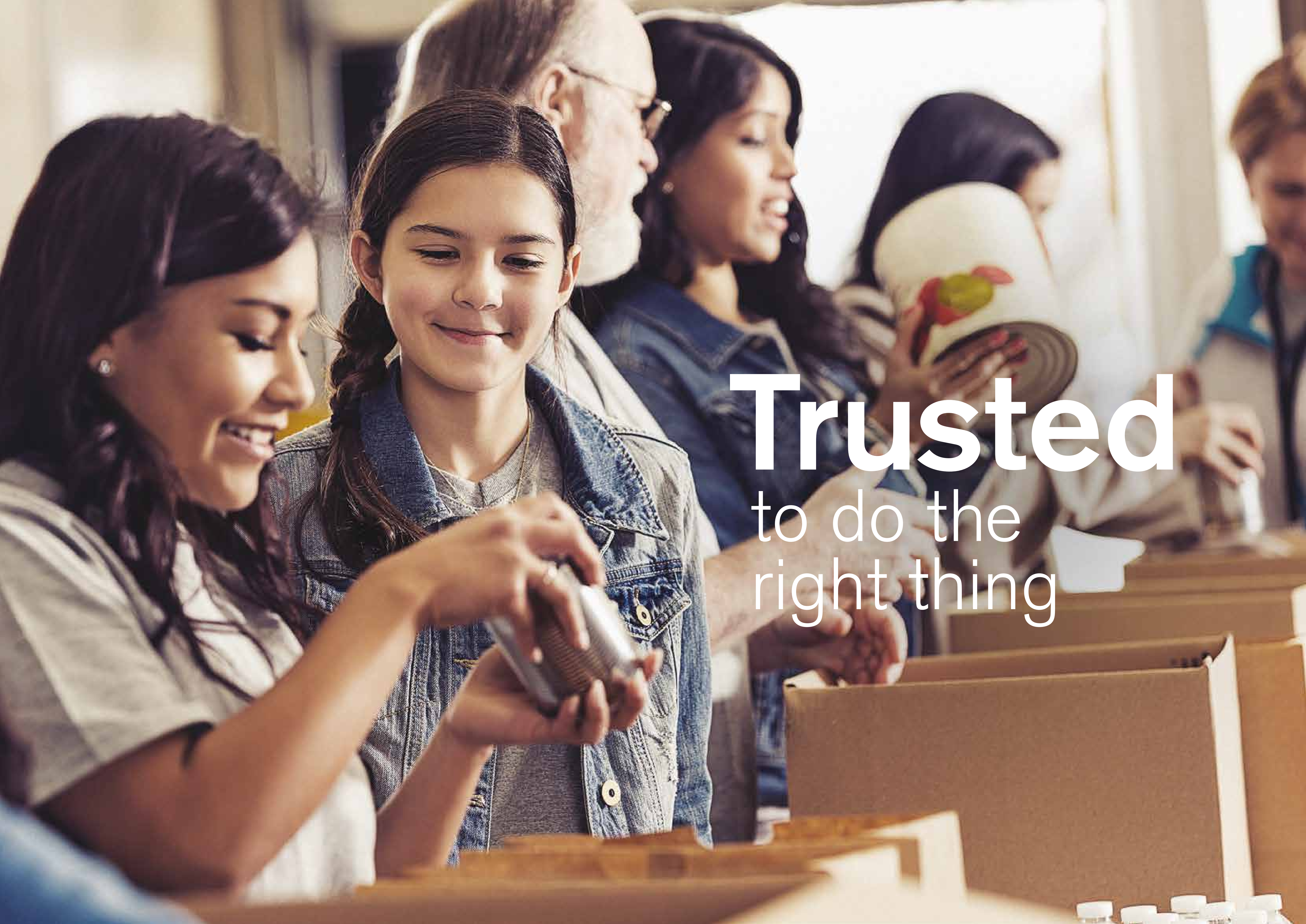
Ecclesiastical Annual Report & Accounts 2016

TRUSTED TO DO THE RIGHT THING


Trusted
for 130 years


Trusted
with the
irreplaceable



Trusted
to do the
right thing

Contents

Section One

About Us

Ecclesiastical is a specialist financial services group with deep expertise in its chosen markets.

Established 130 years ago, our group comprises insurance, investment management, broking and advisory businesses in the UK, Ireland, Canada, and Australia.

We are a commercial business. But unlike our peers, we are owned by a charity and have a purely charitable purpose, which is to contribute to the greater good of society by managing a successful, ethically-run portfolio of businesses.

A significant proportion of our profits are granted to our owner Allchurches Trust Limited (Allchurches Trust), which donates these independently to good causes, helping to change people's lives for the better. We also have our own extensive programme of charitable giving.

Our charitable ownership allows us to pursue longer-term commercial goals. It also means we can focus on doing the right thing for our customers, without conflict between customer and shareholder or owner interests. This focus has seen us build trusted relationships, products and services, based on a real understanding of, and attention to, our customers' needs.

All these distinctive attributes give us a competitive edge, helping us to deliver significant returns to our owner.

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

Trusted to do the right thing.

Ecclesiastical at a glance

Who we are

No.1
insurer for charitable giving in the UK

One of the UK's top 10 largest corporate givers to charity*

*DSC Guide to Charitable Giving

£50m
to charity in the last three years

130
years' experience
Established in 1887 to provide fire protection to Anglican churches

Insurance Company of the Year
UK's Better Society Awards 2016

Owned by a charity
Our charitable owner is Allchurches Trust Limited (Allchurches Trust)

£0.52bn
Net assets

What we do

Major insurer of independent schools
50%+ of CAIS* members; 40%+ of independent schools in the UK
*Canadian Accredited Independent Schools

Insure many thousands of charities
48,000+
in the UK alone

Leading insurer for the Anglican church
in all our territories

Insure 10 of the UK's World Heritage sites*
Including Stonehenge and Canterbury Cathedral
*alongside other insurers

Main insurer of the UK's Grade 1 listed buildings

Award-winning ethical investment
Moneyfacts 'Best Ethical Investment Provider' 2009 to 2016

£288bn
of property insured worldwide

Leading multi-faith insurer
Insuring synagogues and mosques in all our territories

How we do business well

99%–100%

UK overall customer satisfaction

Across all the sectors we measure

One of fewer than 30 insurers to achieve CII Chartered Status

Awarded status for three successive years

95%+

of customers satisfied with how their claim is handled

98% in UK
95% in Ireland

96%+

of key brokers satisfied with our service

96% in Ireland
96% of key brokers in UK

Our corporate responsibility

CommunityMark status

Our UK business is one in only 34 companies to hold this mark

60%+

of our employees volunteer over 3,400 hours

£24.7m

given to charity in 2016

£24m to our owner and £0.7m via our Greater Giving programme

Gold Standard for Payroll Giving

We match 100% of what our employees give to charity

How we do business well

Top employers for young people

Canada recognised as Top Employer for Young People for the fifth consecutive year

82%

MySay employee engagement score (8% above the industry average)

87% are "Proud to work for my company"

Living Wage accredited

A UK Living Wage employer

Founding signatory of the Women in Finance Charter

Our financial performance

£62.5m

profit before tax +16.4%

89.8%

combined operating ratio improved by 3.4pp

£20.1m

underwriting result

(£13.5m in previous year)

£24m

grant to Allchurches

(£20m 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 real estate 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 churches 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. EdenTree also manages the majority of the Group's financial investments.

Broking and Advisory
SEIB Insurance Brokers (SEIB) / Ecclesiastical Financial Advisory Services (EFAS) / Ecclesiastical Planning Services Ltd* (EPSL) / Lycetts Insurance Brokers* / Lycetts Financial Services*

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. EPSL markets and administers prepayment funeral plans under the Perfect Choice brand.

* Part of Ecclesiastical Insurance Group (EIG)

Using new technologies to capture critical data

For over 130 years, our surveyors have built enormous expertise in assessing the many and varied properties we insure. In Australia, our insurance business Ansvar is beginning to use reality capture technology to enhance the process of collecting and analysing the data that sits behind every insurance valuation.

The use of drones lies at the heart of this process. Using a range of image collection technologies, including a 3D laser, 360° camera and GPS, we capture a digital record of every physical aspect of a building, inside and out, as well as its contents and surroundings.

Back at the office, we use state-of-the-art software to convert the digital images into 3D data from which we can produce a range of outputs. These include 3D virtual tours, topographic maps that help spot flood and bushfire risks, and thermal images of the building that can detect leaks, missing insulation and even faulty solar panels. Finally, the software allows us to produce detailed risk assessments and valuations.

Reality capture benefits our customers in many ways. We can give them faster, more accurate surveys and valuations. We can offer them better risk management advice. And should the worst happen, our ability to access and share their records instantly means faster claims assessment and recovery. For all these reasons, Ansvar Australia is continuing to pioneer the use of reality capture across its business.

"The Anglican Diocese of Sydney has been a client of Ansvar for over a decade and the parish of Blackheath, which contains several heritage buildings, was delighted to help Ansvar test the drone technology at our St John's Hartley heritage site. The photographic results are impressive and provide accurate and detailed images of the church building. We think this technology could really enhance the way insurers add value to their clients' management of some of the key risks at their properties."

Rev. Tim McIvor
Anglican Parish of Blackheath, Sydney

"Maintaining old buildings safely is not easy. This new technology is a fantastic resource to help us care for our heritage buildings. What brilliant images. We have a few structures high up on our roof which need maintenance, and these images help us understand the work needed to fix them and make them safe. This is a revolution in building maintenance!"

Mark Durie
Senior Pastor, Oaktree Anglican Church

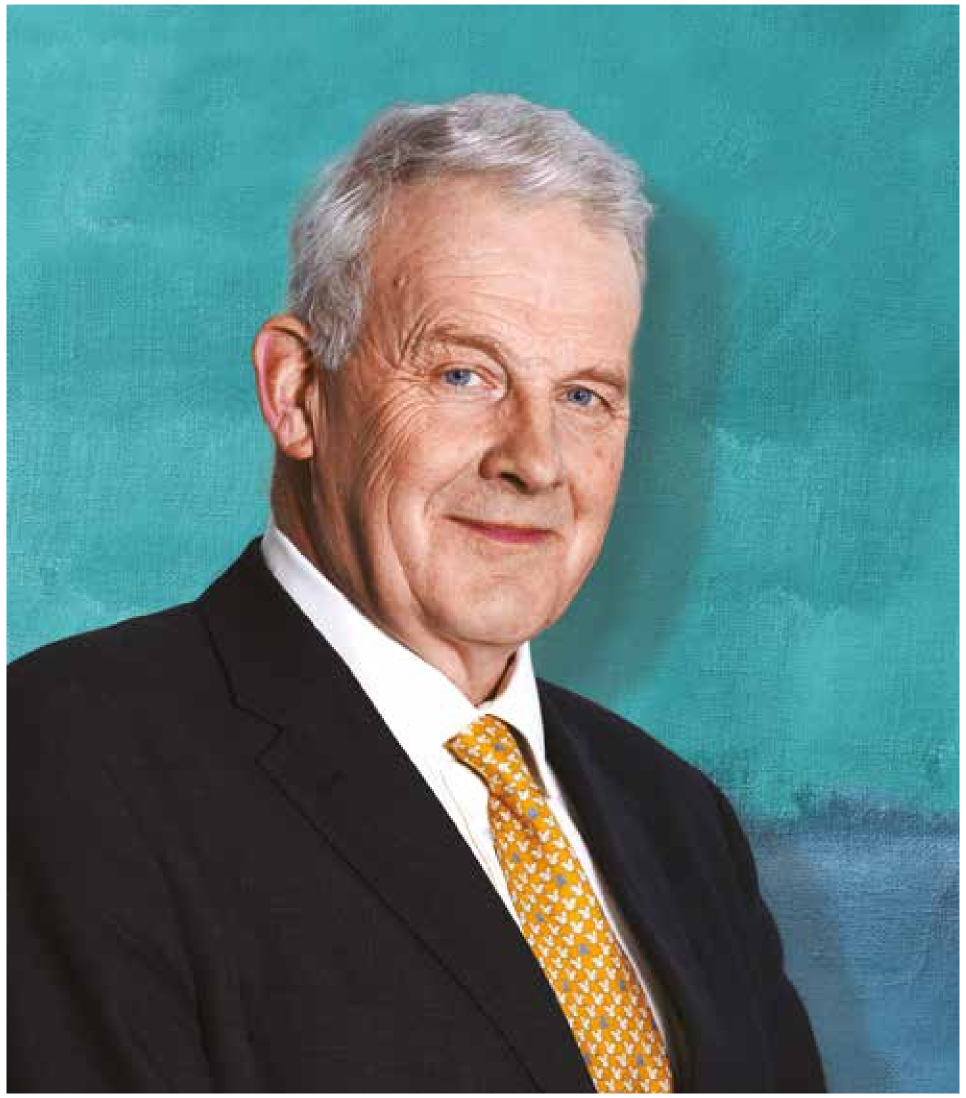
Section Two

Strategic Report

Chairman's Statement

A year of achievement

This year has been a year of achievement for Ecclesiastical. In March, we reached our goal of giving £50m to charity in three years, thanks to a transformation in our financial performance over this period. I am delighted that, as a result, more than 3,000 good causes have benefited. Ecclesiastical performed well in 2016, in a year where there was much uncertainty in the external environment.



March 2016 saw the launch of our new strategic target – to give £100m to charity by the end of 2020. With £17.7m already given to charity since April, I have every confidence that we will attain this challenging goal.

Once again, we delivered strong underwriting profits and investment returns, with profit before tax increasing for the second year running. These results have been driven by the continued focus of our management team on creating an efficient, sustainable and profitable business.

Our profits and capital strength allowed us to pay £24m to our charitable owner, give £0.7m to the good causes we support directly and attain the challenging charitable goal we set ourselves three years ago. This is a significant achievement and I would like to thank our customers, business partners and employees for the part they have played in this success.

Reflections of a new Chairman

I believe Ecclesiastical is a very different kind of financial services business. Over time, our charitable purpose has fostered a very special working environment, in which people are intent on doing the right thing. The energy, approach and values this environment inspires are evident in every Ecclesiastical colleague I have met over the last 12 months. At the root of this difference is our charitable ownership.

While Ecclesiastical and Allchurches Trust, our shareholder and owner, are separate organisations, we are both committed to improving people's lives through charitable endeavour. Allchurches Trust therefore prizes long-term value generation over short-term results, allowing Ecclesiastical to focus on building a sustainable and profitable business so we can provide meaningful support to good causes for years to come.

In practice, our shareholder's longer-term focus enables us to prioritise customers' needs, especially when the worst happens. We look actively for ways to pay their valid claims and we dedicate the time and expert resources required to resolve their problems. Across the Group, decision making is shaped by our strategic aim of being the most trusted and ethical player in all our markets. In 2016, this approach saw us achieve significant external recognition across all our territories.

Ecclesiastical's distinctive ethical positioning already gives us a competitive edge, against a background of ongoing public mistrust in financial services companies.
To harness this advantage fully, we must combine our values, commercial acumen and knowledge of emerging trends to provide products and services that give comfort to our customers and protect them against the risks they face in today's rapidly changing world.

Corporate culture

I am proud to have joined a Board with such a single-minded focus on achieving the success of this special organisation. Drawn from different and diverse backgrounds, they are a cohesive, close-knit team, who are passionate about what they do for Ecclesiastical.

As a Board, we find Ecclesiastical's strong corporate culture especially compelling and recognise its importance in delivering long-term business success. Unlike many in our sector, our purpose and strategy are linked inextricably to our culture and drive positive behaviours, as evidenced by high customer satisfaction scores and external recognition.

We will ensure that Ecclesiastical rolls out our Customer Promise initiative, detailed in the Strategy in Action section on page 41, effectively across the Group, uses performance management processes to reward the positive behaviours we foster and reports on its progress robustly.

Board changes

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 two colleagues who left us in March 2016: Will Samuel, who served us so well as Chairman for seven years; and David Christie who retired as a Non-Executive Director and Deputy Chairman after 15 years which included three years as Deputy Chairman. It is also my pleasure to welcome David Henderson who joined us as a Non-Executive Director in April 2016, bringing extensive financial services experience and human resources knowledge to the Board.

Continuing the transformation

The last three years have seen strong delivery, both financially and strategically. Thanks to the determination and focus of the management team and a robust change programme, Ecclesiastical has become a profitable, better skilled and more focused business, meeting its three-year £50m target ahead of schedule, and developing the confidence to thrive in our chosen areas of expertise.

March 2016 saw the launch of our new strategic target – to give £100m to charity by the end of 2020. With £17.7m already given to charity since April, I have every confidence that we will attain this challenging goal.

Edward Creasy
Chairman

Saying ‘thank you’

In June 2016, over 700 people packed Gloucester Cathedral to help Ecclesiastical celebrate its achievement of raising £50m for charitable causes in three years.

Ecclesiastical employees from all over the world were joined at the service of thanksgiving by customers, brokers, family members and retired colleagues, recognising the contribution of the whole Ecclesiastical community. We were also privileged to welcome representatives from some of the 3,000 charities that we have helped to support in the past three years.

We are proud to have worked together to help those who need it most.

“The whole event was impressive at every level … but the greatest impression was made by the testimonies of just some of the charities Ecclesiastical have helped and the insight into how your charitable donations benefit the community. It’s a very powerful message and one that sets Ecclesiastical apart.”

“It was a lovely service and a truly astonishing achievement with the ambitious targets raised for charities!”

Guests at service of thanksgiving, Gloucester Cathedral

Chief Executive's Report

A caring business with a heart

Ecclesiastical is proud to be a trusted, caring business with a charitable purpose. In 2016, we demonstrated the strength of that purpose by achieving our goal of giving £50m to charity in three years.

We celebrated this achievement with a Service of Thanksgiving at Gloucester Cathedral, where we heard moving and inspiring stories from some of over 3,000 charities we have helped in that time.

Sitting in that magnificent building, I was reminded forcibly of what sets our company apart. Most businesses do not exist to give money to great charitable causes and make people's lives better. We do.

Shaped by our charitable ownership

In the world of financial services, Ecclesiastical's business model is unique.

Owned by a charity, we are not driven by the need to grow at any cost in order to satisfy short-term shareholder or owner demands. Instead, we are encouraged by our charitable owner to build a sustainable, ethical, values-driven business over the longer-term.

Our ownership also drives us to deliver unrivalled levels of customer relationship and care, putting customers first, particularly in times of need.

In this sense, our insurance business seeks to provide insurance that you can believe in, rather than cheap insurance that may not provide the level of cover you expected at your time of need.

Indeed, for 130 years we've been trusted to protect so much of Great Britain's irreplaceable heritage and history, insuring as we do palaces, world heritage sites, treasure houses, independent schools, churches and cathedrals – in fact the majority of the country's Grade I listed buildings.

Strong results that benefit society

I am pleased to report that 2016 has been an outstanding year. We have delivered a pre-tax profit of £62.5m compared with £53.6m in 2015 and an underwriting profit of £20.1m, up from £13.5m the previous year. This generated a Group combined operating ratio of 89.8%, a significant improvement on the 93.2% achieved during 2015. These profits saw the Group's capital position remain strong on all measures.

We delivered these results against an uncertain external environment. Benign weather conditions and higher than expected releases from prior year claims in most of our territories acted in our favour, though we were impacted by natural disasters such as the Fort McMurray wildfires in Canada and flash floods in the UK in June.

The recently announced reduction in the Ogden discount rate to minus 0.75% had a minimal impact on our 2016 results as our liability portfolio is less sensitive to the level of the rate due to low frequency of catastrophic injury cases, and our discontinued UK Motor business is at an advanced stage of run off.

Investment markets rallied following considerable volatility after the Brexit decision and US presidential election, with an overall positive impact on our investment returns, supported by post-Brexit currency movements.

Thanks to our strong financial results, we were able to make charitable donations in excess of £24m, exceeding our £50m target in March 2016 and helping to change people's lives for the better. Many lives have been touched by the kindness and compassion of the charitable organisations that we have supported here in the UK, as well as overseas in Canada, Australia and Ireland.

As I look back on our financial and charitable achievements, I take great pride in what makes Ecclesiastical different. First and foremost, we are a brand with a purpose – a business that generates sustainable profits to help those who need it most.

Trusted to do the right thing

Financial services remains the least trusted industry in the world, according to a respected global survey*. I am delighted that Ecclesiastical continues to buck this trend, as evidenced by external recognition. This speaks to our aim of being the most trusted and ethical business in our chosen markets, and is testament to the store we set on doing the right thing for our customers.

In my role as Group CEO, I am privileged to meet many people from all walks of life and am frequently touched to receive unsolicited praise for our outstanding service. Some people tell me about the fair and compassionate way our claims teams handled their claim and how we were on their side in difficult times. Some tell me about exceptional advice received from our expert, specialist advisors and I have heard many complimentary remarks about our ethical investment offerings. Many of those I speak to feel compelled to write to us with their thanks.

Such feedback is powerful and it is amplified by independent survey evidence. In the UK, our customer satisfaction levels are 99-100% across the board, while 98% of our customers are satisfied with how we have handled their claim. For the 10th consecutive year, UK brokers have named us as the best insurance provider for charity, education and heritage.

This reflects the expert, specialist knowledge we have built up over 130 years and our passion for our customers. Our trusted status makes us distinctive in our markets, and gives us a keen competitive edge.

Externally, this difference was recognised in a number of high-profile ways. We were named Insurance Company of the Year at the Better Society Awards in the UK, and were finalists at the equivalent award in Australia. We were awarded a national award for customer care at the industry's Claims Awards for service. We have been ranked the most trusted home insurance provider by Fairer Finance, ahead of 47 other insurers. EdenTree was named Moneyfacts Best Ethical Investment Provider for the eighth consecutive year, while in Canada, we were recognised as a Top Employer for Young People for the fifth year in a row.

Of course, we are not perfect and never will be. But I know that we strive to do the right thing – and we aim to be a 'beacon of light' in an era where there is so much distrust in financial services.

*2016 Edelman Trust Barometer

Progress in detail

We have achieved a transformation in our financial performance over the last three years, by applying robust underwriting disciplines and managing our exposure to risk tightly. Our strong underwriting performance was supported by a healthy return on investments, helped by equity gains and better than expected fair value movements on bonds as yields fell further compared with the previous year. The weakening of sterling following the Brexit vote has also contributed to the result, boosting the value of overseas operations and foreign investments.

Global gross written premium (GWP) increased slightly, as a result of currency gains on premiums written by our overseas businesses, in addition to growth in local currency. The year saw us win and retain a range of significant real estate, education, heritage and charity accounts across our territories, from historic palaces to cutting-edge property developers.

Our UK and Ireland businesses reported a modest decline in GWP, with very high retention levels despite the ongoing transfer of academies to the Department of Education's own risk protection arrangement. We continued to manage our portfolio rigorously to maximise profitability, resulting in a slight decline of 3.4% in GWP and a substantial £13.4m increase in underwriting profits. In response to changing customer needs we launched a number of innovative products, including our ParishPlus proposition for the UK Anglican church, Real Estate, Art & Private Client, Cyber and Education insurance policies. We also strengthened our senior team, recruiting a new Managing Director for the UK general insurance business and augmenting our Art & Private Client team. In Canada and Australia, our businesses delivered GWP growth of 5% and 0.3% respectively in local currency. Underwriting losses of £3.4m in Canada and £1.2m in Australia were due in part to exceptional natural disasters, including Canada's Fort McMurray wildfires which proved the most costly catastrophe in the nation's insurance history, and a number of smaller catastrophe events in Australia.

