962
Amounts owed by related parties	19,458	-	1,215
Amounts owed to related parties	45	-	-
Parent			
Trading, investment and other income, including recharges, and amounts received	249	13,042	529
Trading, investment and other expenditure, including recharges, and amounts paid	51	3,724	962
Amounts owed by related parties	19,458	6,099	1,203
Amounts owed to related parties	45	511	-
2014 (restated)			
Group			
Trading, investment and other income, including recharges, and amounts received	8,050	-	2,079
Trading, investment and other expenditure, including recharges, and amounts paid	12,082	-	1,141
Amounts owed by related parties	19,458	-	1,128
Amounts owed to related parties	64	-	39
Parent			
Trading, investment and other income, including recharges, and amounts received	8,050	4,942	1,095
Trading, investment and other expenditure, including recharges, and amounts paid	12,082	7,086	1,141
Amounts owed by related parties	19,458	14,026	1,112
Amounts owed to related parties	64	618	39

During the year, the Company received premiums, commission and reinsurance recoveries via a related party insurance agency amounting to £1,093,000 (2014: £455,000) and paid reinsurance protection, commission and claims amounting to £1,979,000 (2014: £894,000).

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.

35 Non-adjusting events after the reporting period

On 27 January 2016, Ecclesiastical Insurance Group plc purchased NAFD Services Limited from the National Association of Funeral Directors for a consideration of £1,000. New funeral plan business, which was previously administered through Ecclesiastical Financial Services Limited, has been administered through the new company from the beginning of February 2016.

Photograph by Oskar Proctor

OTHER INFORMATION

DIRECTORS AND EXECUTIVE MANAGEMENT

Directors	*	W. M. Samuel BSc, FCA *Chairman*
	*	D. Christie BA, BSc (Econ) Dip. Ed. *Deputy Chairman and Senior Independent Director*
		I. G. Campbell BSc (Econ) (Hons), ACA *Group Chief Financial Officer*
	*	T. J. Carroll BA, MBA, FCII
	*	E. G. Creasy, MA, MBA, FCII
		M. C. J. Hews BSc (Hons), FIA *Group Chief Executive*
	*	J. F. Hylands FFA
	*	A. P. Latham ACII
	*	C. H. Taylor BSc (Hons) Banking and International Finance
		S. J. Whyte MC Inst. M, ACII *Deputy Group Chief Executive*
	*	The Venerable C. L. Wilson
	*	D. P. Wilson BA (Hons), FCII
Group Management Board		M. C. J. Hews BSc (Hons), FIA *Group Chief Executive*
		S. J. Whyte MC Inst. M, ACII *Deputy Group Chief Executive*
		I. G. Campbell BSc (Econ) (Hons), ACA *Group Chief Financial Officer*
		R. Cox FCII, DMS
		N. M. Louth-Davies MA
		J. Schofield CFIIA
		C. M. Taplin BSc (Hons), MSc, MBA
Company Secretary		Mrs R. J. Hall FCIS
Registered and Head Office		Beaufort House Brunswick Road Gloucester GL1 1JZ Tel: 0345 777 3322
Company Registration Number		24869
Investment Management Office		24 Monument Street London EC3R 8AJ Tel: 0800 358 3010
Legal advisers		Burgess Salmon LLP Bristol
		Charles Russell Speechlys LLP London
		DAC Beachcrofts LLP Leeds
		Harrison Clark Rickerbys LLP Cheltenham
		Matheson Dublin
		McDowell Purcell Solicitors Dublin
		Pinsent Masons LLP Birmingham
		Wragge Lawrence Graham and Co. LLP London
	*	Non-executive directors

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
	Tel:	0345 605 0209
London and South East	Office:	24 Monument Street London EC3R 8AJ
	Tel:	0345 608 0069
North	Office:	St Ann's House St Ann's Place Manchester M2 7LP
	Tel:	0345 603 7554

UNITED KINGDOM BUSINESS DIVISION AND INTERNATIONAL BRANCHES

Ansvar Insurance Business Division	Managing Director: Office: Tel:	R. Lane TD, BA, FCII, MCMI, MCGI Ansvar House St. Leonards Road Eastbourne, East Sussex BN21 3UR 0345 60 20 999
Canada Branch	Deputy Group Chief Executive, Ecclesiastical Insurance and General Manager and Chief Agent: Chief Office:	 S. J. Whyte MC Inst M, ACII 20 Eglinton Avenue West, Suite 2200 P.O. Box 2004 Toronto, Ontario M4R 1K8
- Eastern Region:	Regional Vice President:	M. Thornhill BA, CRM, FCIP 100 Eileen Stubbs Avenue Suite 201 Dartmouth, Nova Scotia B3B 1Y6
- Western Region:	Regional Vice President:	K. Webster CRM, FCIP Suite 521, 10333 Southport Road S.W. Calgary, Alberta T2W 3X6
- Pacific Region:	Regional Vice President:	B. Mitchell, CIP Suite 1795, Two Bentall Centre 555 Burrard Street, Box 239 Vancouver, British Columbia V7X 1M9
- Central Region and National Accounts:	Vice-President:	R. Jordan BBA, CRM, FCIP 20 Eglinton Avenue West, Suite 2200 P.O. Box 2004 Toronto, Ontario M4R 1K8
Ireland Branch	Managing Director: Office:	D. G. Lane B.Comm (Hons), Certified Insurance Director 1st Floor, Kilmore House Spencer Dock, North Wall Quay Dublin 1, DO1 YE64

INSURANCE SUBSIDIARIES AND AGENCIES

Ansvar Insurance Limited	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
Ecclesiastical Life Limited	Head Office:	Beaufort House Brunswick Road Gloucester GL1 1JZ
Ecclesiastical Underwriting Management Limited	Office:	24 Monument Street London EC3R 8AJ
South Essex Insurance Brokers Limited	Director:	B. W. Fehler
	Office:	South Essex House, North Road South Ockendon Essex RM15 5BE
	Tel:	01708 850000

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, 16 June 2016 at 12.35pm for the following purposes:

Ordinary business

1. To receive the Report of the Directors and Accounts for the year ended 31 December 2015 and the report of the auditor thereon.
2. To re-elect Mr I. G. Campbell as a director.*
3. To re-elect Mr T. J. Carroll as a director.*
4. To re-elect Mr M. C. J. Hews as a director.*
5. To re-elect Mr J. F. Hylands as a director.*
6. To re-elect Mr A. P. Latham as a director.*
7. To re-elect Mrs C. H. Taylor as a director.*
8. To re-elect Mrs S. J. Whyte as a director.*
9. To re-elect The Venerable C. L. Wilson as a director.*
10. To re-elect Ms D. P. Wilson as a director.*
11. To elect Mr E. Creasy as a director.*
12. To consider the declaration of a dividend.
13. To reappoint Deloitte LLP as auditors and authorise the directors to fix their remuneration.

By order of the Board

Mrs R. J. Hall, Secretary
16 March 2016

* Brief biographies of the directors seeking election or re-election are shown on pages 80 to 81 of the 2015 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 2015
Ecclesiastical Insurance Office plc
Beaufort House, Brunswick Road, Gloucester, GL1 1JZ
www.ecclesiastical.com

Ecclesiastical