Profit before tax from our investment management business, EdenTree, reduced to £1.6m compared to £1.8m the previous year as we continued to invest in that business. Funds under management increased from £2.3bn to £2.5bn, despite market uncertainty and reduced investment appetites. The division continued to build its reputation as one of the investment industry's most influential thought leaders, winning an award for the Best Thought Leadership Paper on Sustainable Investment at the Investment Week Sustainable Investment Awards 2016.

Our insurance broker, SEIB, grew profits to £2.4m from £2.2m in 2015, thanks to improved underwriting performance in core schemes. The company launched a new product for commercial drone owners and, as a result of expertise gained during the development of its cyber product in 2015, is building a reputation as an expert in the new technology space.

Expert, dedicated people

Ecclesiastical's achievements would not be possible without the expertise and dedication of our employees. Their determination to go the extra mile for customers, business partners and good causes is inspirational, and I would like to take the opportunity to thank every one of them.

The specialism of our expert teams is distinctive – for example, we have a substantial in-house risk management team in the UK and are proud to continue to hold Chartered Insurer status across our UK businesses and in Ireland.

We have done much to strengthen our senior management team over the last three years and in 2016 augmented our Group Management Board further with three new directors responsible for compliance, strategy and brand and communications.

Diversity in its broadest sense is respected and welcomed across our Group, and we aim to be at the forefront of best practice in this area. As such, in the UK, we became a founding signatory of the Women in Finance Charter, an initiative to promote gender balance at all levels across the financial services sector.

Transparency on abuse claims

We have previously reported on the techniques used to ensure we are reserved appropriately for latent claims of physical and sexual abuse (PSA) against our customers, and our approach has been shown to be prudent over recent years.

In 2016, as the UK's Independent Inquiry into Child Sexual Abuse (IICSA) started its investigations, we took the decision to make public our longstanding approach to handling PSA claims, in order to give transparency to our customers and to the victims and survivors of abuse.

In May 2016, we published our guiding principles on handling PSA claims, the first such principles to be published by a UK insurer. The guidelines and our claims handling approach have secured favourable comment from claimant lawyers, both on publication and at IICSA's first seminars on the civil justice system which we were invited to attend. We encourage other insurers to follow suit.

Looking forward to 2020

In the last three years, we have implemented a Group-wide change programme, restructured our Group and strengthened key disciplines, exited loss-making business and acquired new businesses and, most importantly, strengthened the quality and solidity of our underlying income so that we can look to the future with confidence and optimism.

Our strategy – to be the most trusted and ethical company in our chosen markets – remains consistent and serves us well, and we have now enhanced this with a new and ambitious vision for the period to 2020:

To work together to be the most trusted and ethical specialist financial services group, giving £100m to charity.

The launch of this refreshed vision, supported by a new change programme, marks the next chapter in our transformation. This will be underpinned by substantial strategic investment, particularly in new systems and technologies that will make us more efficient and agile, allowing us to offer even better value for money and deliver on our promise to customers. We will also continue to invest in our people, to strengthen and deepen our expertise and seek to acquire businesses, teams and individuals who fit our group values and share our aspirations.

Our capital position remains strong and we are well placed to weather continuing market volatility and currency instability, supported by our unique ownership which allows us to take a long-term view and ride out periods of market turbulence. In this context, we are alive to the long-term risks that our defined benefit pension scheme brings and intend to continue our practice of periodic reviews in consultation with others, seeking to balance interests all round.

We expect the insurance market to remain highly competitive but are confident that we can continue to confront such challenges successfully, thanks to our specialist expertise, our reputation and our focus on doing the right thing for our customers. Our consistent results over the past three years are testament to this success.

Our financial strength, ethical approach and specialist teams are the bedrock on which we will continue to build our business.

Working together for the greater good

With one transformative charitable target achieved and another ahead of us, we remain energised and inspired to work together for our customers and for the good of society as a whole.

As we embark on our next challenge, I would like to thank our customers, our business partners and our employees for helping us to achieve our charitable goal. Thank you for working with and trusting us to do the right thing. For those of you who are considering working with or for us, I would urge you to talk to us and experience the 'Ecclesiastical difference' first-hand. We welcome the opportunity to work with people who share our vision and want to make a difference to those in need.

As I look back at the achievements of the past year and forward to the exciting future that we are working towards, I am reminded of the quotation shared at our Service of Thanksgiving last June:

***Do all the good you can,
by all the means you can,
in all the ways you can,
at all the times you can,
to all the people you can,
as long as you can.***

These words are John Wesley's but they describe what has always driven Ecclesiastical. I am confident that by continuing to do the right thing for our customers, our business partners and our communities, we will meet our challenging new target, building a financial Group that is the most trusted and ethical in its markets. A Group that is formed from a unique blend of business, charity and faith. A Group that sets the standard for doing business differently. A Group that, instead of paying big corporate dividends, gives in all the ways it can to help as many as it can.

Mark Hews
Group Chief Executive

Restoring a medieval treasure

The Merchant Adventurers' Hall is one of York's medieval treasures and now operates as a museum and venue for special events. On Boxing Day 2015, it suffered the most severe flooding in its 660 year history, requiring swift action to ensure it could reopen for business.

The Hall's historic silverware, furniture and other precious contents were largely undamaged, thanks to the vigilance of its custodian who had already moved these irreplaceable objects to safety. However, the Hall's undercroft, chapel and other ground floor areas sustained considerable damage, with brick flooring, Tudor fireplaces and the chapel's timber panelling among the areas affected.

Our loss adjuster visited the site immediately, quickly followed by our specialist claims consultant, and a substantial emergency payment was made so that work could start immediately. A network of experts was rallied and temporary works agreed so that the Hall could reopen as quickly as possible.

Remarkably, the Hall reopened for the JORVIK Viking Festival in February 2016, albeit with much more still to be done. With final renovations being undertaken in 2017, and a new visitor entrance installed, this magnificent old building can continue to provide a place for people to socialise.

"The severe flooding of our ancient Hall was a huge shock which gave rise to grave concerns over the restoration of this internationally important building. The immediate response from Ecclesiastical and its loss adjuster, together with the resilience built in by the medieval builders, enabled the Hall to reopen to visitors within an amazingly short time frame. Once repairs are complete the Hall will be fully restored to its pre-flood splendour and this could, quite simply, never have been achieved without the unstinting support they provided so readily."

Captain Stephen Upright RN
The Clerk to the company of Merchant Adventurers of the City of York

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 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. Increased regulatory scrutiny is expected for all companies, particularly given the anticipated introduction of new EU regulation including the Insurance Mediation Directive and the General Data Protection Regulations (IMD2) and planned updates to the Markets in Financial Instruments Directive (MiFiD2).	Day 1 compliance with the Solvency II regulations was achieved by 1 January 2016, resulting in a step change in the Group's management of risk and capital. All frameworks are embedded and operational, with the focus now on achieving internal model approval. We successfully delivered a Pre-Application Pack to the PRA in September 2016 and confirmation has now been received of acceptance onto the Internal Model Approval Process. The PRA Commitment Panel is scheduled for early Q2 2017 and it is expected that a full Internal Model application will be submitted to the PRA in June 2017. We have continued to prepare for future regulatory requirements, such as IMD2 and planned updates to MiFiD2. Consideration is being given to the potential impact of any regulatory decisions regarding the distribution model in our Broking and Advisory division. Ecclesiastical's continued focus on putting customers at the heart of our business has seen us roll out a Customer Promise across our businesses in 2016. This highlights our Guiding Principles on delivering customer conduct, service, advice, products and pricing and includes relevant targets. In our insurance businesses, we have a suite of KPIs which are used to measure performance regularly – in 2017, this will be rolled out to other businesses within the Group. As a result, we are well placed to respond to regulatory requests for greater transparency and improved customer relationships.

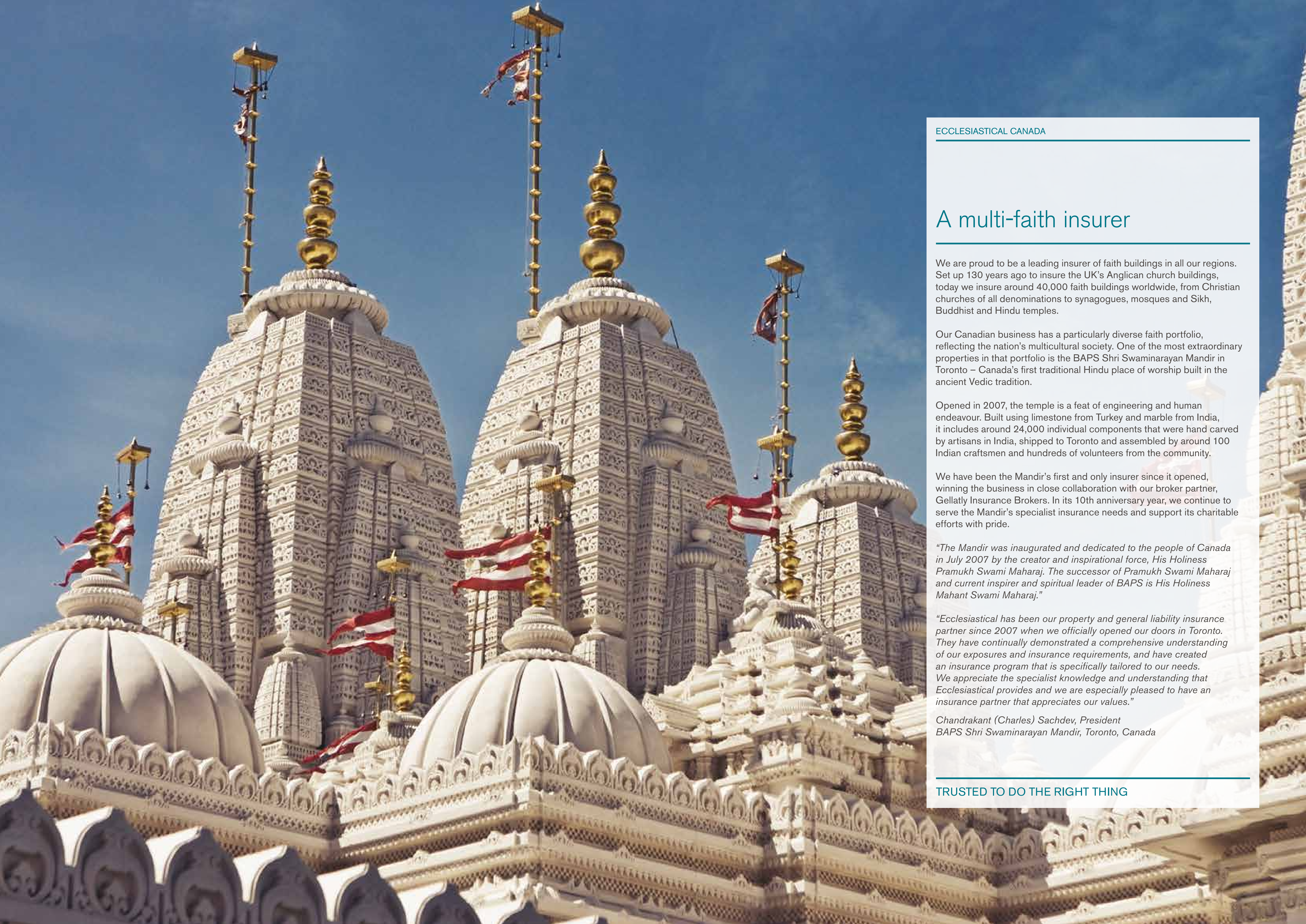
Trend	Our perspective	Our response
Developments in technology, data and analytics	Businesses are seeking deeper insights into customer behaviour to gain competitive advantage. Such data underpins insurance pricing models, offering the potential for superior risk selection, better risk pricing, an improved offering and experience for customers and, ultimately, an enhanced underwriting result. Businesses continue to invest in systems and technology in order to improve operational efficiency. Advances in technology are helping businesses gain a better understanding of their property portfolio.	Since 2014, we have begun to make significant investments in upgrading and replacing the technology across our businesses. Many of the projects involved are long-term business change programmes with investment continuing beyond 2016, with some expected to continue until the end of the decade. Preparations are underway for the design and selection for a new core operating system for the UK and Ireland Insurance businesses. As it progresses, this project will improve processes for front-line employees, provide a platform for business growth and better serve customers and intermediaries. We have continued to streamline the front-end operations of EdenTree, our investment management business. The final element of the specialist platform Charles River has been implemented, with the launch of the client reporting module. Work continues on integrating the systems used by our UK brokers onto a single platform, with increased collaboration between these businesses to utilise the technology expertise in SEIB. Ecclesiastical has invested in technological innovation, including trialling the use of unmanned drones (Australia) and thermal imaging technology (Canada). We regularly look ahead to anticipate and understand the potential impact of emerging technologies on the broader environment, our business and our customers.

Trend	Our perspective	Our response
Changing demographic and social trends; increased customer expectations	Demographics and social profiles are changing across our key markets and territories. In particular, migration 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. Global markets have experienced considerable volatility in 2016 due to unexpected referendum and election results in the UK and US. Volatility is likely to continue into 2017.	We continue to deepen our understanding of the needs of our customers and broker partners, through listening exercises and a continuous programme of market and customer research. Our Select Broker programme has been warmly received in the UK, offering specialist support for these priority brokers; this in turn supports the brokers' relationship-building activity with the end customer. Also in the UK, our new broker campaign *Experience. The Difference.* provides expert insight and advice for all brokers and their customers. Our ongoing research to understand and anticipate the potential impact of emerging global trends helps us identify opportunities in new and emerging markets. Our broking businesses have been developing specialist expertise ahead of their competitors, particularly in the alternative energy and cyber security sectors. Customer focus and understanding also shapes our product offering. In the UK, new insurance products have been launched that address the evolving needs of our customers including Art & Private Client, Cyber, Education, Parish Plus and Real Estate. Longstanding trusted relationships are fundamental to our underwriting business model, which is based on a trilateral partnership between customers, brokers and ourselves. This partnership approach attracted many prestigious and iconic customers in 2016 including **Royal Hospital Chelsea** (UK), **Gow-Gates Group** (Australia), **Special Olympics Canada** (Canada) and **The Honourable Society of King's Inns** (Ireland). Our investment management business, EdenTree, is a pioneer in ethical and responsible investment with its 'Profits with Principles' approach. The team, which launched one of the UK's first socially responsible retail funds, continues to win awards for its ethical investment proposition and places strong emphasis on customer service, integrity and trust. EdenTree has a track record of delivering long-term performance for its clients. It places an emphasis on capital preservation in times of volatility. We strive to be the most trusted and ethical financial services group and this is the basis of our business model. This enables us to retain our distinct positioning (deep knowledge and understanding, strong relationships and the provision of products and services that our customers trust) despite the unknowns in the external environment.

Trend	Our perspective	Our response
Restoring trust in financial services	The low levels of trust in financial services have persisted since the 2007-08 financial crisis, which damaged consumer confidence in the economy and financial services. Globally, the financial services sector remains the least trusted. Positive improvements are being seen in the UK with the Edelman Trust barometer recording a 5% increase in the general population's trust in financial services to 41%. Ecclesiastical has a distinct positioning that states our aim to be the most trusted and ethical financial services group. Our business model supports this ambition and we have an unusually high level of trust compared with other insurers.	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, creating strong and enduring relationships. While financial services remains the least trusted sector globally, our research shows that Ecclesiastical has an unusually high level of trust among customers and brokers. According to an independent survey by FWD Consulting, we have also been recognised as the best insurer for the 10th consecutive year in the charity, education and commercial heritage sectors. We were also delighted to receive the Golden Ribbon from Fairer Finance for our home insurance product, ranking 1st across the 48 providers rated. In achieving this accolade we topped the rankings in relation to customer trust and customer happiness. The investment management industry is coming under increasing scrutiny from regulators and consumer bodies over fee transparency and investment performance. EdenTree is regulated by the Financial Conduct Authority and is governed by the 'Treating Customers Fairly' regime in the UK. We are a Tier I signatory to the UK Stewardship Code, accredited under the European SRI Transparency Code, and signatories to the Principles of Responsible Investment (PRI). See the 'Trusted to do the right thing' section of the Chief Executive's Report on page 22 for details of how our success in this area has been recognised.

Trend	Our perspective	Our response
Climate change	The world's climate has changed over the past century, with the ten warmest years during that period all occurring since 2000, with the exception of 1998. It is widely believed that this will lead to an increase in extreme weather events, with some studies suggesting this increase has already begun. Increased weather volatility 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 seek to understand the longer-term impact of climate change and the implications for our customers and business. This includes predictive analysis to map the probability and potential impacts of natural catastrophes and major weather events. These insights inform our risk appetite and create a deeper understanding of the potential impacts of such events on our portfolio of risks. We have strong expertise in assessing flood risk, monitoring high-risk areas and providing proactive risk management advice and support to help our customers develop flood resistance and resilience plans. When these events occur, we are able to deploy fast-response teams including the use of drones to assess damage in inaccessible areas. 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. Our investment business, EdenTree, with its award-winning ethical investment track record, is engaging proactively with public policy issues as a member of the Institutional Investors Group on Climate Change (IIGCC). In 2016, EdenTree conducted carbon footprints for all its retail equity funds to identify climate change risks within its portfolio. As a result, it engaged with its most carbon-intensive holdings to encourage more transparent disclosure and long-term emission reduction targets.

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' 2016 Worldwide Infrastructure Security Report. Data losses resulting from cyber-attacks not only have a significant effect on organisations' processing capabilities, but also have a wider effect beyond the processing difficulties created, including financial and reputational implications.	In 2016, responding to increased customer concerns about the challenges of cyber security, we launched our cyber insurance product in partnership with a third-party expert insurer. Our specialist broker, SEIB, has a specialist product to address the gap in commercial combined insurance, with increased indemnity limits for denial of service and cyber-attacks. SEIB continues to work alongside the police to raise awareness among its local business community. As the cyber security landscape is constantly changing, we review and update our information security controls regularly, which aim to safeguard and deny unauthorised or malicious access to our systems, internal data and infrastructure. Exposure to cyber security risk also presents new challenges for investors. EdenTree dedicated one of its Amity Insights to this topic in 2016 to identify risks and opportunities related to the evolving cyber security landscape. EdenTree has also started to work with the PRI on a collaborative investor engagement initiative on this issue.



A multi-faith insurer

We are proud to be a leading insurer of faith buildings in all our regions. Set up 130 years ago to insure the UK's Anglican church buildings, today we insure around 40,000 faith buildings worldwide, from Christian churches of all denominations to synagogues, mosques and Sikh, Buddhist and Hindu temples.

Our Canadian business has a particularly diverse faith portfolio, reflecting the nation's multicultural society. One of the most extraordinary properties in that portfolio is the BAPS Shri Swaminarayan Mandir in Toronto – Canada's first traditional Hindu place of worship built in the ancient Vedic tradition.

Opened in 2007, the temple is a feat of engineering and human endeavour. Built using limestone from Turkey and marble from India, it includes around 24,000 individual components that were hand carved by artisans in India, shipped to Toronto and assembled by around 100 Indian craftsmen and hundreds of volunteers from the community.

We have been the Mandir's first and only insurer since it opened, winning the business in close collaboration with our broker partner, Gellatly Insurance Brokers. In its 10th anniversary year, we continue to serve the Mandir's specialist insurance needs and support its charitable efforts with pride.

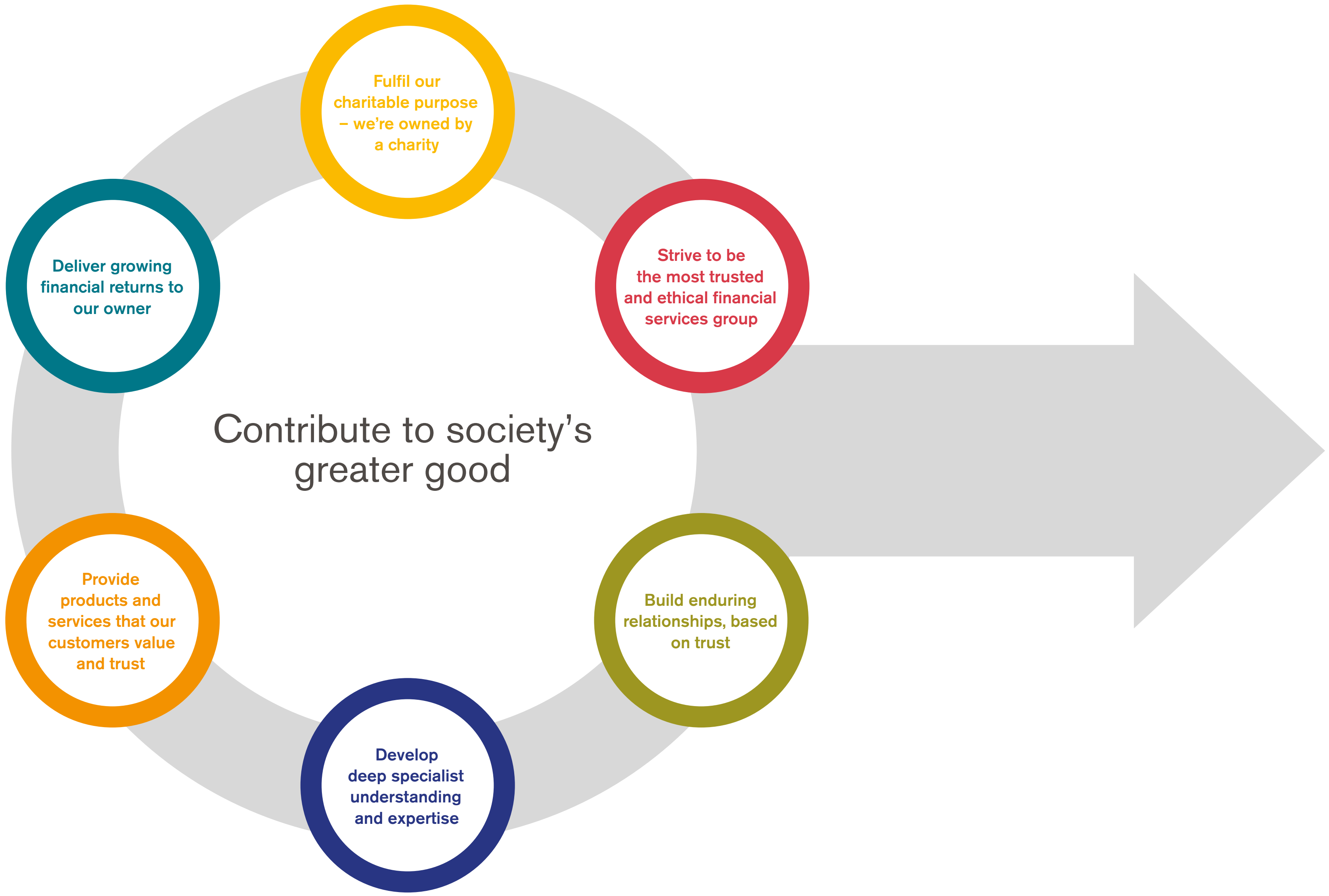
"The Mandir was inaugurated and dedicated to the people of Canada in July 2007 by the creator and inspirational force, His Holiness Pramukh Swami Maharaj. The successor of Pramukh Swami Maharaj and current inspirer and spiritual leader of BAPS is His Holiness Mahant Swami Maharaj."

"Ecclesiastical has been our property and general liability insurance partner since 2007 when we officially opened our doors in Toronto. They have continually demonstrated a comprehensive understanding of our exposures and insurance requirements, and have created an insurance program that is specifically tailored to our needs. We appreciate the specialist knowledge and understanding that Ecclesiastical provides and we are especially pleased to have an insurance partner that appreciates our values."

Chandrakant (Charles) Sachdev, President
BAPS Shri Swaminarayan Mandir, Toronto, Canada

Our business model and strategy

We are a commercial business with a charitable owner and purpose. This sets us apart from others in our sector. Our purpose is to deliver growing financial returns to our shareholder and owner, which are then distributed to charitable causes and communities, contributing to society's greater good. We do this by using our distinctive proposition to create competitive advantage.



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 charitable purpose drives our strategic goal of being the most trusted and ethical business in our chosen markets. It also shapes the way we do business, particularly our focus on doing the right thing for our customers and business partners.

Thanks to this approach, we have built longstanding relationships with our customers and brokers, as demonstrated by the high levels of trust, loyalty and engagement they have with us.

These enduring relationships have helped us build deep understanding and expertise within our sectors, allowing us to provide highly valued products and services.

All these factors help us to deliver sustainable and growing returns over the long term, meeting our aim of creating long-term value for our shareholder.

Delivering our strategic goal
In 2014, we set out our goal of giving £50m to charity over three years. In March 2016, we announced that we had reached this ambitious target, nine months ahead of schedule. By the end of the year, our total giving to charity for 2016 had reached £24.7m. £24m was given in grants to Allchurches Trust, with £0.7m given by Ecclesiastical to other charitable causes.

New £100m target set in 2016. We have now set ourselves a new strategic goal: **To be the most trusted and ethical specialist financial services group**, giving £100m to charity by the end of 2020.

Strategic Report

Strategy in action

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.

Most trusted specialist insurer

Strategy in action

2016 has seen a renewed focus on enhancing strong customer relationships across all our insurance businesses. These relationships are underpinned by our expertise and relevant propositions, which we evolve to meet changing customer needs. New products and propositions include:

- Parish Plus for the Anglican Church (UK)
- New Art & Private Client product (UK and Ireland)
- Education product refresh (Ireland and UK)
- Real Estate products (UK, Ireland and Australia)
- Charity products (UK, Ireland and Australia)
- SME products (Australia)
- An Allied Health product for non-medical, specialist care professionals (Australia)
- HRAssist product to complement the existing Legal and Professional assistance programmes (Canada)

Putting the customer at the centre of what we do has also seen us roll out a Customer Promise across all our general insurance territories in 2016. The Customer Promise comprises 15 guiding principles across conduct, service, advice, products, communications and pricing. Embedding the Customer Promise continues in 2017, ensuring it is adopted across the entire business including our non-customer-facing employees.

We continue to provide preventative advice and a speedy response when extreme weather occurs. Our outstanding reputation for risk management advice is supported by thermographic imaging, drone technology and surveyor expertise.

We have continued to invest in our operational capability, with investments in technology and further deepening of our specialist and technical underwriting expertise across all territories.

Our insurance businesses have increased their presence across our target markets in a number of ways, including:

- **UK**: our Select Broker programme, established in 2015, offers specialist support for our key brokers that in turn helps them develop their relationship-building activity with the end customer. Our *Experience. The Difference.* campaign was launched in late 2016, providing expert insight and advice for brokers and their customers.
- **Australia**: the business has established key partnerships (including Bendigo Bank and Aon Not-For-Profit) during 2016 to drive increased penetration in the not-for-profit and care sectors.
- **Ireland**: the business has continued to strengthen its relationships to deliver growth with notable new business wins across the charity, education and faith segments. It launched a new Property Owners proposition in late 2016 to attract new customers in this core segment.
- **Canada**: the business continued to attract new customers through its trilateral approach (building relationships between brokers, customers and Ecclesiastical Canada as the insurer) and its existing broker relationships, with notable new business wins in the education, faith and retirement segments.

Most trusted specialist insurer

Highlights

We are recognised by UK brokers as the **best insurer in the charity, education and commercial heritage sectors for the tenth consecutive year**, according to an independent survey by FWD Consulting.

Our UK Corporate Chartered Insurance status was renewed by the Chartered Insurance Institute (CII). We are one of only five composite insurers with chartered status across its entire UK general insurance operations. In Ireland, Ecclesiastical became the first insurer to obtain Chartered Status.

We were recognised as Insurance Company of the Year at the UK's Better Society Awards, and won the Customer Care (Company) award at the UK Post Magazine Claims Awards.

We continue to top the independent Fairer Finance rankings for UK home insurance.

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

Ansvar Australia was a finalist in both the Youth Development Employer of the Year and the Small/Medium Insurer of the Year at the ANZIIF 2016 Insurance Industry Awards.

See our non-financial KPIs on page 49 for details of our customer and broker satisfaction achievements in 2016.

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 deliver 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

Following its 2015 rebrand, EdenTree has retained its position as a leader in ethical investment. In 2016, our investment team sustained its award-winning track record, securing numerous plaudits based on its above-average long-term performance record. We also reinforced our thought leadership position, winning an award for one of our regular series of papers.

We have continued to invest in upgrading our capabilities. In 2016, we completed the systems implementation of Charles River with delivery of enhanced client reporting. We also began a project to replace the EdenTree back-office systems which is due for completion in 2017.

We began to integrate carbon risk fully into our investment management process by appointing South Pole Group to provide portfolio carbon footprints for all of our equity funds. All achieved outcomes are comfortably below their relative benchmarks.

Highlights

Recognised as **Best Ethical Investment Provider** by Moneyfacts for the **eighth** successive year.

Retained an **A+ rating for Governance & Strategy** as part of our annual **PRI** (Principles of Responsible Investment) assessment.

Achieved a **fourth accreditation** under the **European SRI Transparency Scheme.**

Achieved a **Tier 1 rating** under the **UK Stewardship Code** disclosure.

Won **Proposition Development Award** at the Investment Week Investment Marketing and Innovation Awards 2016.

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

Our broking businesses continue to enhance their performance with the development of propositions that meet customer needs. These include a tailored offering for customers as diverse as Church of England clergy and Michelin Star restaurateurs. We have products that address emerging technologies including commercial drones, cybercrime and alternative energy sources.

Our broker businesses have invested to enhance their performance with pleasing results shown in their underwriting performance and commission payments from carriers. SEIB has invested in its marketing and lead generation capability. It has excellent working partnerships with major insurance carriers and its schemes continue to be profitable.

Within the Group, SEIB has been supporting our other broker businesses to migrate from their multiple platforms to the SEIB platform, OpenGI.

Highlights

SEIB continues to launch new schemes to support customer needs, including schemes for unmanned aerial vehicles (drones) and cybercrime. SEIB has developed a bespoke specialist equestrian product, meeting the needs of customers who keep their horses at home.

Our broking businesses continue to achieve high levels of customer satisfaction with SEIB achieving a very strong customer satisfaction score of 96%.

Section Two

Strategic Report

Key Performance Indicators – financial

Measure | Performance

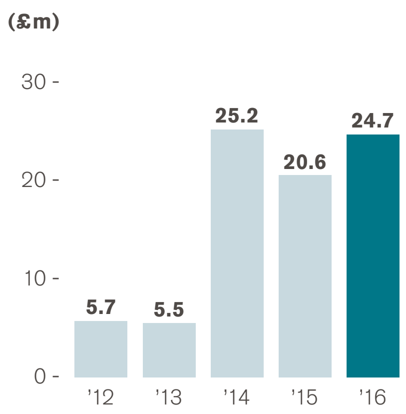
Donations

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 £100m to charity by 2020.

Another year of consistent financial results has enabled us to continue our targeted level of charitable giving, with £24.7m of donations paid to good causes in 2016.

In March, we paid a grant of £7m to our charitable owner Allchurches Trust, helping us exceed our goal of giving £50m to charity over a three-year period. A target that we reached ahead of schedule.

The remaining £17.7m paid in the year represents the first significant contribution towards our new ambitious goal of giving £100m to charity by 2020.



Regulatory capital*1

The Group's regulatory capital requirements changed on 1 January 2016 as Solvency II was launched in the European Union and adopted by the Prudential Regulation Authority (PRA).

As the Group assessment is conducted at the level of Ecclesiastical Insurance Group plc, the following refers to the regulatory capital of EIO Group's parent company Ecclesiastical Insurance Office plc and excludes the impact of Ecclesiastical Life Limited and Ansvar Insurance Limited.

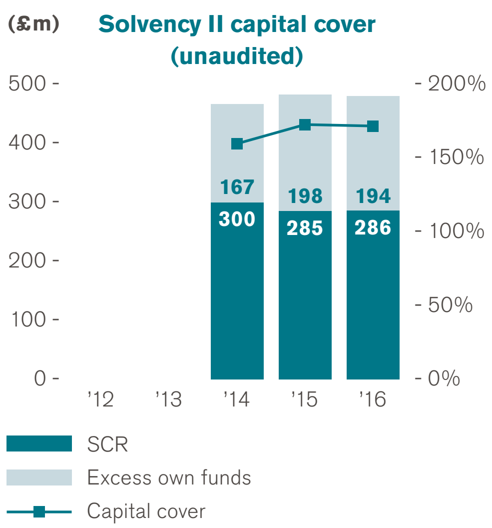
The Solvency Capital Requirement (SCR) is a risk-based statistical calculation that quantifies risks specific to our business. The Group sets a target level of Capital that is in excess of the SCR to ensure ongoing compliance.

Ecclesiastical's capital position under Solvency II has remained strong throughout 2016. Our capital cover was robust to the mid-year market volatility, a catastrophe event in Canada, and fluctuations in the value of the pound.

We continue to balance the need to retain profit within the business, to support our strategy for future growth and investment in technology and innovation, with our aspiration to meet charitable giving targets.

The figures, presented in the report and accounts for the first time, are based on the information provided to the Board as part of their ongoing management of the business and are unaudited.

Comparable figures for 2013 and prior are not available as at that time the Group was reporting on a Solvency I basis under the Individual Capital Assessment (ICA) regime.



Measure | Performance

Profit before tax*

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

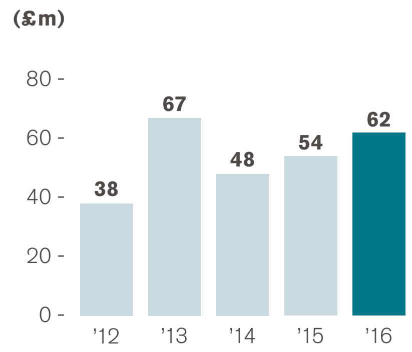
Each year, refreshed targets are set in relation to the Group's business plans for profit before tax. Details of the target that was set for 2016 can be found in the Group Remuneration Report on page 162. Our short-term target is to generate sufficient profit to enable us to meet our targets for charitable donations.

Better-than-expected Group underwriting profit, supported by strong total investment returns, delivered a year-on-year improvement in total profit which increased to £62.5m in 2016.

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 51 for more details.



Combined operating ratio*1 (COR)

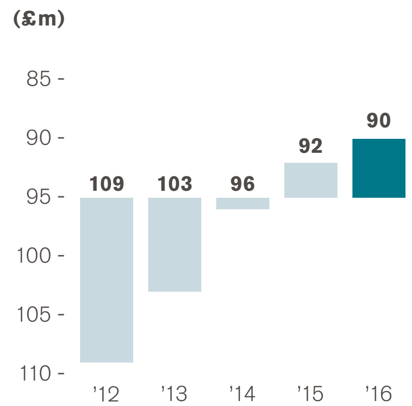
The sum of Ecclesiastical's general insurance incurred losses and expenses divided by earned premiums for each financial year.

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 2016 can be found in the Group Remuneration Report on page 162. Our target over the longer term is to achieve a 95% COR.

The COR has improved for a fifth consecutive year. The Group continues to keep underwriting and pricing discipline at the centre of its strategy, prioritising profit over growth in the competitive business environment. In 2016, the ratio continued to outperform our longer-term target, principally driven by our liability business delivering better-than-expected underwriting profits for a second year.

For a breakdown of how COR is calculated, see note 36 to the financial statements on page 245.

See the Financial Performance Report on page 51 for more details.



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

1 Alternative performance measure, refer to note 36 for further explanation

Key Performance Indicators – financial

Measure | Performance

Net expense ratio*[1] (NER)

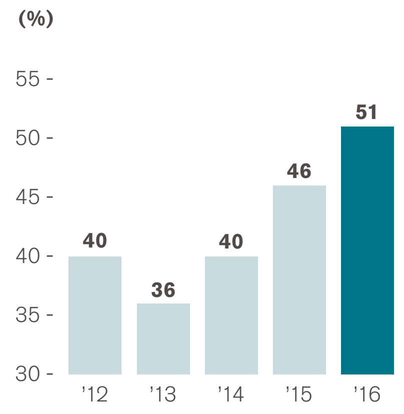
Total expenses as a proportion of the net premium earned in the year. These expenses include acquisition costs, administration costs, the movement in deferred acquisition costs and commission paid less commission received. Our long term aim is to deliver improvements in NER. However, in the short term we expect NER to reflect a planned increase in strategic investment.

Our NER increased in 2016 to 51% with a 1% fall in net earned premium and a 10% increase in net expenses.

The weakening pound has increased the expenses from our overseas businesses on translation into sterling, with the rest of the increase in net expenses coming from planned strategic investment in technology, innovation and in our people.

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.

For a breakdown of how NER is calculated, see note 36 to the financial statements on page 245.



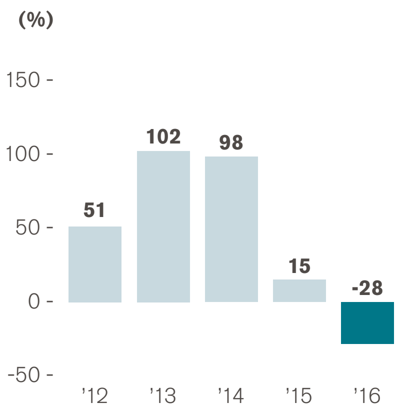
Net inflows[1] (Investment management)

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 management division offers.

Net inflows contribute to funds under management which is a key driver of the division's revenue.

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

2016 proved to be a year of political uncertainty, with Brexit, the US election and continued weakness in Asia and Emerging markets all weighing on investor sentiment. Gross inflows into EdenTree's funds were 5% lower than 2015, but outflows were also higher than expected resulting in a net outflow of £28m for the year. This was below our target to maintain net inflows at levels similar to those achieved in 2013 and 2014. This was a creditable result given the sector as a whole has seen significant outflows over 2016.



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

[1] Alternative performance measure, refer to note 36 to the financial statements for further explanation

Key Performance Indicators – non-financial

Measure | Performance

UK Direct customer claims satisfaction

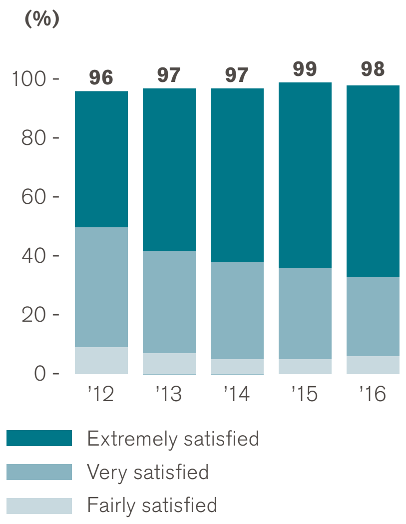
Results from customer satisfaction surveys carried out each year, relating to how well customers felt their claims were handled. The results of this survey include settled and partially settled property claims.

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 2016, 93% of customers surveyed were either extremely or very satisfied with the way their claim was handled and 98% were satisfied overall.

Similarly strong results were also seen in the responses for customer surveys on general satisfaction levels. For the second consecutive year running, 100% of our new business home insurance customers were satisfied with the experience we provided. Whilst 99% of customers that renewed with us were also satisfied.



Broker satisfaction

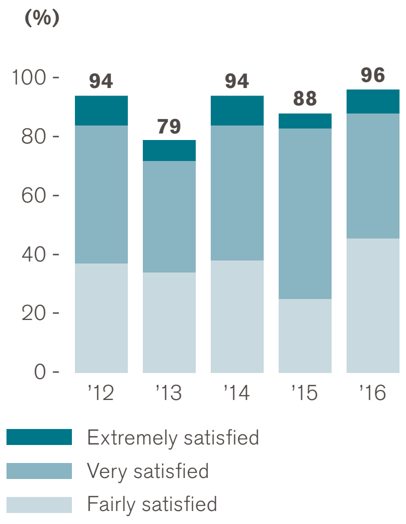
In 2016, we introduced a new broker opinion survey run by an independent research agency, approved by the British Insurers Brokers' Association (BIBA). We used the same customer satisfaction question to allow comparison with previous year's results. Brokers are asked to rate their experience, on a six-point 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.

Broker satisfaction with our service has improved 8% to 96% in 2016.

96% of brokers are satisfied with our underwriting, +10% on the previous year, and brokers continue to express very high levels of satisfaction with our claims and risk management service.



Measure | Performance

SEIB customer satisfaction

Results from a customer 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.

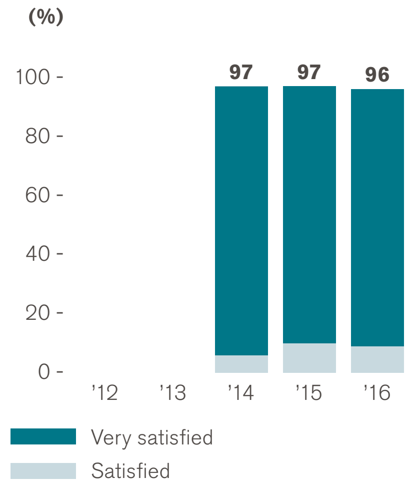
Customers were asked to rate their service experience on a 10-point scale: 10 – very satisfied to 0 – not satisfied.

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 continued to show strong performance, just 1% down on the previous year, with 96% of customers who responded to the survey being satisfied in 2016. This is well above our target for 90% satisfaction.

Within this, an outstanding 87% of SEIB's customers fell into the very satisfied category, rating the service they received as a 9 or 10.



Risk management satisfaction survey – Direct

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.

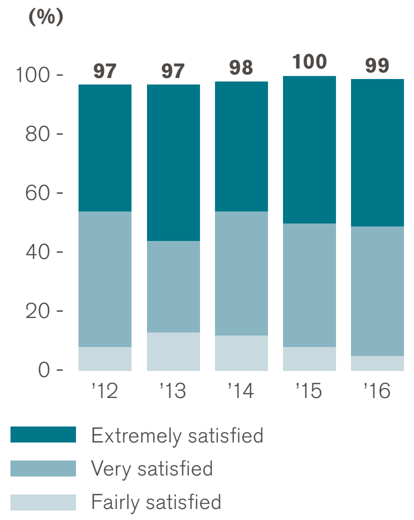
We measure the level of positive satisfaction, particularly extremely and very satisfied. Our target is to achieve at least 90% very or extremely satisfied customer feedback.

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 (and desktop) risk appraisals and training, with a view to helping our customers understand and protect themselves from risk.

We also provide access for our customers to risk advice line services, comprehensive online technical guidance libraries and regular risk insight updates.

Having a strong in-house Risk Management function is seen as a key competence for the Group and we have continued to achieve outstanding performance in 2016, with customer satisfaction rates of 99% (95% extremely or very satisfied) across our Direct customer book. We also achieved similarly strong results amongst our Intermediated account, with customer satisfaction rates of 97%, of which 93% were extremely or very satisfied.



Section Two

Strategic Report

Financial Performance Report

Financial Performance Report

Our consistent financial performance continued in 2016 and we report a pre-tax profit of £62.5m (2015: £53.6m).

The last three years have seen strong delivery, both financially and strategically. We have delivered a robust change programme during this time and have become a profitable, better skilled and more focused business. We have continued to invest in the business, and this investment in IT, brand and innovation has increased our expense ratio in the short term, but the success of these initiatives is clear in our building track record of strong and sustainable profits.

General insurance

Our underwriting performance[1] for the year was a profit of £20.1m (2015: £13.5m profit), resulting in a Group COR[1] of 89.8% (2015: 93.2%). The relatively benign weather in the UK and Ireland and more favourable development of prior year claims on the Group's liability business has meant that, despite some significant catastrophe events in Canada and Australia, we have delivered a third consecutive year of improvement in underwriting profits.

United Kingdom and Ireland

In the UK and Ireland underwriting profits increased to £25.0m (2015: £11.6m profit) giving a COR of 82.5% (2015: 92.3%).

The UK and Ireland property business showed improved underwriting performance compared with last year. Relatively benign weather was experienced in the UK and Ireland across most of the year with December also being drier and warmer than the long-term average. The flash floods in June, though unexpected, were significantly less costly than weather events at the end of 2015. The number of large fire related losses also returned to more normal levels this year which contributed to the increase in profits.

Our liability business performance continues to improve and produce strong profits, enhancing the overall positive underwriting performance for the year. Current year claims performance was 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.

This combination of low claims experience across both property and liability portfolios in the same year means we have achieved what we consider to be an unusually low COR this year. While we do expect to continue to deliver underwriting profits in the UK and Ireland in the future, we would not expect claims to be so low on a consistent basis.

In 2016, GWP has fallen by 3.4% to £220m, (2015: £228m). Commercial insurance business in the UK and Ireland continues to be competitive. In the face of that competition, retention levels remain very high, reflecting the value that our customers and business partners place on our expertise and service. The main downward pressure on growth came in the education sector where we faced continued pressure from the Department for Education's risk protection arrangement for academy trusts, and in the very crowded household sector where we continue to focus on underwriting discipline over growth. Increased investment in expertise, innovation and development of new products has seen GWP in our Commercial, Art & Private Client and Real Estate niches grow by more than 5% in 2016.

Our strategy over the medium term remains to achieve moderate GWP growth by adding good-quality business in our existing areas of expertise, at a steady pace, using our specialist capabilities to differentiate ourselves in the marketplace. We expect the business environment to remain very competitive, particularly for commercial property business. We will continue our approach, in accordance with our philosophy of safeguarding our underwriting performance by seeking profit ahead of growth.

[1] Alternative performance measure, refer to note 36 to the financial statements for further explanation.

Ansvar Australia

Our Australian business reported an underwriting loss of Aus$2.2m giving a COR of 106.7% (2015: Aus$0.2m profit, COR of 99.4%). The business was affected, for a second consecutive year, by a higher than average number of catastrophe events which was an issue for the whole Australian market. However, the reinsurance arrangements in place reduced the impact of these at the net level. GWP grew by 0.3% in local currency to Aus$76.4m (2015: Aus$76.2m). Retention rates remained very strong, and new business was 21% ahead of the prior year.

Canada

Canada continued its track record of delivering growth, reporting a 5% increase in GWP in the year in local currency. The branch's contribution to GWP increased to Can$81.8m (2015: Can$77.9m).

The territory was affected by large property losses from the Fort McMurray wildfire in Alberta and two severe weather catastrophe events. Our Canadian business reported an overall underwriting loss of Can$6.2m giving a COR of 110.3% (2015: Can$1.9m profit, COR of 96.4%). Liability reserves were strengthened during the year to take account of adverse claims development, but overall, the liability account returned a profit in line with expectations.

Other insurance operations

General insurance profits were reduced slightly by development of prior accident years from our businesses in run-off, resulting in an overall loss of £0.3m (2015: £0.8m profit).

Investments

Investment returns, which fell sharply after the EU referendum result, rebounded strongly in the second half of 2016 to end the year at £54.4m (2015: £47.5m).

This investment performance reflects the rise in UK stock markets, in December, to an historic high and the positive effect of the low pound on the value of our overseas investments held both directly and indirectly through collective investment schemes.

The small and mid-cap bias in our equity portfolio dampened returns in 2016. The weakness of the pound following the Brexit vote provided a favourable tailwind for the larger-cap international dollar-earners of the FTSE 100 where total returns of 19% were achieved. By contrast, the more UK domestically focused FTSE 250 only achieved 6%.

Falling bond yields in 2016 had a positive effect on the values of longer dated bonds. The shorter duration of our bond investments resulted in underperformance relative to the broader FTSE Allstock index, and reflects the Group's strategy of favouring capital protection over marginal increases in returns. When measured against the shorter duration FTSE Gilts 0-5yrs index of 2.6%, our fixed income portfolio returns of 3.2% were slightly ahead.

Our direct property investments outperformed the broader Investment Property Databank (IPD) All Properties index over the year, returning 4.7%. This was, in part, due to its greater exposure to the industrial property segment which outperformed the office and retail segments. The portfolio's limited exposure to the weak Central London property market was also beneficial.

The downward movement in yields also reduced the discount rate applied in calculating the present value of certain long-tail general business insurance liabilities. The change in discount rate on those liabilities resulted in a £7.7m loss being recognised within investment returns (2015: £2.3m profit).

The investment result includes £1.3m in respect of our long-term insurance business performance which is discussed later in this report. A £12.2m profit on the bond portfolio backing the non-profit fund (2015: £0.9m loss) was partly offset by a £10.9m loss (2015: £1.9m profit) from the impact of the change in discount rate on the long-term business liability.

Investment management

The Group's investment management business, EdenTree, saw a moderate reduction in pre-tax profits to £1.6m (2015: £1.8m). The result reflects continued strategic investment in the brand, and in technology, as the business targets increased traction with wealth managers, discretionary fund managers and the institutional end of the market.

The asset management sector as a whole has seen significant outflows of funds over the course of 2016 with the result of the EU referendum and US election, plus the continued weakness in Asia and Emerging markets, contributing to sentiment for much of the year. While EdenTree saw net outflows to its funds of £28m (2015: £15m net inflow) overall, its funds for charity investors grew by 11%. Total funds under management grew 5.9% to £2.5bn (2015: £2.3bn), despite the net outflows, as asset values pushed higher towards the end of the year.

Long-term insurance

The life business insurance result for 2016 was a loss of £0.7m (2015: £1.0m profit). Ecclesiastical Life Limited is closed to new business and the expected favourable run-off of the business during the year was more than offset by the long-term impact of increased compliance costs with Solvency II.

Broking and advisory

The broking and advisory business comprises our insurance broker and financial advisory businesses, SEIB Limited (SEIB) and Ecclesiastical Financial Advisory Services Limited (EFAS).

In 2016, SEIB recovered well from the disruption in the prior year, caused by the transition of one scheme to another provider, reporting a rise in profit before tax to £2.4m (2015: £2.2m).

EFAS continues to focus on its core independent financial advisory business and, with effect from 1 February 2016, EFAS ceased to take on new funeral plan administration customers. All funeral plan business from that date is now administered by a related party, Ecclesiastical Planning Services Limited. EFAS reported a small loss before tax of £0.3m in the year (2015: £0.3m loss).

Overall, our broking and advisory business reported an increase in pre-tax profit to £2.1m (2015: £1.9m profit).

Ian Campbell
Group Chief Financial Officer

EdenTree's investment support for charities

2016 saw the five-year anniversary of the launch of our Amity Funds for Charities. These funds were created with the aim of offering a responsible investment solution to the charity sector, with particular focus on their tax situation and their income needs.

We are pleased to offer these services to a wide range of charities with many differing backgrounds including faith, medicine, age and gender related objectives and those supporting the carer community. Our reach continues to grow, and in 2016 we were delighted to see the number of charity clients we manage funds for grow by 22%. As the economic environment for charities remains challenging and their need for reliable and stable sources of income from their assets increases, EdenTree aims to continue to provide that ongoing support and long-term partnership.

"Our relationship with EdenTree over the last five years has been a very positive one, where in addition to helping us manage our resources for the long-term benefit of our diocese, they have helped us consolidate and streamline the administration of those resources."

Jonathan Hill FCMA CGMA
Director of Finance – Lichfield Diocese

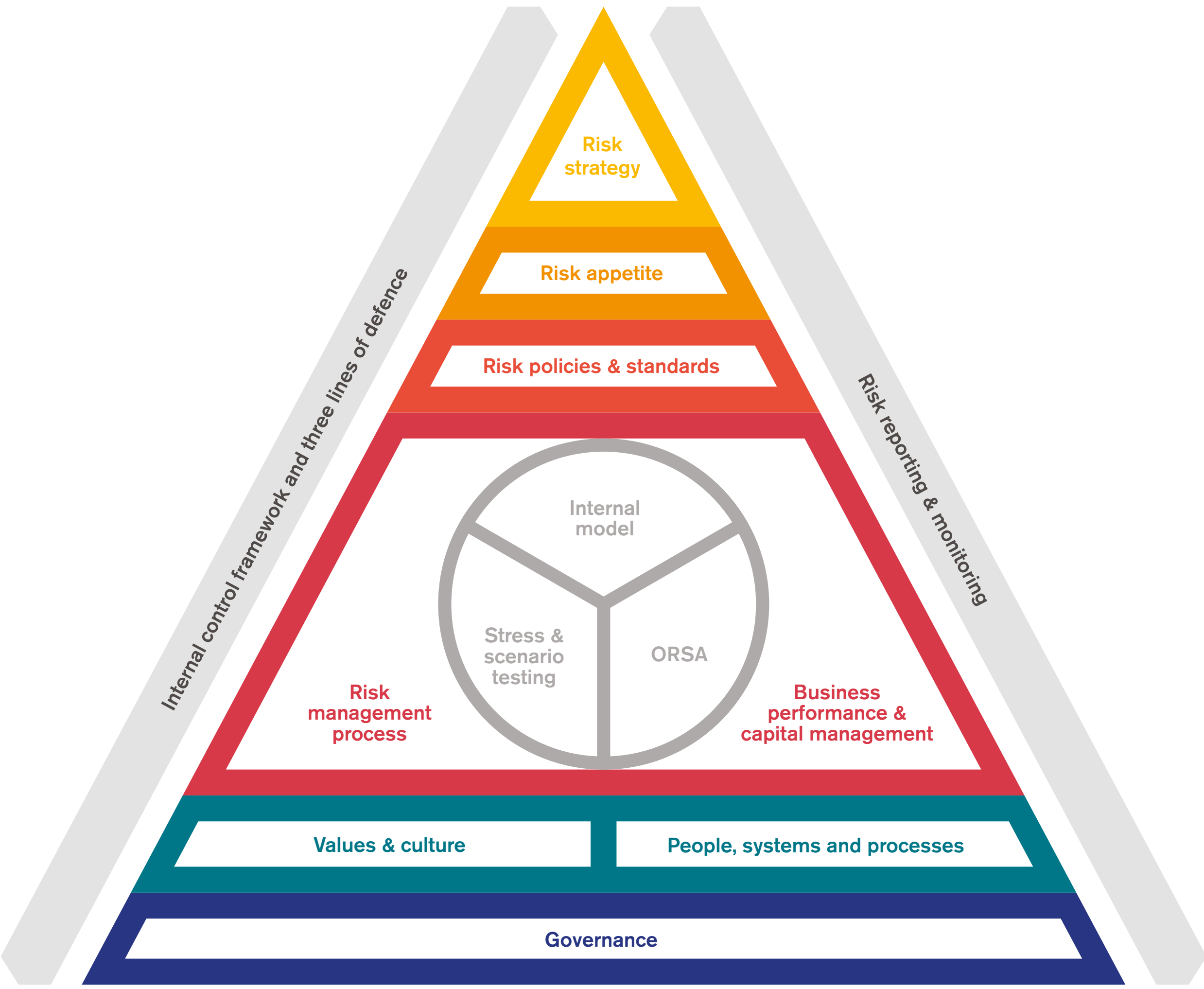
Section Two

Strategic Report

Risk Management Report

Introduction

The Group's business model is explained in detail on page 36. The operations of the Group present a number of risks including Insurance, Market, Credit, Liquidity, Operational, Conduct, Reputational 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 via the Group Chief Executive to the Group Risk Function, led by the Group Chief Risk Officer. This is supported by three executive Risk Management Committees:

- the Insurance Risk Committee which has oversight of the general insurance risks of the Group including counterparty risk;
- the Market and Investment Risk Committee which has oversight of the market and investment risks of the Group; and
- the Group Operational, Regulatory and Conduct Risk Committee which has oversight for all the operational and conduct risks of the Group.

Strategic risks are overseen by the Group Management Board (GMB) and the life insurance risks 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) carries out a formal review of the key strategic risks for the Group with input from the 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. Formal monitoring of the key strategic risks is undertaken quarterly including progress of risk management actions and any gaps in risk mitigants are challenged by the Risk Committees.

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 from business activities;
- 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 continue to seek improvements to our risk management framework and strategy. During 2016, key improvements included:

- further embedding of the risk management framework within the 1st line of defence;
- further enhancement of the qualitative risk profiles with a focus on business plans;
- continued development of quantitative risk profiling capabilities to ensure all material risks are captured and the implementation of the Management Internal Model validation framework;
- further refinements to our Group risk appetite to provide further clarification around the risk-taking parameters;
- further enhancement of stress testing and scenario analysis undertaken both as a validation tool for the Management Internal Model and as a method of assessing operational risk for the Group;
- continued enhancement of the Control Risk Self-Assessment (CRSA) process; and
- further embedding of 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 is 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 formally monitored every quarter and reported to the Group Risk Committee at each meeting.

The risk appetite is refreshed formally at least annually with approval and sign-off by the Board together with an ongoing assessment of continued appropriateness for the business.

Our overarching risk appetite sets the minimum levels of capital and solvency that the Group wishes to maintain. Further statements detail the maximum exposure to different risk types that are deemed to be acceptable. 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

We measure our individual and aggregate risk exposures using our Management Internal Model, which has been calibrated to determine our internal view of the capital resources required to deliver our business plan and used in our ORSA. Over the last year, in addition to adjusting the calibration of the model to reflect updated risk exposures, we have continued to improve both the scope and methodology of our Management Internal Model to better reflect the risk profile and have carried out a full cycle of independent model validation.

The model has become further embedded in our strategic decision-making processes. For example, the Management Internal Model was used as an input to the development of our reinsurance strategy and pricing decisions and setting of investment strategy.

With the introduction of Solvency II at the start of 2016, our regulatory capital requirement is currently being calculated using the standard formula. However, during 2017, we will apply for regulatory approval to use our Management Internal Model as the basis for the calculation of our regulatory capital requirements.

One key component of Solvency II is our stress testing and scenario analysis framework which contributes to the validation of our internal capital requirements within the ORSA.

Through assessing the impact of adverse risk scenarios on our business plan, operations and financial health it provides a quantitative and qualitative assessment of the Group's ability to respond to financial, insurance and operational shocks. It also provides assurance to the Board on the robustness of our risk mitigation and control improvement strategies.

Over the year this stress testing and scenario analysis framework has been further refined and embedded within everyday operations, thereby helping to inform and drive business planning and decision-making processes.

Addressing the challenges of new technologies

New technologies bring new risks. A year ago, we reported on our broker SEIB's development of insurance products to address two such risks. Since then our cybercrime and commercial drone products have won acclaim and seen SEIB become a source of expert advice.

SEIB's product to cover the financial losses associated with cybercrime is underpinned by the depth of knowledge acquired by our brokers. It has been well received by the small and medium sized companies for which it is intended, not least because as well as providing compensation for affected clients, we offer a support line to advise clients on preventing and managing data or security breaches. During the year, our brokers have also been invited to share their knowledge at various events and are part of a special panel advising the counties of Kent and Essex.

Launched in 2016, SEIB's product to address the needs of commercial drone operators has been developed as the insurance industry endeavours to adapt to the rapid expansion in commercial drone use. By partnering with a specialist aviation team, we have addressed a number of issues concerning business owners – obtaining worldwide cover and robust protection against liability and hull aviation risks.

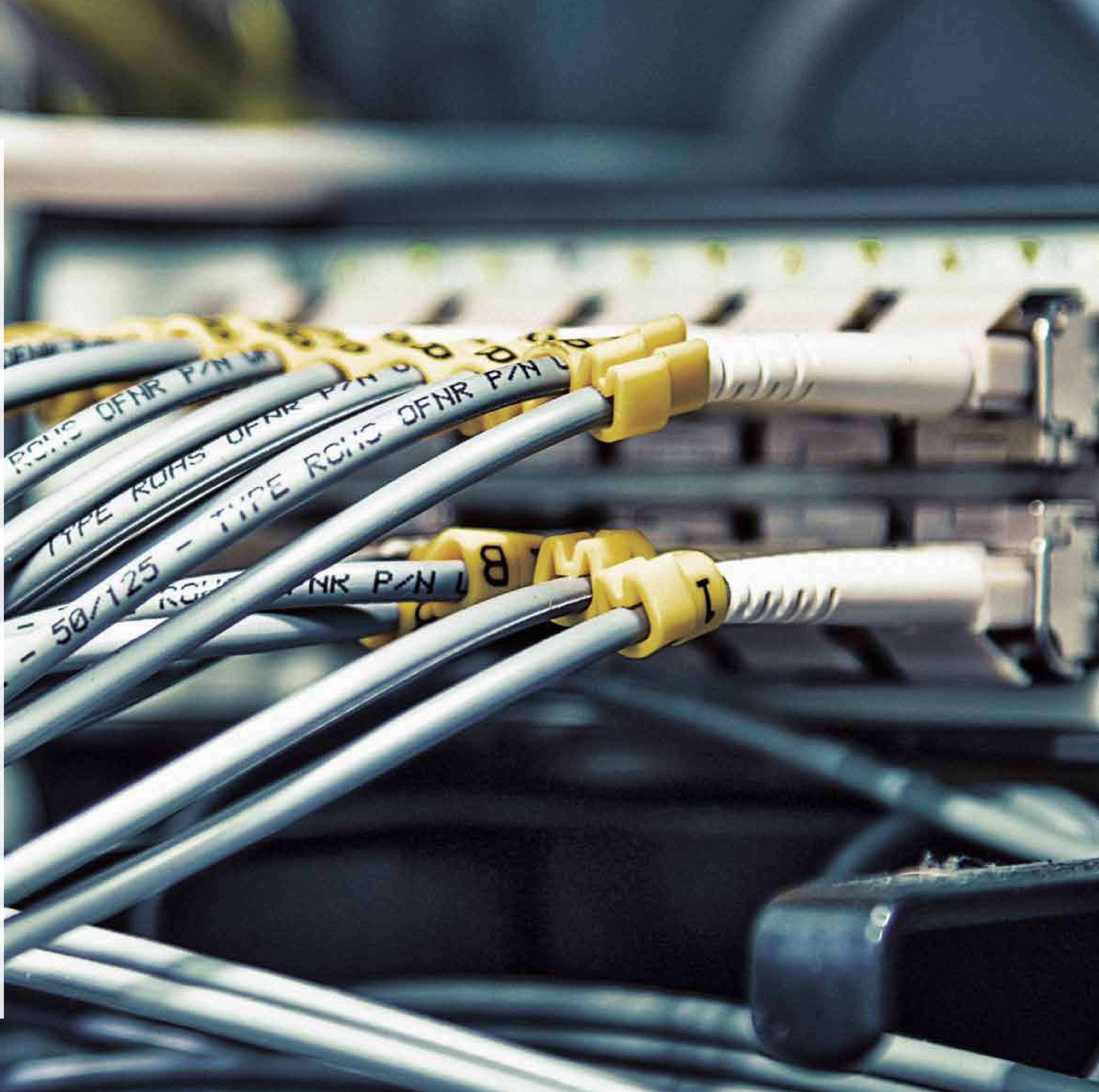
SEIB has shown that developing a deep knowledge of emerging risks and finding the right insurance partners is a proven recipe for meeting its clients' needs.

"We have moved our insurance to SEIB Insurance Brokers, because on request, they undertook a thorough review of our insurance and discovered that there were some areas that required updating in our insurance cover. The advice that we have been given has been professional and as brokers they took time to find the most appropriate insurer for our situation. I would urge anyone with a drone to ensure they are fully protected from loss or liability and to talk to SEIB."

Gary Nel
Managing Director, Geocurve Ltd

"SEIB quickly took on board the complex issues around cybercrime and have put together an insurance product that successfully encourages effective protection but also supports a business hit by internet enabled crime. They have gone that one step further by investing time to learn about these complex and important new issues and to educate businesses and the general public. Their work on cybercrime is a terrific example of excellence in customer service."

Nicholas Alston CBE
Former Essex Police and Crime Commissioner



Principal 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	Change*
Insurance risks			
Underwriting, pricing and reserving risk The risk of failure to price insurance products adequately, failure to establish appropriate underwriting disciplines and failure to manage risk concentrations across our different business and risk areas. Reserving risk is the risk of actual claims payments exceeding the amounts we are holding in reserves.	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. 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 Independent Inquiry into Child Sexual Abuse in the UK may have an impact on the frequency and severity of Physical and Sexual Abuse claims across the insurance industry. This is an emerging risk that we are actively monitoring.	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. A documented underwriting strategy and risk appetite is in place which is supported by formally documented authority levels for all underwriters which must be adhered to. This ensures a clear focus on our chosen niches and classes of business. Risk appetite limits have been established to manage our concentrations of risk and these are reviewed regularly by the Group Risk Committee. 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. 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.	This risk has not changed materially since last year, although the fall in discount rates which followed the Brexit vote did increase the current value of claims reserves during 2016. The sensitivity of claims reserves to changes in discount rate is set out in note 27.
Reinsurance risk 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 business model for our Australian subsidiary during 2016 utilised a 100% quota share reinsurance arrangement for its main property portfolio supported by separate facultative arrangements for a limited number of specific schemes. The global reinsurance market continued to see some merger and acquisition activity during 2016. This did not restrict the capacity available or adversely affect our ability to place the reinsurance programme and we have maintained a well-spread and well-rated reinsurance panel.	This risk is managed by taking a long-term view of reinsurance relationships to deliver sustainable capacity rather than seeking to benefit from opportunistic purchases. Strict criteria exist which relate to the ratings of the reinsurers we choose and a Reinsurance Security Committee approves all of our reinsurance partners. Merger and acquisition activity is monitored closely to ensure that this does not result in exposures with one group exceeding our accepted limits. We purchase reinsurance to protect, inter-alia, against property catastrophe events that are predicted to occur up to every 250 to 500 years, depending upon the territory and peril.	The level of this risk has remained broadly similar since last year.

V Link to viability statement – risk included in stress and scenario analysis

* change arrows reflect movement in underlying risks

Risk type and description	Why we have it	How we mitigate it	Change*
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. Further, we invest in property to give the opportunity for long-term real returns and offer some diversification from other classes of assets.	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 liabilities. Gilt yields fell following the Brexit vote in 2016 and, although there was some recovery in the last quarter of the year, there could be further volatility in interest rates as Brexit negotiations progress. This increases the risk of volatility in our investment returns which could come from changes in the rate of investment income the Group can earn on its fixed interest investments or material movements in the values of those investments. The relatively short average duration of our fixed interest portfolio gives us some protection from this second element of potential volatility. 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 bond issuers, limiting our exposure to both non-rated and lower-rated bonds, and ensuring that we maintain an appropriate spread of counterparties, including adherence 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 within limits for exposure to individual companies and industry sectors. When we feel it is appropriate, we will use derivatives to reduce equity exposure. Some hedging of equity risk was in place during 2016 whilst we implemented a small reduction in gross equity exposure. 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 also arises from holding overseas equities. During 2016, we put in place hedging of the majority of our currency risk exposure, as we have limited appetite for maintaining that risk. 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 on page 201.	Although our exposure to this risk has not changed materially since last year, there have been some changes as highlighted earlier. The key drivers for this risk are those affecting the economic environment. Such indicators have been volatile over the past year, influenced by events such as Brexit and the American elections, the effects of which are expected to continue to drive uncertainty into 2017.

Link to viability statement – risk included in stress and scenario analysis

* change arrows reflect movement in underlying risks

Risk type and description	Why we have it	How we mitigate it	Change*
Liquidity risk			
The risk that the Group, although solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure them only at excessive cost.	The Group may need to pay significant amounts of claims at short notice if there is a natural catastrophe or other large event in order to deliver on our promise to our customers. This has the potential to create a mismatch in the timing of cash flows.	We hold a high proportion of our assets in readily realisable investments to ensure that we could respond in such a scenario. In addition, the arrangements we have in place with our reinsurers include agreements to pay recoverables on claims prior to us making the payments to customers. This minimises the impact on the company's cash flows.	There have been no material changes to this risk since last year but it has been added to the Group profile to ensure ongoing focus.
Credit risk			
The risk that a counterparty, e.g. a reinsurer, fails to perform its financial obligations to the company or does not perform them in a timely manner resulting in a loss for the Group.	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 reinsurance programmes are required to have a minimum rating of A- (property) or AA- (casualty) from S&P or an equivalent agency at the time of purchase with specific approval required for any lower ratings. Reliance on a single counterparty by our subsidiary, Ansvar Australia, continued during 2016 due to the quota share reinsurance arrangement with National Indemnity, which is part of the Berkshire Hathaway Group; however, it has a very strong S&P rating of AA+. Going forward in 2017 a new model has been put in place which removes the reliance on a single counterparty. Where separate reinsurance arrangements exist the reinsurance panels are compliant with our usual minimum security rating criteria. 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. Further information on this risk is given in note 4 to the financial statements starting on page 201.	The level of this risk remained largely unchanged since last year.
Operational risks			
IT systems risk The risk of inadequate, ageing or unsupported systems and infrastructure and system failure preventing processing efficiency.	Efficient and reliable systems are paramount to delivering excellent customer service and business processing.	A number of projects to replace legacy systems and upgrade the key business systems were completed during 2016. A strategic systems programme is also underway which will define a long-term enablement approach for our systems, process and data. Significant progress is expected to be made on this programme during 2017.	The level of this risk has remained unchanged since last year.

V Link to viability statement – risk included in stress and scenario analysis

* change arrows reflect movement in underlying risks

Risk type and description	Why we have it	How we mitigate it	Change*
Cyber security risk The risk of criminal or unauthorised use of electronic information, either belonging to the Group or its stakeholders.	We hold significant amounts of electronic information and increasing reliance is placed on electronic processing, storage and transmission of customer, company and employee information. Cyber security threats from malicious parties are increasing in both number and sophistication across all industries.	As the challenge with cyber security is constantly changing, we review and update the information security controls in place, which aim to safeguard and deny unauthorised or malicious access to our systems, confidential data and internal infrastructure. The management of this risk is owned by the Board.	The level of the risk has remained the same since last year.
Conduct risk The risk of unfair outcomes arising from the Company's conduct in its relationship with customers, or in performing its duties and obligations to its customers.	At the core of our business model is the desire to place the customer at the centre 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 implemented during 2016 and includes enhanced Board reporting alongside specific risk appetite metrics. Customer Promises have been developed for all strategic business units across the Group and the associated management information is being developed.	The level of this risk has remained the same since last year.
Strategic risks			
Rating Agency downgrade The risk of a downgrade in the Company's rating impacting on the business model and operations.	The rating provides a market-wide view of the strength of the company and is a key factor used by a number of our stakeholders in deciding to do business with us. A reduction in the rating could result in the loss of customer confidence, reputation and ultimately a loss of business.	A focus on managing all our principal risks to ensure delivery of our business and maintenance of our specialist knowledge in our chosen markets is key to ensuring our financial strength and the mitigation of this risk.	The level of this risk is unchanged, but it has been added to the Group profile in 2016 to ensure ongoing focus.
Pension risk These are risks associated with our Defined Benefit Pension Scheme. The risks are market related, with interest rate and inflation risk the largest exposures.	The Company sponsors a defined benefit pension scheme which remains open for accrual by some employees. Changes in expected future interest rates and inflation can increase or decrease the cost of providing the benefit to employees. Changes in these assumptions, or a movement in the market values of the scheme's assets, could change the funding position of the scheme and may mean that the Company has to make additional contributions into the scheme to fund any deficit emerging, following a triennial valuation.	The Company works with the scheme trustees to understand and manage the risks. There is close scrutiny on matching assets and liabilities to mitigate the risks of market movements. The funding position deteriorated over the year, due mainly to the fall in discount rates and increase in expected future inflation which followed the Brexit vote. We expect further volatility in these economic conditions as Brexit negotiations progress and are working with the scheme trustees to further reduce the scheme's exposure to interest rate and inflation risk.	There have been no material changes to this risk since last year, but it has been added to the Group profile in 2016 to ensure ongoing focus.

V Link to viability statement – risk included in stress and scenario analysis

* change arrows reflect movement in underlying risks

Longer-term viability statement

It is fundamental to the Group's longer-term strategy that the directors manage and monitor risk taking into account all key risks the Group faces, including longer-term insurance risks, so that it can continue to meet its obligations to policyholders. The Group is also subject to extensive regulation and supervision including, from the start of this year, Solvency II. Against this background, the directors have assessed the prospects of the Group in accordance with provision C.2.2 of the 2014 UK Corporate Governance Code, with reference to the Group's current position and prospects, its strategy, risk appetite, and the potential impact of the principal risks and how these are managed.

The assessment of the Group's prospects by the directors covers the three years to 2019 and is underpinned by management's 2017-2019 business plans which make assumptions relating to: the prevailing economic climate and global economy; the structural challenges facing our sector; and the costs associated with delivering our strategy. They also include projections of the Group's capital, liquidity and solvency.

While the directors have no reason to believe the Group will not be viable over a longer period, a three-year outlook period has been selected. Given the rate of change in the markets in which the Group operates, three years provides an appropriate balance between the period of outlook and degree of clarity over specific, foreseeable risk events that could impact on the viability of the Group. The outlook period also aligns with the planning horizon in the business plan.

Stress and scenario analysis has been performed with reference to the principal risks of the Group, which are documented on pages 66 to 73. The stresses are designed to be severe but plausible and include:

- reduced premium growth
- increased attritional claims
- consecutive smaller catastrophe events in the UK
- 1 in 10 and 1 in 20 investment market events
- a reduction in the risk free interest rate.

Scenario testing found that a 1 in 20 investment market event combined with either reduced premium growth or multiple smaller catastrophe events has a significant impact on capital. A range of plausible mitigating actions in these circumstances have been identified and documented.

The solvency position of the Group has also been projected as part of the ORSA, which is a private, internal, forward-looking assessment of own risk, as required as part of the Solvency II regime. The forward-looking emphasis of the ORSA ensures that business strategy and plans are formulated with full recognition of the risk profile and future capital needs.

The results show that the Group has sufficient capital resources to cover its capital requirements for the period of the business plan.

The directors have also considered the Group's ability to service its preference share borrowing and the dividend expectations of its owner. The Group has fixed annual dividend payments of £9.2m in respect of its non-cumulative irredeemable preference shares. The Group makes regular donations to its ultimate charitable owner, Allchurches Trust. There is a regular cycle of discussion with Allchurches Trust to determine the appropriate level of grants, in which the Group's capital position and future business needs are taken into account.

Confirmation of viability

Based on 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 and potential mitigating actions, the directors confirm that they have a reasonable expectation that the Group will continue in operation and be able to meet its liabilities as they fall due over the next three years.

Section Two

Strategic Report

Corporate Responsibility Report 2016 highlights

Our people

One of the first financial services businesses to sign up to the

Women in Finance Charter

Free wellbeing support

250 flu jabs, 150 health checks, 100 personal safety session attendees

Over 95% of UK employees completed voluntary training and signed up since the Group Code of Conduct was launched

85%

of employees believe we're a 'socially responsible' business

Living Wage

status retained

Our community

£24.7m

total Group charitable giving

Aus$230,000

given in Australia through our Community Education Programme

60%

of UK employees volunteered

40%

of pre-tax profit given to charity

£130k

distributed in small 'personal grants' in the UK

Gold Standard for Payroll Giving achieved

BITC's CommunityMark standard retained

Our environment

100%

electricity for main contract from renewable sources

Carbon footprint

of Amity ethical funds complete for the first time

Moneyfacts Best Ethical Investment Provider Award for the eighth successive year (EdenTree)

Investment Week Sustainability Award for EdenTree ethical thought leadership paper on Natural Capital

Our marketplace

Fairer Finance Gold Ribbon

award for the second consecutive year

98%

of UK customer-facing employees completed training on customer vulnerability

18

heritage apprentices trained since 2010

Surveyed most

material claims suppliers

in the UK

Corporate Responsibility Report
Introduction and governance

Long before Corporate Social Responsibility programmes became fashionable, Ecclesiastical was created in 1887 to be an honest and expert business with a charitable purpose to contribute to the greater good of society. Some 130 years later, those are the same principles that inspire us today. We have a purpose to change the world for the better and that's an ethos that you can see lived out in everything we do, from the way we treat customers and employees to what we do with our available profits. For us, social responsibility is our moral responsibility. We are proud of our achievements but we know our efforts must be monitored constantly as the challenges of doing the right thing in today's world never let up.

The following report explains how we approach our responsibilities, what priorities we have been focusing on and our achievements in 2016.

Mark Hews
Group Chief Executive

Our Purpose: To contribute to the greater good of society. We do this by managing a portfolio of businesses that operates on the highest ethical principles and delivers a superior financial return for our shareholder.

Structure and governance

Corporate responsibility (CR) 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.
'Greater Good' 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 people responsibilities.
Community advocates	networks of advocates enthusiastically support local community investment at all of our locations.

The external environment

The issues and trends we are facing in our markets are covered in our Strategy in action section starting on page 39, and Global trends in financial services section starting on page 28.

Our EdenTree ethical investment business tracks responsible business trends and challenges companies on their sustainability credentials:

"2016 was marked by a growing trust gap between elite structures and 'populist movements'. Across Europe and in the US in particular, this was the year when unexpected political events caused shockwaves to conventional political systems. The respected global Edelman Trust Barometer echoes these trends by pointing to flat-lining trust levels in business generally. The 'trust deficit' in the UK between these opposing voices is now wider than it has ever been. Globalisation, which has done so much to lift populations out of extreme poverty is nevertheless now perceived as encouraging 'the left behind' and social inequality. Income inequality is a real consequence of these mega trends. We believe this matters, and Ecclesiastical, with its goal to be 'the most trusted and ethical specialist financial services group,' has a role to play in speaking for ethical responsibility in business and the highest standards of customer service and inclusiveness. This is also supported by an optimistic finding in the Edelman survey that suggests 80% of respondents believe business 'can both increase profits and improve economic and social conditions in the communities in which they operate'. At a time of political volatility, growing intra-state violence and disruptive technologies, those businesses that remember their social purpose above all will be those that continue to flourish economically".

Neville White
Head of SRI Policy and Research at EdenTree

Monitoring and auditing

Getting an independent view of our performance and progress is important to us. In 2016, we completed Business In The Community's (BITC) CR Index to inform our future CR approach. We also successfully retained BITC's CommunityMark for excellence in community investment. With so many benchmarks and standards available we look for those which will support and challenge our approach. Here are some of the standards we currently maintain:

Doing what's important

The cornerstone of our corporate responsibility approach is a careful consideration of which issues we should be particularly focused on. Every business should have a unique agenda. For Ecclesiastical, areas such as employee code of conduct, ethical investment and diversity are top of our minds. Over the following pages we explain our priorities and achievements in the following areas: our people, our community, our environment, our marketplace.

Partner of choice for Irish schools

2016 has seen Ecclesiastical Ireland win and retain a number of prestigious clients in the independent schools sector.

One of the schools that chose to insure with us for the first time was Wesley College in Dublin, which includes author George Bernard Shaw among its former pupils. On the brink of a major project to build six new classrooms in 2017, the College's management team particularly appreciated the comprehensive survey and risk management advice we provided – even before we submitted a quote. The co-educational College, which welcomes pupils of all faiths, has a strong ethos that reflects its Methodist roots. Ecclesiastical's ethical values resonated strongly with its senior team and were a factor in their decision to entrust us with their insurance.

Irish schools that have insured with Ecclesiastical Ireland in 2016 include St. Columba's College, Sandford Park School, Rosemont School, Rathdown School and Newton School.

"Ecclesiastical Insurance Ireland provides an excellent service, with rapid response times to all queries and highly innovative and flexible policy products. They always give superb advice in the best interests of the College, having a very clear understanding of our requirements. They have been very supportive in every way and we look forward to working closely with them during our upcoming exciting development phase."

Glenn Kilroy, Bursar, Wesley College

Our people

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.

Areas of focus:
- Talent development and succession
- Diversity
- Employee engagement
- Employee conduct
- Wellbeing and Health & Safety

>2

'Bitesize' short interactive learning sessions every week

Talent development and succession

>1,000

days of training on our Learning Management System

>6,000

computer-based training modules

Retained Chartered Insurer Status, adding our Ireland business to this standard in 2016

Diversity

Employee response from our annual externally benchmarked MySay survey (including difference from previous year's results):

I am treated with fairness and respect at my company – 83% (+7)

I think Ecclesiastical respects individual differences – 75% (+5)

By 2020 women will make up at least

45%

of our senior management and management group

Employee engagement

Annual results from our externally benchmarked employee survey, MySay (including difference from previous year's results):

Overall engagement score – 82% (+8)

I am proud to work for my company – 87% (+10)

In my opinion my company is committed to customer satisfaction – 90% (+7)

My company is a socially responsible employer – 85% (+5)

Employee conduct

>95%

of UK employees completed voluntary training and signed up since the Group Code of Conduct was launched

Wellbeing, engagement and Health & Safety

250

free flu jabs

150

health checks

100

attendees for personal safety sessions

Our people

Progress and achievements in 2016:

Learning and development
Learning and development is really important to us – we give everyone the opportunity to manage their own development, progress their career and reach their potential. We know that everyone learns differently and understand how important it is to balance learning through experience, engagement and education.

In 2016, we logged over 1,000 days of training. Our people completed over 6,000 computer-based training modules, we delivered team development sessions to over 200 people and on average we ran two or more 'Bitesize' short interactive learning sessions every week. We support employee membership of many professional bodies and are proud to continue to hold Chartered Insurer Status, adding our Ireland business to this standard in 2016.

Diversity
We respect and embrace diversity in all its forms in our Group and believe that doing so will enhance our business performance. We believe diversity runs through everything we do every day – it is woven into our HR practices and it is both a leadership and individual responsibility. In 2016, we established our Diversity Working Group led by Executive Director and Group Chief Finance Officer Ian Campbell. We continued to ask our employees for their views on diversity through our independent engagement survey. Views were more positive than the previous year on both diversity questions.

Our commitment to diversity saw us become one of the first signatories to the Women in Finance Charter. We have set ourselves a target that by 2020 women will make up at least 45% of our senior management and management group. To enable us to achieve this we have detailed a range of commitments in several areas:

- how we recruit and attract employees
- how we develop our people and support them to grow
- how we approach remuneration and performance
- how we consider the wellbeing and Health & Safety of our people.

Examples of our actions in these areas include understanding diversity in our recruitment pipeline better, creating opportunities for senior women to act as role models and ensuring the continued excellence and employee awareness of our suite of family-friendly policies.

Code of Conduct

Ethnicity*:

White	Prefer Not to say	Other Ethnic Group	Asian/ British Asian	Black/ Black British	Mixed Ethnic Group
1098	106	29	20	12	2

* Data for Ecclesiastical Insurance Group, excluding our Canadian business, as at 31 December 2016

The way we act and behave and the small differences we make every single day add up to create a big difference, a business which really does stand out from the competition. In practice, this means being honest and professional at every turn, meeting or exceeding our customers' expectations and, most importantly, providing unfailing support in times of need.

In 2016, we launched our Code of Conduct to the entire Group for the first time to make it very clear what we mean by upholding the highest standards in the way we work and embed the right behaviours right across the Group. The Code talks about our values and unique business model; wellbeing, speaking up, how we manage data, tackle financial crime; and doing the right thing by putting customers at the heart of everything we do. The Code has been integrated into our new starter processes across the Group and over 95% of our people have signed up to it and completed an online training module.

Employee numbers – gender and BME representation*:

	Male	Female	TOTAL
Group Management Board	6	3	9
Senior leaders/Directors	55	17	72
Managers	190	135	325
Team members	360	573	933

* Data for Ecclesiastical Insurance Group as at 31 December 2016

Wellbeing and Health & Safety
In 2016, we continued to offer a range of wellbeing initiatives including free health checks and flu jabs. Our employee benefits package includes leave for parents, free eye tests, childcare vouchers, and a confidential Employee Assistance Programme. Every new starter in our business has received a Health & Safety induction and we continue to focus on helping our people to stay safe in important situations, for example whilst driving, working alone or walking to work.

We are proud of the reputation we are building as a caring company – our Canadian business has been named one of Canada's Top Employers for Young People for five consecutive years and our Australian business was a finalist in both the Youth Development Employer of the Year and the Small/Medium Insurer of the Year at the ANZIIF 2016 Insurance Industry Awards.

Signing up to the Women in Finance Charter makes complete sense for our business. It reflects Ecclesiastical's strong values and continuing commitment to equality and fairness. It also helps us to challenge our own position and drive our future commitments. We're pleased to be one of the first to sign up and would encourage all parts of the financial services sector to follow suit. Initiatives like this help to ensure our industry can continue to be an attractive, challenging, fulfilling and dynamic place to work regardless of your gender, race, religion, sexual orientation or background.

Mark Hews
Group Chief Executive

Looking ahead

We will embed our diversity strategy and report on its progress. We will continue to support the development and wellbeing of our people to ensure they can be the best they can be.

Shildon comes alive

In the UK we run an annual competition open to all Anglican churches. Our 2016 competition celebrated the support that churches give to their local communities. Saint John's Church in Shildon, County Durham, was the overall winner of the £10,000 first prize, for the inspiring work it has done to help revitalise its town.

Shildon is a former steel town now blighted by vandalism, poverty and dependency. Deciding to make a difference to their town, members of Saint John's Church asked local people what they most wanted to see in the community. Then they set up Shildon Alive to make these dreams a reality.

Nothing was off limits as Shildon Alive developed projects to involve the whole community. Schoolchildren dressed as Santa and took presents to isolated elderly people. Older residents passed on their gardening skills to younger people in two Community Gardens, donating surplus vegetables to the project's food bank. Hundreds of schoolchildren also planted flowers and shrubs at 70 different sites. From Credit Unions to fun days, from rehabilitation support to craft groups, life-changing initiatives are now in full swing across Shildon.

Sixty-two volunteers currently work for the project, many of whom are from outside the church congregation. The church is acting as a catalyst to inspire people and give them the tools to bring their dreams alive.

"I feel like we are a family, yes that is definitely the word I would use, family."
Ann Lee, aged 76

"I love it."
Lissa, aged 7

"I just want to see my kids grow up in a town they can be proud of, like the old days, and we are doing that here."
Kathryn

Our community

We support our communities in two main ways: through our programme of employee giving – MyGiving – and through corporate charity donations and partnerships.

Areas of focus:
- Employee-led giving
- Corporate giving and partnerships

Employee-led giving

92%

of employees took up personal grants

£135,000+

given in total

60%

of UK employees took up a volunteering day

Employee-led giving

Payroll Giving

we were awarded a Gold Standard Payroll Giving Quality Mark. The Mark is supported by the Cabinet Office, the Institute of Fundraising and the Association of Payroll Giving Organisations

Employee engagement – My company is a socially responsible employer – 85% (+5)

100%

of employees rated their volunteering experience as good or excellent

Corporate giving and partnerships

Total Group charitable giving

£24.7m

>300

charities supported through our personal grants scheme

Our community

Progress and achievements in 2016:

Employee-led giving
In 2016, employees completed a record amount of community activity. We gave more to good causes through our 'personal grant' scheme, fundraising matching and payroll giving. Our people have supported hundreds of charities. In the UK:

- **60% of employees gave their time to volunteer,** offering both practical and professional support – which has a value of over £85,000.

- Our personal grant scheme gives every employee the opportunity to give £125 to any charity of their choice, which they can double if they volunteer for the same cause. **We gave over £135,000** through this scheme.

- We matched a wide spectrum of fundraising challenges – from skydives to bake sales. Our employees raised **over £40,000** – we matched every penny.

- **In 2016, we achieved a Gold Standard for Payroll Giving.** We 100% match everything employees give and were invited to speak at an event organised by the 'Geared for Giving' campaign to encourage more employers to set up a scheme.

We're proud to be recognised as a company that excels in community investment. We maintained our 'CommunityMark' standard awarded by Business in the Community in 2016. Only 34 companies hold the mark and it requires companies to adopt the highest principles in the way they invest time, skills and resource into communities.

Corporate giving and partnerships
During 2016, we supported a wide range of good causes through appeals, campaigns, donations and partnerships. Some examples of charitable activity across our Group are explained here:

- **We gave a £25,000 donation to the Disasters Emergency Committee** (DEC) appeal for Yemen. The appeal was launched due to the escalating humanitarian crisis – more than 7 million people at risk of malnutrition and starvation.

- At Christmas, we launched a campaign to share **£25,000** between three charities addressing vital issues at Christmas – Age UK, Crisis and Great Ormond Street Hospital. We invited our employees, partners and key customers to vote. We received nearly 1,500 votes.

- **Fort McMurray Wildfire** – on 1 May 2016, a wildfire started in Fort McMurray, Alberta, Canada. It was finally under control on 5 July and caused damage estimated at over Can$3.5bn. It was the costliest disaster in Canadian history. Our Canadian business supported a number of customers including schools, churches, community centres and homes. In just a few weeks our Canadian team donated over Can$2,500 to the appeal; the company matched all individual donations up to Can$100 and the Canadian and Albertan governments matched all personal donations, taking our total contribution to the cause to nearly **Can$10,000**.

- **SOAR partnership** – our Ireland team have partnered with young people's charity SOAR for a number of years. Fundraising in 2016 included a skydive, bake sales and an annual quiz night which invited key business partners. In total, the team raised over **€20,000** for the second consecutive year.

- **Create Your Future Foundation** – our Ansvar Australia business continues to fund a range of young people's programmes through its Community Education Programme. **In 2016, the Programme awarded grants totalling over Aus$230,000.** One of the projects we supported was a series of workshops with 'Create Foundation' a charity representing the voices of children and young people with an out-of-home experience. Topics covered include life skills, identity, relationships and health and wellbeing.

- **Lycetts (part of the Ecclesiastical Insurance Group) and the Percy Hedley Foundation** – this charity provides a wide range of high-quality, specialist and personalised care and education support to disabled people and their families. **Our Lycetts team raised £14,000 through a sponsored race day attended by over 200 guests.** The event was critical for fundraising but it also connected the charity with Lycetts' business contacts – for example the charity benefited from pro bono marketing support from Lycetts' Marketing agency.

- **Equestrian support** – our broker SEIB continued their support for a range of causes including 'the Equine Grass Sickness Fund' and **fundraising over £22,000 at the Burghley Sponsored ride.** The team also supported Paralympic rider Bert Sheffield – helping her progress to Rio. Blogs and insurance tips from Bert were brought together in a book which is being sold with proceeds going to Riding for the Disabled.

- **Ansvar UK** – our Ansvar UK business continued our partnership with Coram, the UK's oldest children's charity. **Our funding supported their Life Education programme, specifically reaching over 2,000 children, helping them to make positive life choices.**

- Our UK general insurance business and Group Functions support dedicated charities across our offices. **These include Barnabus, Guide Dogs, The Nelson Trust, SIFA Fireside, Roshni, Coram and Children with Cancer Fund.** We look for a range of opportunities to offer support including in-kind donations, fundraising, practical and professional volunteering.

Looking ahead

Our plans are to continue to build even higher levels of employee engagement in giving across our Group. We will also increase our charitable partnerships and demonstrate their value.

The true value of partnership

Ecclesiastical's Gloucester head office partnered with The Nelson Trust, a charity supporting both people in the recovery from addiction and vulnerable women and families. The partnership involved a full spectrum of support with a financial value of over £70,000:

Professional volunteering – Mark Hews our CEO attended a roundtable event to discuss the charity's future approach to social enterprise. Our Underwriting management team held a roundtable to discuss their expertise in managing risk. Nelson Trust employees have attended a Health & Safety training session.

Practical volunteering – in 2016 we took on the challenge of completely refreshing the charity's 'Old School' counselling centre. It required complete redecoration and refurbishment. We gave over 1,000 hours of volunteering time to successfully complete the project on time.

In-kind support – we looked for ways to share our resources throughout the year. We gave chairs, tables and floor tiles following our restaurant and meeting room refurbishments. Our employees donated clothes, toys, toiletries and even a washing machine.

Fundraising and giving – employees raised money in many ways; running a prize draw for example, and a team of three took on an 'isoman triathlon' and raised nearly £4,000 with company matching. More than 65 employees also gave their personal grants, many doubled with volunteering.

Our environment

We manage our own impact on the environment through energy usage, waste and business travel. We also consider wider sustainability issues including climate change and ethical investment.

Areas of focus:
- Environmental management
- Climate change
- Ethical investment

Environmental management

100%

of our Head Office electricity sourced from renewable biomass

100%

kitchen waste food and oil sent for bio-composting

Average fleet CO_2 emissions below our target of 120g/km

108g/km

Climate change

Major flood events

New policy to offer **resilient reinstatement** opportunities to all customers affected by a major flood event

Montreal Pledge

Signed the Montreal Pledge and supported a range of groups including the Institutional Investors Group on Climate Change and the Principles for Responsible Investment group (PRI)

Ethical investment

Carbon footprinting of all of

EdenTree's

ethical investment funds complete for the first time

Three thought leadership papers produced on ethical business issues, including a 'client aware' focus on cyber security

Our environment

Progress and achievements in 2016:

Environmental management
In the UK, the Government's Energy Saving Opportunity Scheme has helped us to consider benchmarks for future improvement. Across our offices we manage our environmental footprint as effectively as we can. At our head office we have an energy management system to monitor our usage, have installed motion detector lighting where we can and we source all of our electricity from renewables. Our Ansvar UK business continues to benefit from sourcing electricity directly from solar panels and our broker Lycetts has introduced new lighting systems at its head office which should cut usage by up to 60%. Our in-house restaurant in Gloucester considers provenance in sourcing food and sends all food waste for bio-composting. Our business fleet continues to perform below our average emissions target.

Climate change
Our general insurance business continues to use mapping technology to accurately assess and model the impacts of weather events. We also use it to support our customers, modelling areas affected by major events such as the Cumbria floods to proactively contact customers we thought may have been affected. In 2016, we introduced a new policy to offer every customer advice on 'resilient reinstatement'. This means providing information about the funding available and options with their claim to repair their properties so they would be more resilient to floods in the future.

Our responsible investment business EdenTree continued to use its influence with markets and customers regarding climate change. In particular 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;
- continued to collaborate with the Institutional Investors Group on Climate Change (IIGCC) on strategic public policy engagement;
- signed the **Montreal Pledge**, committing to measure annually the carbon footprint of EdenTree's investment funds and publicly report on it. EdenTree produced a briefing for clients on carbon footprinting and created a transparent disclosure framework for the emissions related to our investments;
- engaged with over 25 companies on their emissions and encouraged more transparent disclosure and long-term emission reduction targets;
- lobbied the G20 to support government leadership on climate change in the wake of the historic adoption of the Paris Agreement in December 2015; and
- participated in collaborative engagement on climate change with PRI investors on Arctic drilling and signed an investor statement supporting a moratorium on hydrocarbon exploration in the Arctic High Sea area.

Also in 2016, EdenTree worked with independent sustainability consultancy South Pole Group to commission carbon footprints for all the screened funds. In 2016, all of these funds were less carbon intensive than their relative benchmarks.

Ethical investment
Management of the Group's investment portfolios is delegated to its wholly owned asset management business, EdenTree Investment Management Ltd. EdenTree has an award winning 30-year track record of responsible investment in the UK, being one of the first investment firms to launch ethical funds to the retail market.

EdenTree was once again recognised in 2016 as a leading ethical investment provider in the Moneyfacts awards. The team produces thought leadership papers and research on key topics to influence the market and investors. In 2016, reports were on aviation, natural capital and cyber security. Our natural capital report, authored by socially responsible investment analyst Esme Van Herwijnen, won Investment Week's Sustainable Investment Award for 'best thought leadership paper on sustainable investment'.

The Ecclesiastical Group's strategy is to invest ethically. The Board has adopted as part of the Group's overall investment policy a 'negative screening' process. Our negative screens are designed around an 'absence of harm' approach excluding companies whose activities may be inconsistent with the wider values of the Group's clients, customers, stakeholders and beneficiaries. Therefore, we do not invest in companies that are wholly or mainly involved in the manufacture or production of alcohol, gambling, pornographic and violent material, strategic weapons and tobacco. We take a 'nil exposure' approach to indiscriminate weaponry.

On behalf of the Group, EdenTree specifically seek to engage proactively in three areas: climate change; human and labour rights including Modern Slavery; and financial inclusion and business ethics.

Climate change represents a material risk to the planet, people and society. The Group has adopted a 'carbon aware' approach in which the overall carbon profile and intensity of companies is taken into account when making investment decisions. We exclude companies with a material exposure to oil sands and Arctic drilling. The Group aspires, over time, for its investment portfolios to have a carbon intensity that is reducing; EdenTree will monitor this by commissioning portfolio carbon footprints of the Group's Funds from time to time.

EdenTree engaged with 450 companies on material investment and sustainability issues in 2016; nearly half of these were on specific environmental, social and governance related risk.

Looking ahead

We will develop our environmental management plan running up to 2020. We will continue to build our influence and thought leadership in ethical investment management.

Giving a voice to young people

Many of our businesses support charities that help disadvantaged children and young people. Since 2010, our insurance business Ansvar UK has partnered with the charity Coram, giving almost £115,000 to help more than 23,000 children through its Coram Life Education schools programme.

Coram is one of the UK's oldest charities, committed to improving the lives of the UK's most vulnerable children and young people. Coram Life Education sessions educate and empower primary school children to make healthy choices about exercise, diet, drugs and alcohol. The charity has found that 98% and 100% of Year 5 and 6 pupils respectively said what they had learned in a session would help them in the future.

One little boy who attended a session in 2015 was an elected mute. He had stopped talking at home and had refused to say a word in class since starting school six months earlier. During a Coram Life session in his Reception class he was very excited to meet glove puppet Harold the Giraffe. And when the rest of his class sang 'Twinkle Twinkle Little Star' he joined in – his first communication since joining the school.

'Coram Life Education is privileged to receive support from Ansvar Insurance and the Ecclesiastical Group which in turn supports great learning every day for thousands of children across the UK. Ansvar and Ecclesiastical go the extra mile by taking an active interest in our emotional wellbeing programmes, observing our education delivery, and attending our public events and conferences. They know that creating change that lasts a lifetime can take time; their investment is impactful and invaluable because it helps to change lives, one child at a time.'

Harriet Gill
Managing Director

Our marketplace

We aim to lead the way by providing our customers with fair and ethical products that are transparent and meet all regulatory requirements. We also focus on companies in our supply chain to ensure they uphold high standards.

Areas of focus:
- Customer service and support
- Supplier ethics
- Protecting vulnerable customers
- Heritage preservation

Customer service and support

Fairer Finance Gold Ribbon Award

for the second consecutive year.
See page 49 for our customer service measures

Supplier ethics

Modern Slavery Act

We surveyed all of our most material claims suppliers in the UK with a responsible business questionnaire

Protecting vulnerable customers

98%

of customer-facing employees completed training on customer vulnerability

Heritage preservation

18

heritage apprentices qualified since 2010

Agreed major new partnership with the Landmark Trust to support heritage preservation

Our marketplace

Progress and achievements in 2016:

Customer service and support
Our customers are at the heart of everything we do and we continually challenge ourselves to improve customer service, raise our standards and make our products even better suited to their needs.

In the UK, in 2016, the Insurance Act introduced substantial changes to insurance law. We helped our partners to understand the Act's implications with a specific guide for brokers.

We also launched new products including cyber cover and a flood product through industry initiative FloodRe. We published our 'guiding principles on handling physical and sexual abuse (PSA) claims'. We were the first UK company to do so, reflecting our internal process and practice and our desire to make them more transparent. The president of the Association of Child Abuse Lawyers, Peter Garsden, said that Ecclesiastical "deserve a lot of credit" for their published guiding principles, which, he said, "could develop [into] a national model litigation policy".

In general insurance, we support our brokers by working in partnership with them to tackle current issues. For example, we extended our 'Bitesize' training scheme to our Select brokers in the UK. Our Ansvar Australia business partnered with an independent technology think tank to run a successful series of 'education forums' for brokers on the topic of disruptive technologies.

In the UK we continued to support various industry groups including Historic England, the Charity Finance Directors Group, New Philanthropy Capital and the Honourable Treasurers Forum.

We commissioned research with Third Sector magazine to understand charities' concerns. Business continuity was a high priority, so as a direct result all of our surveyors completed accreditation with the Business Continuity Institute in order to support our customers better. We also collaborated with the Charities Safety Group and the Honourable Treasurers Forum to provide training on cyber security.

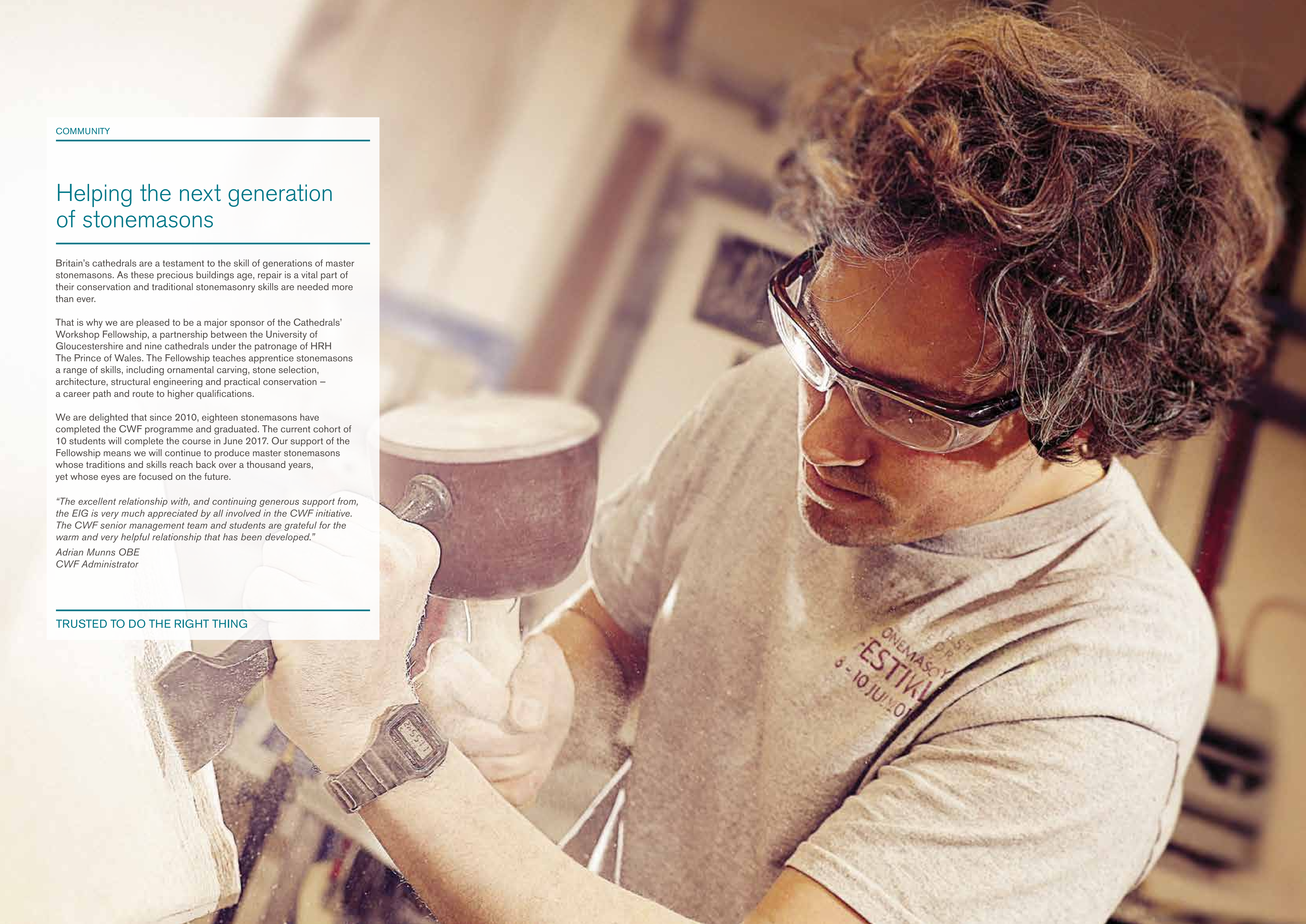
Supplier ethics
We continue to work with our supply chain partners to ensure they are sharing and upholding our values and ethics. We have completed a statement to comply with the 2015 Modern Slavery Act legislation which is available on our website: www.ecclesiastical.com/modernslavery. In particular, in 2016, we focused on our most material suppliers in our claims supply chain. We asked them to complete a responsible business questionnaire which included specific questions about the Act.

Protecting vulnerable customers
In 2016, we raised awareness of the growing issue of customer vulnerability. We achieved compliance with the ABI/BIBA code for customer vulnerability. Our specific vulnerable customer strategy group met regularly throughout the year to guide our overarching approach. In particular, 98% of customer-facing employees in our UK general insurance business completed vulnerable customer training.

Heritage preservation
We remain committed to preserving essential heritage skills so that they are not lost forever. Our support for stonemasonry apprentices via the Cathedrals' Workshop Fellowship continued in 2016. Since 2010, 18 stonemasons have completed the programme.
In 2016, we started to develop new craft pathways – electricians and joiners, for example. Ecclesiastical has also continued to support University College London's Sustainable Heritage Masters Degree students and a long-running partnership with Historic England to develop joint guidance, for example.
In 2016, we were very pleased to agree a partnership with the Landmark Trust to save and restore the Cobham Dairy in Kent, one of the most important 'at risk' buildings in England.

Looking ahead

We will continue to find ways to support our customers through the products and services we provide, but also the advice and support we can offer them and our partners directly and through effective partnerships.



Helping the next generation of stonemasons

Britain's cathedrals are a testament to the skill of generations of master stonemasons. As these precious buildings age, repair is a vital part of their conservation and traditional stonemasonry skills are needed more than ever.

That is why we are pleased to be a major sponsor of the Cathedrals' Workshop Fellowship, a partnership between the University of Gloucestershire and nine cathedrals under the patronage of HRH The Prince of Wales. The Fellowship teaches apprentice stonemasons a range of skills, including ornamental carving, stone selection, architecture, structural engineering and practical conservation – a career path and route to higher qualifications.

We are delighted that since 2010, eighteen stonemasons have completed the CWF programme and graduated. The current cohort of 10 students will complete the course in June 2017. Our support of the Fellowship means we will continue to produce master stonemasons whose traditions and skills reach back over a thousand years, yet whose eyes are focused on the future.

"The excellent relationship with, and continuing generous support from, the EIG is very much appreciated by all involved in the CWF initiative. The CWF senior management team and students are grateful for the warm and very helpful relationship that has been developed."

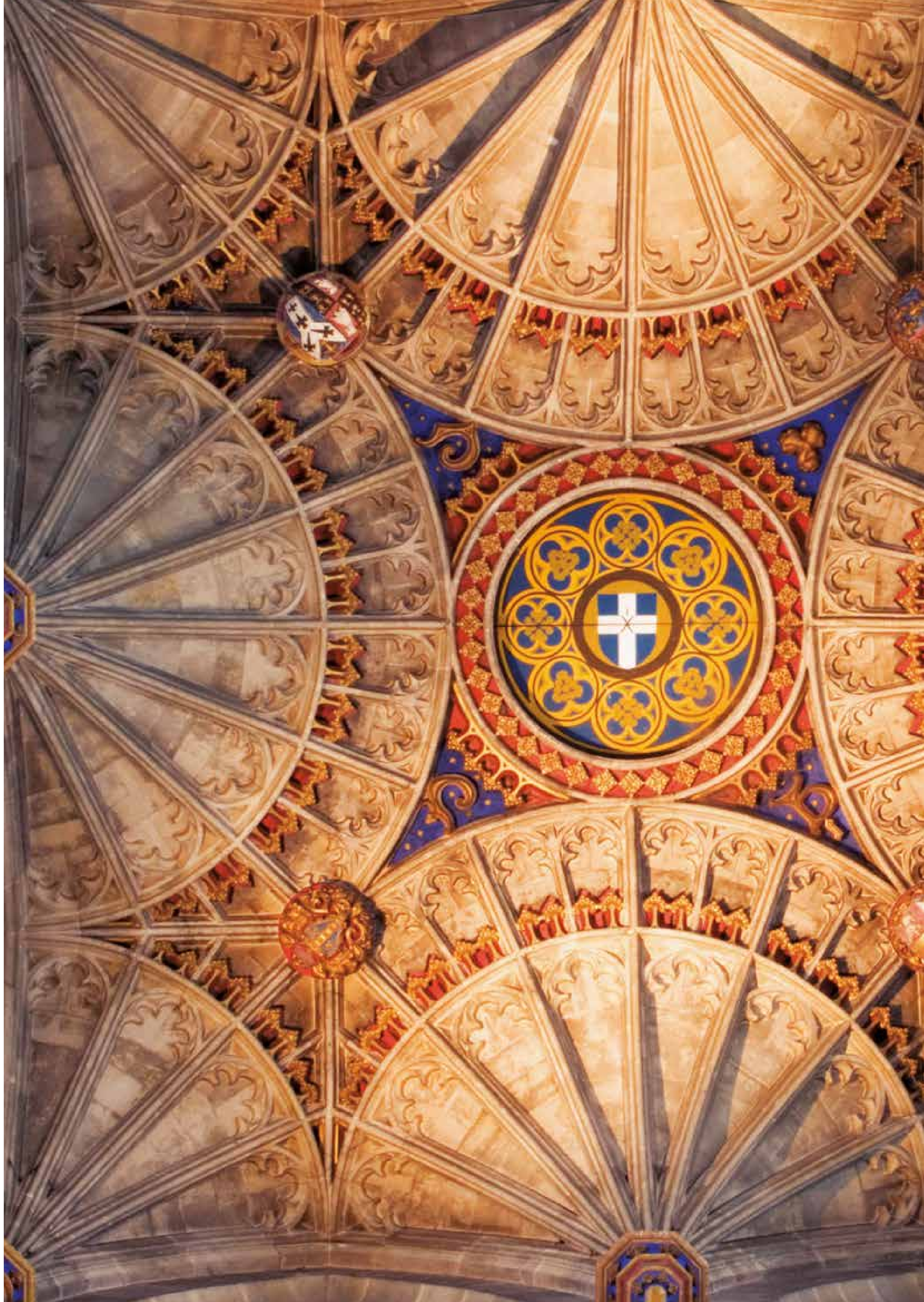
Adrian Munns OBE
CWF Administrator

Strategic Report approval

The Strategic Report, outlined on pages 20 to 107, 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
15 March 2017



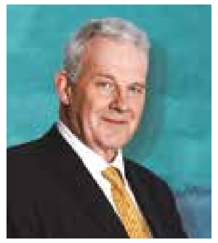
Section Three

Governance

Board of Directors

Key to membership of Group Board Committees
(a) Group Finance and Investment
(b) Group Nominations
(c) Group Risk
(d) Group Audit
(e) Group Remuneration

* *Independent Non-Executive Directors (NEDs)*



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

Chairman

Appointed to the Board on 10 February 2016. He has extensive experience in the insurance sector, in broking, underwriting and management. He is 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.

Mark Hews BSc (Hons), FIA

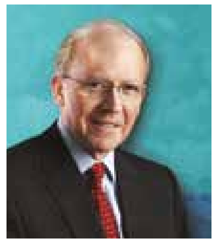
Group Chief Executive

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. 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 Sun Alliance (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)

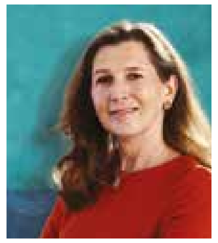
Appointed to the Board in September 2007. Until March 2007 he was an Executive Director of Standard Life plc. He is currently a Director of The Insurance Board of Lloyds Banking Group, Chairman of the trustees of the BOC Pension Schemes, a Governor of the Royal Conservatoire of Scotland and a school governor.

Anthony Latham ACII* (c) (d)

Appointed to the Board in March 2008. He worked for an international insurance broking group until 1990 and he was a member of the Group Executive of RSA Group plc until December 2007. He is Chairman of Argo Managing Agency Limited and a Director of Codan A/S and Codan Forsikring A/S.

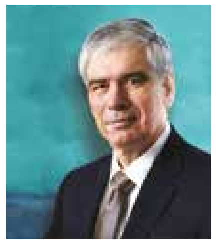
The Very Revd Christine Wilson* (b)

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 and was Archdeacon of Chesterfield in the Diocese of Derby until October 2016 when she was installed as Dean of Lincoln. She was a member of the Church of England General Synod 2010-2015. From December 2013-2016 she was participant observer on the House of Bishops. She has also been chair of a number of charities.



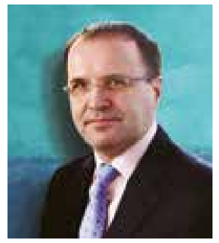
Denise Wilson BA (Hons), OBE, FCII* (b) (d) (e)

Appointed to the Board in December 2010. She is currently CEO of the Hampton-Alexander Review, 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 was previously Active Underwriter of Canopius Syndicate 4444 at Lloyd's, CEO of Swiss Re's UK holding company, CEO Europe of GE Insurance Solutions and President & CEO of GE Reinsurance Inc. in the USA. He has held a number of industry positions including Chairman of the International Underwriting Association and President of the Insurance Institute of London. He holds several Non-Executive Directorships in the insurance industry.



Ian Campbell BSc (Econ) Hons, ACA (a

Group Chief Financial Officer

Appointed to the Board in April 2014. He is a Chartered Accountant with more than 28 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* (a) (e)

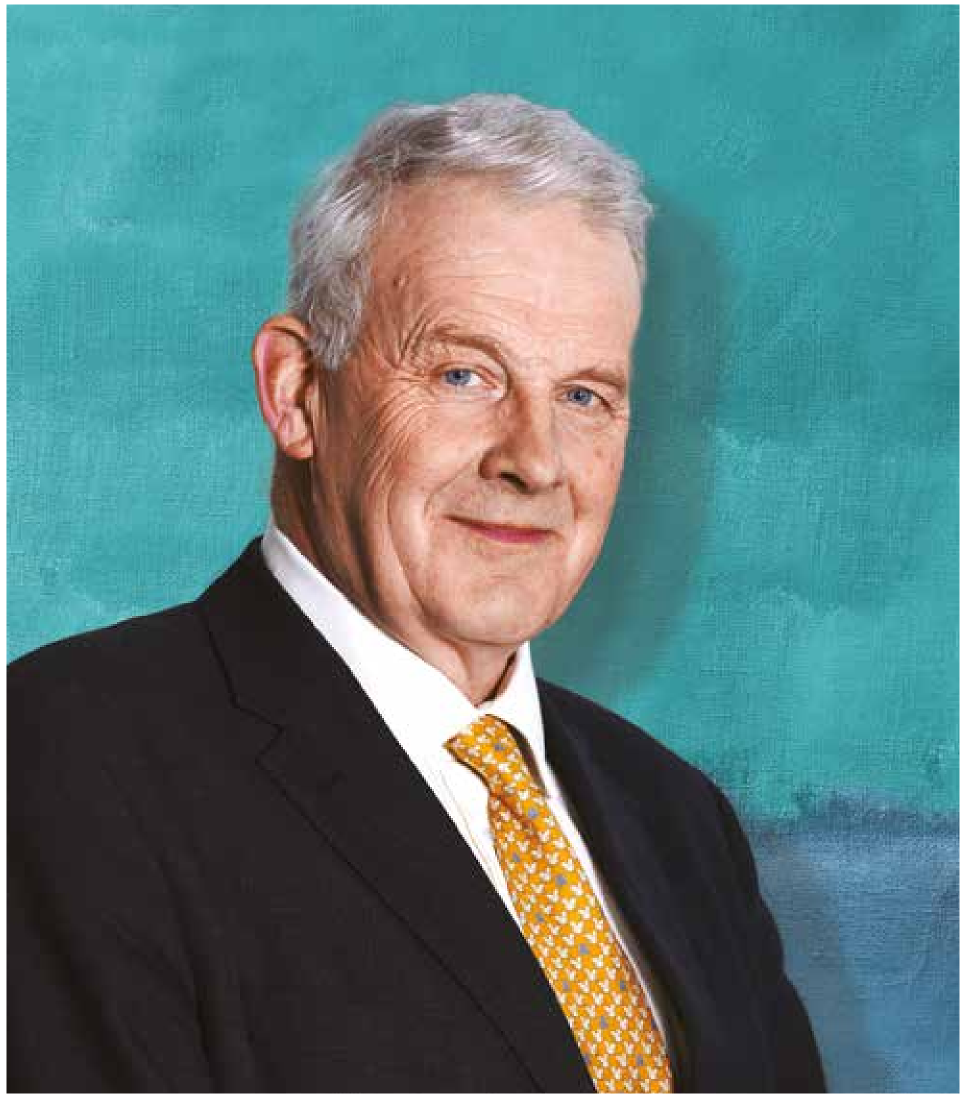
Appointed to the Board in September 2014. She was previously a Director of Goldman Sachs Asset Management International and the Goldman Sachs Luxembourg and Dublin based SICAV Funds, having spent her executive career in financial services principally in asset management. She is currently a Non-Executive Director of Brewin Dolphin Holdings plc.

David Henderson FCA* (a) (e)

Appointed to the Board in April 2016. David began his career specialising in personal tax and UK trusts. He spent 10 years as a banker with Morgan Grenfell and, following that, 11 years in financial services executive recruitment with Russell Reynolds Associates. He joined the Board of Kleinwort Benson Group plc as Personnel Director in 1995. He was appointed Chief Executive of Kleinwort Benson Private Bank Ltd (now Kleinwort Benson) in June 1997. He was Chairman of Kleinwort Benson from 2004 to 2008 and is currently a Senior Advisor to the Bank. He holds several external Non-Executive Directorships. David is a Chartered Accountant and was educated at Eton College.

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 2016. 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 22 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 subsidiary undertakings are given in note 32 to the financial statements on page 242 and details of international branches are shown on page 253.

Ownership

At the date of this report, the entire issued Ordinary share capital of the Company and 1.5% of the issued 8.625% Non-Cumulative Irredeemable Preference Shares of £1 each ('Preference shares') were owned by Ecclesiastical Insurance Group plc. In turn, the entire issued Ordinary share capital of Ecclesiastical Insurance Group plc was owned by Allchurches Trust Limited, the ultimate parent of the Group.

Board of directors

The directors of the Company during the year and up to the date of this report are stated on page 112 and 113.

Edward Creasy and David Henderson were appointed as Non-Executive Directors (NEDs) of the Company on 10 February 2016 and 20 April 2016 respectively. Will Samuel and David Christie retired as directors and Chairman and Deputy Chairman on 16 March 2016 and were succeeded by Edward Creasy and John Hylands respectively on the same date.

In line with the Financial Reporting Council's (FRC) 2016 UK Corporate Governance Code (the Code) the Board has voluntarily chosen to comply with the recommended annual re-election of directors. All directors that have served since the last annual general meeting (AGM) will be proposed for re-election at the forthcoming AGM and David Henderson 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 2016. 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 2016:

Director	Nature of interest	Number of Non-Cumulative Irredeemable Preference Shares held
Mark Hews	Connected person	75,342

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 (2015: £9,181,000).

The directors do not recommend a final dividend on the Ordinary shares (2015: £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 £24.7 million (2015: £20.6 million).

During the last 10 years, a total of £139.8 million (2015: £130.0 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 59.

Events after the reporting period

Events after the reporting period are disclosed in note 34 to the Financial Statements.

Going concern

The Financial Performance section on page 51 and Risk Management section of the Strategic Report starting on page 59 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 £866.5m, 94% of which are liquid (2015: financial investments of £843.1m, 95% liquid), cash and cash equivalents of £89.5m and no borrowings (2015: cash and cash equivalents of £108.7m and no borrowings). Liquid financial investments consist of listed equities and open-ended investment companies, government bonds and listed debt. The Group also has a strong risk management framework and solvency position, and has proved resilient to stress testing. 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 at least twelve months from the date of this report. 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 on page 134.

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

Edward Creasy	**Mark Hews**
Chairman	Group Chief Executive
15 March 2017	15 March 2017

Section Three

Governance

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 2016, 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.

Ecclesiastical Board of Directors				
Group Finance and Investment Committee	Group Nominations Committee	Group Risk Committee	Group Audit Committee	Group Remuneration Committee

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, Edward Creasy, is responsible for leadership of the Board. The day-to-day management of the business is undertaken by the Group Chief Executive, Mark Hews, assisted by the Group Management Board.

Senior Independent Director

John Hylands, Deputy Chairman, has been appointed as the Senior Independent Director (SID). The SID supports and acts as a sounding board for the Chairman and is responsible for overseeing the governance practices of the Company and leading the directors in their appraisal of the Chairman. Along with the Chairman, the SID is the primary contact for the shareholder and they meet regularly to share and understand views.

Directors' conflicts

A Conflicts Register is maintained by the Group Company Secretary to monitor and manage any potential conflicts of interest. Training on the Companies Act 2006 has been given to all directors 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 above. Details of all the Board Committees are contained within their respective reports that follow: the Group Finance and Investment Committee Report on page 124; the Group Nominations Committee Report on page 126; the Group Risk Committee Report on page 132; the Group Audit Committee Report on page 134; and the Group Remuneration Report on page 144.

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

Attendance at meetings

Directors are required to attend all Board meetings and strategy days as well as Committee meetings where they are members. In 2016, the Board held five scheduled meetings, two ad hoc meetings and two strategy days. In addition, six scheduled training sessions took place.

Edward Creasy met with the Non-Executive Directors 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 to 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 2016, no director had any such concerns.

Below is a record of the directors' attendance for the Board meetings (including the strategy days) during 2016:

Board attendance table

Executive Directors:	Director since	Meetings eligible to attend	Meetings attended
Mark Hews	June 2009	9	9
S. Jacinta Whyte	July 2013	9	7
Ian Campbell	April 2014	9	9
Non-Executive Directors	**Director since**	**Meetings eligible to attend**	**Meetings attended**
Edward Creasy (Chairman)	February 2016	8	8
Tim Carroll	March 2013	9	9
David Henderson	April 2016	7	6
John Hylands	September 2007	9	8
Anthony Latham	March 2008	9	8
Caroline Taylor	September 2014	9	9
Christine Wilson	June 2012	9	8
Denise Wilson	December 2010	9	9
Will Samuel (Chairman)	January 2006	2	2
David Christie (SID)	January 2001	2	2

During 2016, the Board made decisions on the following business issues and routine matters:

Strategic matters
Group Chief Executive's Report
Group Chief Financial Officer's Report
Financial performance and statements
Charitable donations and gift aid
Performance, strategic and business plans for Group businesses
Views from the Shareholder
Australia Strategic Review

Routine matters
Board's annual objectives
Risk management, appetite, and registers
Dividends
Setting and reviewing budgets
Committee reports and recommendations
Director Conflicts of Interests

Operational matters
Review of General Insurance business
Internal Model
Solvency II
Group reinsurance arrangements
Customer Excellence
Owned Distribution Conflicts of Interest
Health & Safety
Employee engagement
Employee Code of Conduct
Group Succession and Talent Management
Claims experience and management

Projects and other matters
Wildfires in Canada
Change Programme
GI Systems and IT Project

Governance and regulatory matters
Board composition
Governance Framework and Board Charter
Board Diversity Policy
Capital requirements, solvency position and ORSA
Relationship with the regulator
Determining NEDs' fees for recommendation at a general meeting

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 on page 59.

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 are accessible to all staff via the intranet.

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

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

Relationship with shareholder
Ecclesiastical Insurance Group plc owns the entire issued Ordinary share capital of Ecclesiastical Insurance Office plc. Ecclesiastical Insurance Group plc in turn is wholly owned by Allchurches Trust Limited with whom the Board has an open and constructive relationship. The Chairman ensures that the views of Allchurches Trust Limited are communicated to the Board as a whole following regular meetings with Sir Philip Mawer (Chairman of Allchurches Trust Limited). In addition, Tim Carroll and Denise Wilson have been appointed as 'Common Directors' of both companies which enables Allchurches Trust Limited to effectively communicate its views and expectations to the Board. In turn, the Common Directors are able to support the directors of Allchurches Trust Limited 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.

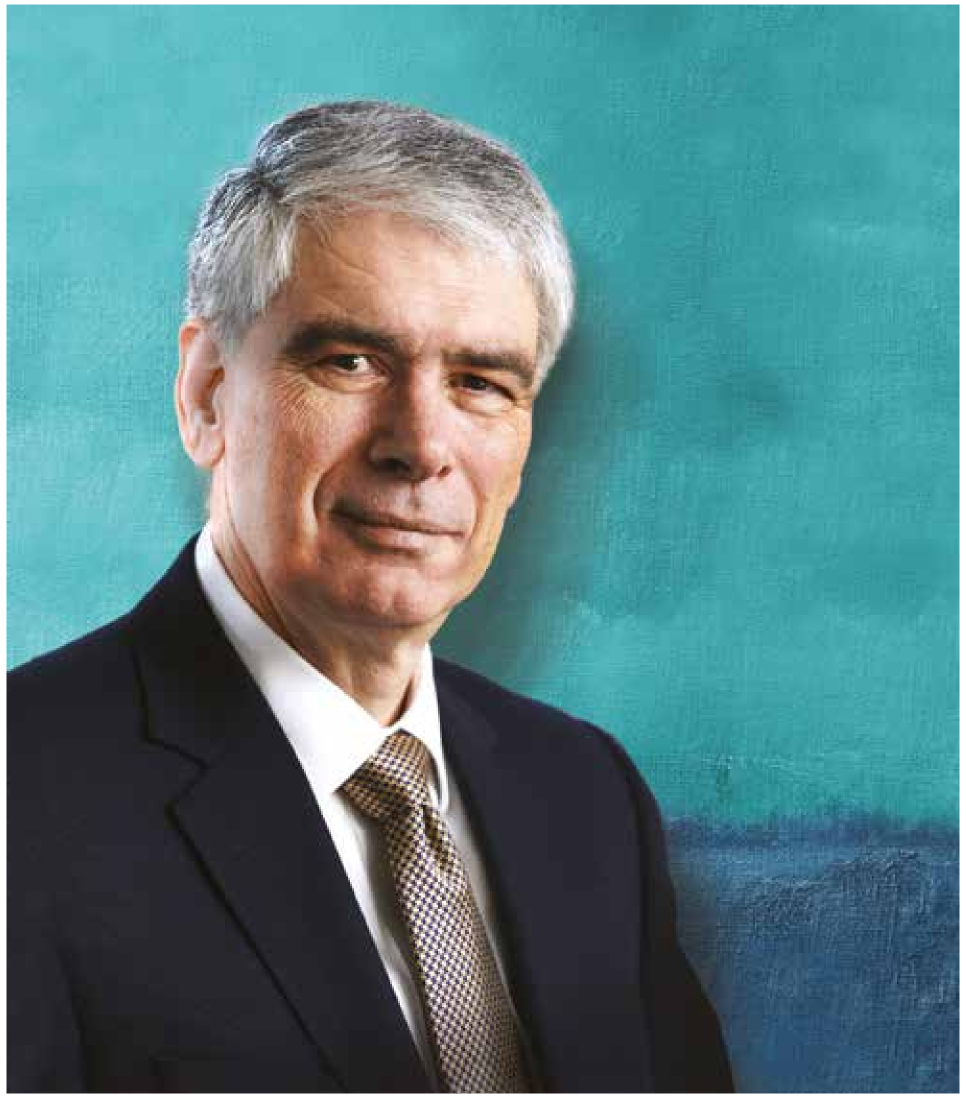
By order of the Board

Mrs. R. J. Hall
Group Company Secretary
15 March 2017

Group Finance and Investment Committee Report

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. This report gives more information on how we performed our duties during 2016.



Membership

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

Committee member	Member since	Meetings eligible to attend	Meetings attended
Tim Carroll (Chairman)	August 2013	4	4
Ian Campbell *	March 2016	3	3
Caroline Taylor *	March 2016	3	3
David Henderson **	June 2016	2	1
David Christie *	September 2010	1	1
Will Samuel *	March 2006	1	1
Anthony Latham **	February 2009	2	1

* Will Samuel and David Christie resigned from the Committee on 16 March 2016 and Ian Campbell and Caroline Taylor were appointed in their place.

** Anthony Latham resigned from the Committee on 16 June 2016 and David Henderson was appointed in his place.

Committee meetings

The Committee comprises the directors shown in the table above who were appointed by the Board. In addition, the Chairman of the Board, the Group Chief Executive and the Director of Investments are normally in attendance at the meetings.

The remit of the Committee, in line with its Terms of Reference and designated financial limits, is to ensure that the management of the Group's financial assets, including its investment portfolio, is properly governed, controlled and performing as expected. The Committee also reviews and advises on any major financial decisions including acquisitions and disposals on behalf of the Board.

During the year four scheduled meetings were held.

A summary of the main activities of the Committee during the year are set out below:

In addition to routine matters, the Committee undertook a review of the Group's investment strategy which encompassed consideration of asset liability matching, liquidity, risk versus return, capital and business outlook.

A review of the investment strategy for the defined benefit pension scheme was also undertaken and the Committee oversaw the implementation of a strategy on currency hedging. The Committee reviewed the Group's Ethical and Responsible Investment Policy and the investment manager's mandate. Potential acquisitions were also considered including the successful acquisition of a funeral planning business, which has been renamed Ecclesiastical Planning Services Limited.

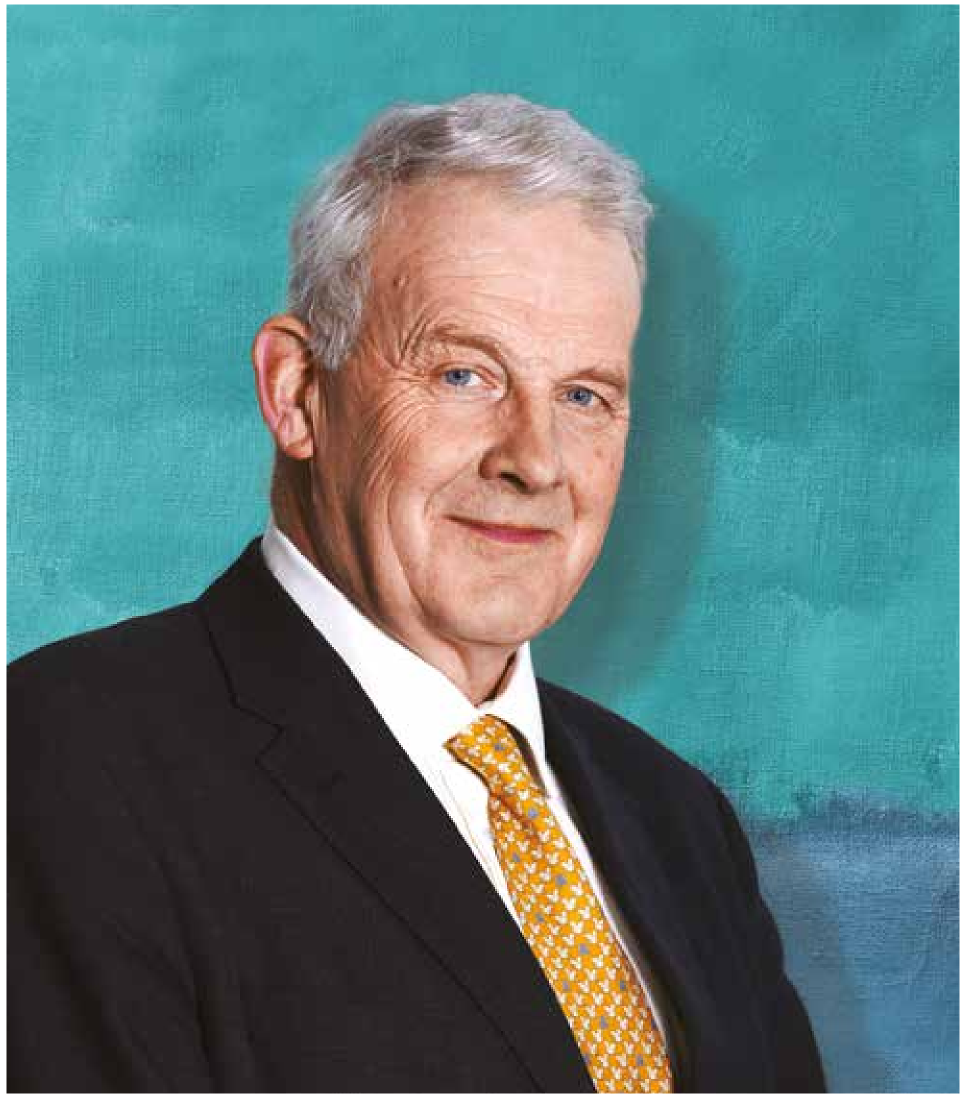
By order of the Board

Tim Carroll
Chairman of the Group Finance and Investment Committee
15 March 2017

Group Nominations Committee Report

Chairman's introduction

I am pleased to present the Group Nominations Committee Report describing the work we have carried out during the past year. This report gives more detailed information on how we performed our duties in 2016.



Membership

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

Committee member	Member since	Meetings eligible to attend	Meetings attended
Edward Creasy (Chairman)	March 2016	3	3
John Hylands	May 2013	4	4
Christine Wilson	March 2016	3	2
Denise Wilson	June 2016	2	2
Will Samuel	June 2008 (resigned March 2016)	1	1
David Christie	January 2001 (resigned March 2016)	1	1

Committee meetings

The Committee comprises the directors shown in the table above who were appointed by the Board.

The Committee held three scheduled meetings during the year and one ad hoc meeting. The Group Chief Executive attended each meeting. The Committee's key responsibility 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.

Board and Committee composition

During the year the Committee considered the composition of the Board which comprises a non-executive Chairman, seven other NEDs and three executive directors.

The Group believes the size and composition of the Board gives it sufficient independence, balance and broad experience to consider the issues of strategy, performance, resources and standards of conduct. The strong representation of NEDs on the Board demonstrates its independence, provides a greater depth of experience and facilitates challenge.

A summary of the main activities of the Committee during the year are set out below:

Succession planning

The Board via the Group Nominations Committee formally reviewed the Group's Board and Leadership succession plan (including subsidiary Board composition) which is undertaken on an annual basis. In respect of each key role, emergency, short-term and long-term succession is considered and challenged by the Board to ensure that appropriate skills are in place to support the Group's 2020 vision. In 2016, a Leadership Development Programme was created which will be rolled out during 2017 to develop leaders for the future.

Board appointments

During the year, the Committee agreed that its key priorities were to strengthen the Board in investment management and insurance and to recruit a successor to John Hylands, Chairman of the Group Audit Committee.

David Henderson, a newly appointed director of a subsidiary company, EdenTree Investment Management Limited, was appointed to the Board on 20 April 2016. David's appointment enhances the investment and insurance expertise on the Board and also strengthens the relationship with its subsidiary. An external search consultant was not used for the recruitment as an extensive recruitment process had been undertaken in his appointment to the subsidiary Board.

An external search consultant, Heidrick and Struggles International (which had no other connection to the Group and which is a signatory to the Voluntary Code of Conduct on gender diversity and best practice), was engaged to support the selection process for the successor to the Chairman of the Group Audit Committee. The initial candidate list was reduced to a shortlist for consideration by the Committee. After a series of interviews and further due diligence, a preferred candidate emerged. All members of the Board met with the preferred candidate and provided feedback. In addition, discussions were held with Allchurches Trust Limited. The Prudential Regulation Authority is currently reviewing the application of the preferred candidate.

All newly appointed directors have to receive regulatory approval in accordance with the Senior Insurance Managers Regime (SIMR).

The recruitment for a successor to Anthony Latham commenced at the start of 2017.

Senior Insurance Managers Regime

The Committee considered the new SIMR regulatory management framework that replaced the historical Fitness and Proper arrangements. In particular, the Committee considered the approach to determining NED function responsibilities and reviewed and challenged the lead and supporting directors for each function. In addition, the Committee considered the new NED approval process and the process for NEDs transferring between roles and associated process maps.

NED appointment letters

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

Board diversity

Ecclesiastical recognises the benefits of having a diverse Board. It is committed to improving diversity on the Board in the broadest sense and acknowledges that diversity both improves performance of the Board and strengthens the business.

The Board has taken steps over the last few years to increase the degree of gender diversity on the Board. Since the Board Diversity Policy was launched in June 2012, the representation of women on the Board has increased from 20% to 36% with four female members in a current membership of 11.

Given the Board meets the Davies 2020 target (FTSE 350) for female board representation and is committed to maintaining at least a 33% female representation, it agreed that no further objectives should be adopted to increase female representation at this time. However, the Board via the Group Nominations Committee would consider the progression of women to key roles including Chair, Senior Independent Director and executive directors as part of its regular review of succession planning.

The Board will take opportunity, as and when appropriate, further to improve diversity in the wider sense and from all backgrounds as part of its Board recruitment practice.

The Board also recognises the importance of improving diversity in the wider sense (including gender balance) at senior levels within the organisation and is actively reviewing diversity across the Group. The Company was a founding signatory to the Women in Finance Charter. 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 Allchurches Trust Limited, 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 2016, seven training sessions took place and covered Internal Model, Pensions, Investments and Cyber Security.

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

At the end of 2016, the Committee led an external evaluation of the Board and Committees, assisted by the Company Secretariat. An external board evaluation provider, BP&E Global Limited, which is not connected with the Group, conducted this evaluation. All Board and Committee members were required to complete a bespoke assessment. The outcome of the evaluations will be considered by the Board in Spring 2017. The Group Nominations Committee will monitor the implementation of the agreed recommendations.

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 2018.

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 2016. Independence is reviewed as part of each director's annual appraisal, considered by the Committee, and agreed by the Board annually. In 2016, one NED, John Hylands, has served for more than nine years on the Board, and Anthony Latham and Denise Wilson have served for more than six years. In addition, two directors, Tim Carroll and Denise Wilson, are directors of Allchurches Trust Limited. 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.

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 2016, 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

Edward Creasy
Chairman of Group Nominations Committee
15 March 2017

Group Risk Committee Report

Chairman's introduction

I am pleased to present the Group Risk Committee Report describing the work undertaken 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 59.

Membership

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

Committee member	Member since	Meetings eligible to attend	Meetings attended
Anthony Latham (Chairman)	June 2010	7	7
S. Jacinta Whyte	February 2014	7	7
Tim Carroll	August 2013	7	6
John Hylands	September 2010	7	7

Committee meetings

The Committee comprises the directors shown in the table above who were appointed by the Board. In addition, the 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 Committee Chairman and the NEDs. The Committee ensures that they meet with the Group Chief Risk Officer at least once a year without the executives present. The Director of Group Compliance also reports to the Committee regularly.

The principal purpose of the Committee is to assist the Board in monitoring the appropriateness and effectiveness of the Group's risk strategy, appetite and profile; risk management culture; and Enterprise Risk Management Framework. The Committee's key responsibilities include overseeing risk management and compliance monitoring across the Group, including prudential risk and compliance with Solvency II; business continuity; customer and conduct risk; financial and cybercrime; and reputational risk.

During 2016, the Committee held seven meetings.

A summary of the main activities of the Committee during the year are set out below:

In addition to routine matters, a key focus of the Committee's work this year has been to oversee preparations for the implementation of Solvency II and the Internal Model application. This has included monitoring the development, governance, methodology and integration of the internal model; the validation cycle; and the internal model application itself. The Committee has also reviewed capital requirements across the Group; overseen the implementation of the Senior Insurance Manager's Regime and related governance maps; the contracts management framework; and material outsourcing risks.

During the year, the Committee also received regular reports from Group Compliance (including compliance breaches, financial crime, data protection, the regulatory outlook and the Money Laundering Reporting Officer's Report).

The Committee also considered specifically:

- the ORSA and CRSA processes at Group level;
- the output from a risk review of EdenTree Investment Management Limited;
- the implementation of a Conduct Risk Policy and appetite;
- liquidity risk catastrophe events;
- a review of the Group's Governance Framework and Expectations of Strategic Business Units and Subsidiaries; and
- the Group's relationship with its regulators including reviewing statutory returns, requests for information from the PRA and the output from PRA and FCA supervisory visits.

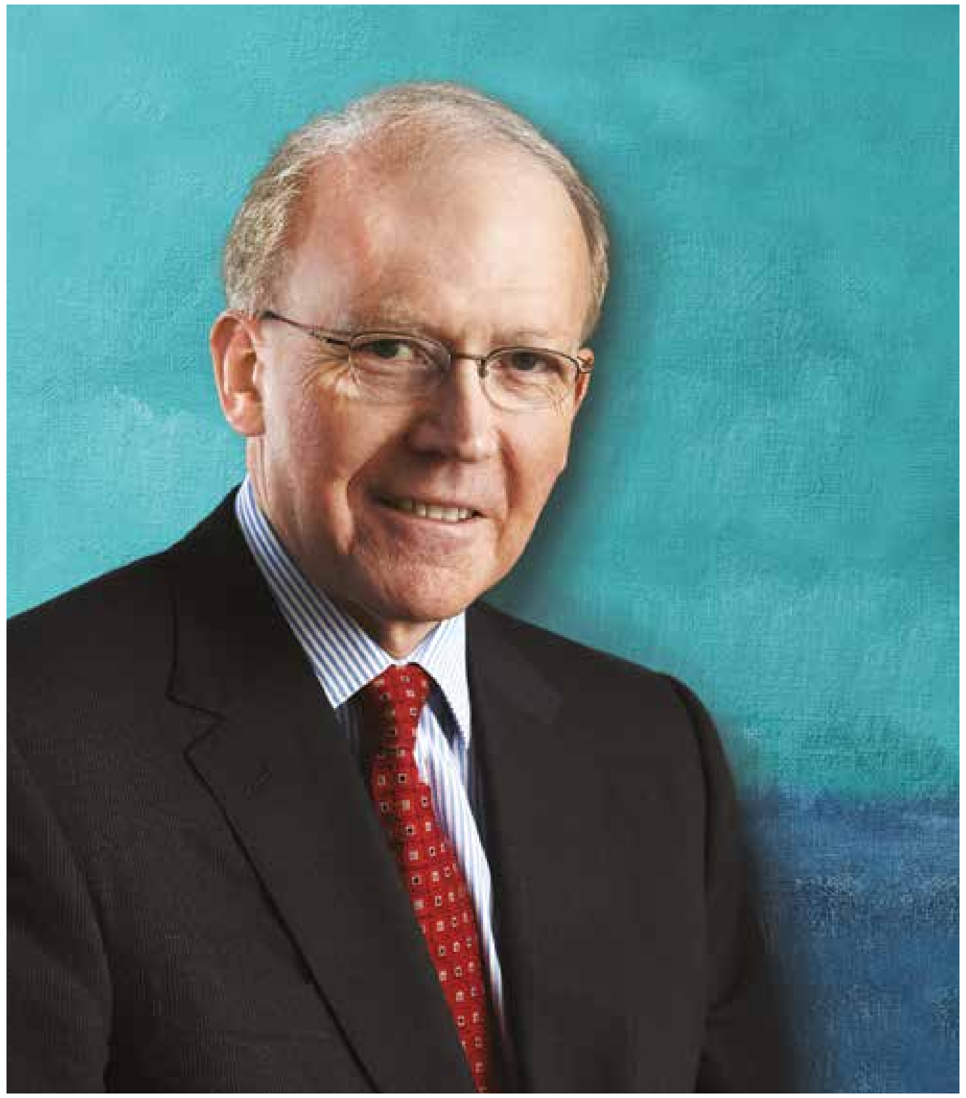
By order of the Board

Anthony Latham
Chairman of the Group Risk Committee
15 March 2017

Group Audit Committee Report

Chairman's overview

The Committee continued to focus its work on the Group's financial reporting, internal and external audit arrangements and the effectiveness of the Group's systems of internal financial controls and the management of financial risks. The Committee's role was expanded this year to provide assistance to the Board with assessing the first regulatory reporting submissions to the PRA following the implementation of Solvency II in 2016, which included our recommendation that an external review of the opening position be undertaken by the Group's external auditors prior to the first submissions in May.



We have considered the processes underpinning the production and approval of this year's Annual Report to enable the Board to confirm that the Annual Report taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. The Committee also assessed the viability of the Group over a three-year period. A description of how we approached these reviews can be found in this report.

From an accounting and reporting perspective, the significant issues considered in detail by the Committee are set out on pages 138 and 139.

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 remain 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 66 to 73. 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.

John Hylands
Chairman of the Group Audit Committee

Membership

The Committee members have been selected with the aim of providing the wide range of financial and commercial expertise necessary to fulfil the Committee's duties. As required by the Code, the Board considers that John Hylands has recent and relevant financial experience and accounting competence and that the Committee as a whole is appropriately competent in the sectors within which the Group operates.

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

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

Committee meetings

During the year, the Committee had six scheduled meetings. In addition to the members of the Committee, the Chairman of the Board, the Group Chief Executive, the Group Chief Financial Officer and the Director of Group Internal Audit (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 2016 they attended all six of the 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 controls and the management of financial risks.

A summary of the main activities of the Committee during the year are set out in the next column.

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.

Changes to the Corporate Governance Code have introduced a Directors' 'longer-term viability statement' into annual reports. The group adopted this new requirement in last year's Annual Report and the Committee spent significant time assessing the appropriate timeframe over which to make the statement. We continue to agree that this time period remains appropriate. The processes underpinning the assessment of the Group's longer-term prospects were also reviewed in detail for this year's Annual Report. As a result, an assessment period of three years continues to be used for which the Directors have confirmed the Group's viability (see page 74).

The Committee also reviewed the Group's first regulatory submissions under Solvency II. We recommended to the Board that the Group's external auditors carry out a review of the opening submissions and reviewed the output of that review.

We have considered and approved each of the Group's quarterly returns, and have also had input into the development of the Group's Solvency and Financial Condition Report, which is due to be published in May 2017.

The significant areas of focus considered by the Committee in relation to the 2016 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 59 and also note 2 to the financial statements on page 196.

Matter considered	Action
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 and discussed and challenged management across a wide range of assumptions. This is a major area of audit focus and Deloitte also provided detailed reporting on these matters to the Committee. There was continued 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. Management also continued to review the historic exposure profile and claims resulting from asbestos-related diseases and proposed a further modest increase in those reserves at the end of 2016. After consideration, the Committee agreed it was appropriate to strengthen reserves for this long-tail risk in line with the management's recommendation. The Committee continues to maintain a focus on PSA reserves and reviewed actual claims experience against expectations throughout the year. It was noted that experience was very close to modelled expectations this year and the Committee agreed with management that the current level of reserves remained reasonable. Following the announcement in relation to decreasing the Ogden discount rate from 2.5% to -0.75% on 27 February 2017 the Committee reviewed a detailed report setting out the impact of this change on claims reserves provided by the Group's Reserving Actuary and the Actuarial Function Director. The Committee noted that the Group's continuing UK Employers Liability and Public Liability portfolio of risks currently have low order sensitivity to the level of the rate due to low frequency of catastrophic injury cases, and discontinued UK Motor business is at an advanced stage of run off and, after consideration and challenge, were satisfied that the claims reserves at the balance sheet date reflected the current rate of -0.75% and uncertainties over the future rate. 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.

Matter considered	Action
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.	At the request of the Committee, the Chief Actuary led an in-depth review of the assumptions used in the valuation of life insurance reserves and the sensitivities involved during 2016, to aid our understanding of the life insurance reserving process and outcomes. From a governance perspective, the Chief Actuary's proposed assumptions for each reporting period are reviewed, challenged and agreed at a detailed level by the Ecclesiastical Life Limited Board. The Committee reviewed an overview of the proposed assumptions and noted the impact on the 2016 result of an increase in expected future expenses related to Solvency II. Following its review, and after consideration of Deloitte's report, the Committee was satisfied that the assumptions proposed were appropriate and overall the judgements made in respect of the reserves were reasonable.
Carrying value of goodwill This is an area of focus for the Committee given the materiality of the Group's goodwill balances (£23m as at 31 December 2016) and the inherent subjectivity in impairment testing. The judgements in relation to goodwill impairment continue to relate primarily to the assumptions underlying the calculation of the value in use of the business, being the achievability of the long-term business plan and the macroeconomic and related modelling assumptions underlying the valuation process.	The Committee received detailed reporting from management and challenged the appropriateness of the assumptions made, including: • the consistent application of management's methodology; • the achievability of the business plans; • assumptions in relation to long-term growth in the businesses at the end of the plan period; and • discount rates. This remains an area of audit focus and Deloitte provided detailed reporting on these matters to the Committee, including sensitivity testing. The Committee also reviewed external advice on setting an appropriate discount rate that management had commissioned during the year. After its reviews, the Committee agreed with management's conclusion that no impairment was required for any of the businesses under review.
Valuation of defined benefit pension scheme liability This is an area of focus for the Committee as the liabilities of the Group's main defined benefit pension 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.	During 2016, the Committee received reports from management on the proposed approach to the valuation of the pension schemes. As the pension schemes are sensitive to changes in key assumptions, management completed an assessment as to the appropriateness of the assumptions used, taking advice from independent actuarial specialists and including where appropriate, benchmark data, and reported its findings to the Committee. Following this review, management had proposed some changes in approach to setting some of the assumptions and the Committee critically reviewed and challenged these. Following our challenge, the Committee concluded that the assumptions proposed were appropriate and in line with normal market practice. The changes made and their impact on the valuation at 31 December 2016 are explained in note 18 to the financial statements on page 221.

Fair, balanced and understandable

At the request of the Board, the Committee has considered whether, in its opinion, the 2016 Annual Report and financial statements were fair, balanced and understandable and provided the information necessary for shareholders to assess the Group's position and performance, business model and strategy. The Committee has reviewed and provided feedback on early drafts of the Annual Report highlighting any areas where we believed further clarity was required in 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 our 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 might 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 our review, the Committee was of the opinion that the 2016 Annual Report was representative of the year and presented 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

The Committee has primary responsibility for overseeing the relationship with, and performance of, the external auditor. This includes making the recommendation on the appointment, reappointment and removal of the external auditor, assessing their independence on an ongoing basis and for negotiating the audit fee.

As we reported last year, the external audit was tendered during the first half of 2015 and we chose to recommend the reappointment of Deloitte LLP. The Committee also recommended that the Group move the external audit of all its subsidiaries to Deloitte LLP and no longer use any non-Deloitte component audit firms. The Board agreed both these proposals and Deloitte LLP undertook their first audit of the entire group for the 2015 year end.

The Committee continues to review the auditor appointment and the need to tender the audit, ensuring the Group's compliance with the Code and the reforms of the audit market by the UK Competition and Markets Authority. Accordingly, the Company confirms that it complied with the provisions of the Competition and Markets Authority's Order for the financial year under review.

For the financial year ending 31 December 2017, the Committee has recommended to the Board that Deloitte LLP be reappointed under the current external audit contract and the Directors will be proposing the reappointment of Deloitte LLP at the annual general meeting in June 2017.

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 2016 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 2016 audit with Deloitte. An area of focus for the Committee in these discussions was the significant increase in fees proposed by Deloitte LLP in respect of the external audit of the new regulatory reporting requirements under Solvency II. After discussion with Deloitte LLP and management the Committee was satisfied that the overall fee proposal for the group was acceptable, but has challenged both management and Deloitte LLP to seek efficiency improvements and reduce audit fees in the future.

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. The Committee reviewed the quality of the external audit throughout the year and considered the performance of Deloitte LLP, taking into account the Committee's own assessment and feedback from management and senior finance personnel across the group. The Committee also paid particular attention this year to the delivery of the audits for subsidiaries previously audited by other firms.

Based on its reviews, the Committee concluded that there had been appropriate focus and challenge on the primary areas of audit focus and Deloitte LLP had applied robust challenge and scepticism throughout the audit. The Committee was also satisfied with the delivery of the first audit for the subsidiaries not previously audited by Deloitte LLP, and would like to take this opportunity to thank both Deloitte LLP and the previous audit firms for their professionalism in managing the handover process.

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, and has been updated this year to reflect new guidance issued.

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 2016, the Group was charged £451,000 (exc VAT) by Deloitte LLP and its associates for audit services. The fees for other assurance services required by legislation and/or regulation amounted to £233,000, making total fees from Deloitte of £684,000. 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 215.

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 120.

In reviewing the effectiveness of the system of internal control and risk management during 2016, 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 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 2016.

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. It monitors 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
15 March 2017

Group Remuneration Report

Group Remuneration Committee Chair's statement

As Chair of the Group Remuneration Committee, I am pleased to introduce the Group Remuneration Report for the year ending 31 December 2016 and to highlight some of the key aspects of the Committee's work during the financial year.

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 2016; major decisions taken by the Committee during the year; and changes made to directors' remuneration. The Directors' Remuneration Policy on pages 149 to 160 sets out the Group's policy in relation to the structure and elements of pay for our directors. The Annual Report on Remuneration on pages 160 to 169 describes how the Group's remuneration policies have been implemented in 2016, providing retrospective disclosures on directors' remuneration for 2016 and setting out how the Policy will be implemented in 2017.

Review of performance and incentive outcomes

As described in the Strategic Report starting on page 16, the Group has once again delivered strong underwriting profits and investment returns in 2016. Our profit before tax (PBT) increased to £62.5m (2015: £53.6m). The Group delivered an underwriting profit of £20.1m, up from £13.5m the previous year, with the Combined Operating Ratio (COR) for the Group improving to 89.8% (2015: 93.2%).

Given the Group's performance over the year, the Committee is satisfied that (i) the annual bonus awards of 97% (Group Chief Executive), 90% (Deputy Group Chief Executive) and 88% (Group Chief Financial Officer) of the maximum potential value and (ii) the extent to which the long-term incentive plan (LTIP) granted in 2014 has vested, are appropriate.

To ensure that the financial results achieved over the one-year and three-year periods applicable to the executive directors' annual bonus and LTIP outcomes have been achieved within the risk appetite limits set for the Group, the Committee considers risk management across the Group as part of its deliberations on remuneration. 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 out-turns have been achieved within the Group's risk appetite. I am pleased to report that following this review for the period ending 31 December 2016, no adjustments were considered necessary to the 2016 annual bonus or the 2014-2016 LTIP.

Key Committee activities during the year

During the year, the Committee undertook an annual review of the Group's Remuneration Policy and determined that it remains effective and continues to drive the sustained and long-term performance of the Group.

The Group Chief Executive's three-year incentive plan concluded at the end of 2016, requiring the Committee to review the Group Chief Executive, Mark Hews' remuneration package against the future strategic requirements of the Group. The three-year incentive plan was designed to focus efforts on specific deliverables deemed critical to the required turnaround in the underwriting performance and profitability of the Group at that time and to balance the immediate demands of the role with the experience of the appointee. The successful delivery of the turnaround is confirmed in the Group's continued strong performance in 2016 and the Board extend their appreciation to the Executives and employees throughout the Group who have made this possible. The remuneration package for the Group Chief Executive has been re-shaped for 2017 to reflect progress and to incentivise the longer-term strategic requirements of the business.

Similar consideration was given to the remuneration package of the Deputy Group Chief Executive, whose incentive plan also concluded in 2016. During the year, S. Jacinta Whyte continued, alongside her responsibilities as Deputy Group Chief Executive, to exercise her responsibilities as General Manager and Chief Agent for Canada and as Managing Director of UK General Insurance. In addition she oversaw the transition of the UK General Insurance responsibilities and transformation programme to John Blundell, the newly appointed Managing Director of UK General Insurance. An appropriate incentive plan was approved to reflect this and consideration given to the longer-term strategic requirements of the business.

The Committee determined that the remuneration packages of the three executive directors were appropriately aligned with the Group's strategic objectives, reflective of the greater experience and track record of the executive directors and comparative benchmarking. The revised remuneration packages were discussed with our ultimate parent company Allchurches Trust Limited, and details of these arrangements can be found starting on page 150 in this report.

The Committee also reviewed the remuneration packages of new appointees to the GMB and heads of strategic business units, taking account of all relevant factors. The Committee continued to oversee the development of remuneration policy and incentive scheme design across the wider Group, further aligning reward policies across all Group entities with the Group's strategic objectives and financial targets. In particular, revised incentive arrangements were reviewed and approved for Lycetts Holdings Ltd (Lycetts), further aligning these with the Group Remuneration Policy.

During 2016 Ecclesiastical became one of the founding signatories of the Women in Finance Charter. The Charter is a financial services initiative to build a more balanced and fair industry, promoting gender balance at all levels across the Financial Services sector. Underlining its commitment to the Women in Finance Charter, the Group has set itself a target that by 2020 women will make up at least 45% of the senior management and management population. Delivery against Ecclesiastical's gender diversity targets will be linked to executive and wider employee remuneration via the strategic targets element within the Group's annual bonus arrangements.

The Group's commitment to ensuring that all employees, both men and women, have a fair and equal pay opportunity has been reflected in the Group's Remuneration Policy. During the year, the Committee reviewed gender pay across the Group, including for the Group's overseas and smaller UK businesses which are not subject to the Gender Pay Gap Information Regulations 2017.

The regulatory and corporate governance environment in which the Group operates continued to evolve during the year. The Committee considered the implications of Solvency II on the Group's identification of material risk takers and on remuneration governance, structures and risk adjustment approaches. The Committee also reviewed the implications of the UCITS V Directive and the change in Remuneration Code applicable to EdenTree (to SYSC 19E) on remuneration policy.

Following the appointment as Remuneration Advisor of Aon Hewitt, New Bridge Street (NBS), the Committee worked with NBS to embed effective input and challenge by NBS into the Committee's deliberations.

A review by the Board of NEDs' fees resulted in an increase to the fees of the Chairman of the Group Risk Committee (for 2016 and 2017 only) to reflect the significant additional work required for the implementation of Solvency II and Internal Model Application Process (IMAP). In addition, the fees for a NED serving on the board of EdenTree Investment Management Limited, a subsidiary company, were increased with effect from 1st January 2017 to reflect the additional commitment required as a director of a separate legal and regulated entity. All other NED fees remained unchanged.

Finally, I value the continued support from our charitable owner and shareholder Allchurches Trust Limited, 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
15 March 2017

Group 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.

During 2016, 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.

Advisers to the Committee

During the year, the Committee received external advice from NBS in relation to the review of incentive arrangements for executive directors; the determination of appropriate remuneration packages for executive directors, members of the GMB and heads of strategic business units; remuneration arrangements and regulation in asset management firms and in relation to the Solvency II remuneration requirements. NBS additionally provided advice to the Board in relation to the review of NED fees. NBS has no other advisory function within the Group. The Committee also had access to benchmarking reports from Willis Towers Watson and McLagan, each of which also provides data to support the determination of pay and conditions throughout the Group.

Fees paid to NBS during 2016 for professional advice to the Committee were £112,000. The increase in fees paid reflects the appointment of NBS as Remuneration Advisor to the Committee; NBS attendance at Committee meetings to support the Committee in its deliberations and the review of remuneration packages of the three executive directors.
The Committee is satisfied that the advice received during 2016 from NBS was impartial, as NBS is a signatory to the voluntary code of conduct of the Remuneration Consultants 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.

Committee member	Appointed to the Committee	Meetings eligible to attend	Meetings attended
Denise Wilson (Chair)	December 2011	5	5
Caroline Taylor	November 2014	5	5
David Henderson *	September 2016	2	2
David Christie	April 2013 (resigned March 2016)	2	1
Christine Wilson	April 2013 (resigned September 2016)	4	4

* David Henderson was appointed to the Committee on 19 September 2016.

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 2017. The 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 bonus and LTIP will reflect and support the Group's underlying strategic goals and risk appetite and may be comprised of both financial and non-financial targets.
- Reward payments will be performance-related, **reflecting individual and business performance,** including both what has been delivered and the way in which such deliveries have been 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 contribution to reward provided by long-term incentives for more senior employees.
- Ecclesiastical is committed to ensuring that all employees, both men and women, have a **fair and equal pay opportunity.**
- 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

The Committee has established the remuneration elements set out in this report in line with the Group's Remuneration Policy principles described above. Fixed annual elements including salary, pension and benefits, are set in order to recognise the responsibility and experience of the Group's executive directors and to ensure current and future market competitiveness.
The annual and long-term incentives are set in order to incentivise and reward the Group's executive directors for making the Group successful on a sustainable basis.

Future policy table (executive directors)

How the element supports the Group's strategic objectives	Operation of the element	Maximum potential value and payment at threshold	Performance measures used, weighting and time period applicable	Change from 2016
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.	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.	Group and individual performance	None
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 the Group's Canadian branch.	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 with the overall objective of promoting the wellbeing of employees. The costs are those relating to providing the benefit.	Not applicable	None
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.	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. The employer contribution rate to the Canadian EIO plc Defined Contribution Pension plan is 12% of basic salary.	Not applicable	None
Group annual bonus scheme To incentivise the executive directors to achieve key financial and strategic goals and targets for the financial year. Deferral provides further alignment with shareholders' 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. Any bonus earned in excess of 75% of an individual's maximum bonus opportunity is deferred over a period of three years.	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 2017, these are: • Ecclesiastical Insurance Group (EIG) PBT (including fair value investment gains/losses) • Group COR • Strategic targets • Customers and conduct target • Personal performance targets	None

Future policy table (executive directors) continued

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	Change from 2016
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 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.	Under the rules of the LTIP, awards can be made of up to 150% of salary in the case of the Group Chief Executive and of up to 100% of salary in the case of the Deputy Group Chief Executive and Group Chief Financial Officer. At on-target performance, a target opportunity of 50% of the award applies. Threshold business performance results in vesting of no more than 20% of the award. The Group LTIP plans granted in respect of 2015-2017 and 2016-2018 will continue to vest under the previously applicable policy.	The Group LTIP is subject to a range of challenging conditions linked to key strategic priorities. For 2017 awards relating to a performance period 2017-2019, 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 • Customers and conduct targets There is a 36-month performance period from the date of grant.	LTIP award maximum of Group Chief Executive increased to 150% from 2017 award relating to performance period 2017-2019.

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 including on the extent to which the schemes meet the Group's risk appetite.

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.

Remuneration Committee discretion, malus and clawback provisions

The Committee has discretion to reduce any annual bonus and LTIP prior to award in certain circumstances, including (but not limited to): (i) issues regarding the Group's underlying financial strength and position; (ii) 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) a material diminution in the regard by which the Group is held by its customer base as a result of executive mismanagement.

Bonus already paid or deferred, LTIP already vested and any unvested LTIP are subject to malus/clawback in certain circumstances, including (but not limited to): (i) misstatement 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.

Changes to the Policy from that operating in 2016

An incentive plan was approved for the Deputy Group Chief Executive, reflecting the requirement to oversee the transition of the UK General Insurance responsibilities and transformation programme to John Blundell, the newly appointed Managing Director of UK General Insurance. The incentive plan concluded in December 2016.

The LTIP award maximum of Group Chief Executive will increase to 150% from the 2017 award relating to performance period 2017-2019. This change to the Group's Remuneration Policy will be made in 2017 and is reflected in the Future Policy table above.

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 on page 155. 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 and the individual regulatory requirements applying thereto.

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 rewards, through a higher annual bonus opportunity and participation in 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 shareholders.

Remuneration scenario charts

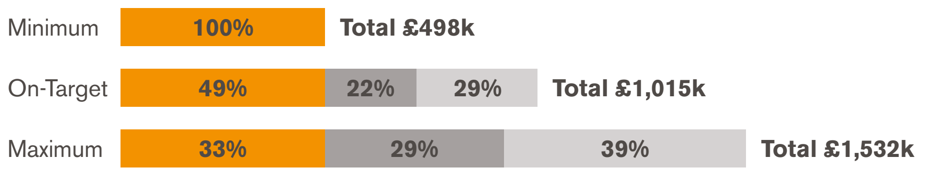
The remuneration scenario charts below illustrate what each executive director could earn in respect of the policy for 2017, under different performance scenarios:

- 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.

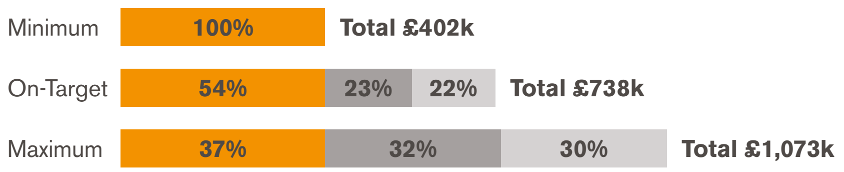
Notes to the charts:

- Fixed pay is base salary for 2017 plus the value of pension and benefits.
- Base salary is the aggregate of the salary applicable at 1 January for January to March 2017 and the salary applicable at 1 April 2017 for April to December 2017.
- The value of pension is calculated as described in the Future Policy table. The value of pensions for the Group Chief Executive and the Group Chief Financial Officer is the sum of projected 2017 pension contributions to the UK Defined Contribution Scheme and, to the extent applicable in 2017, the pension cash allowance applicable where contributions would be above the Annual or Lifetime Allowance.

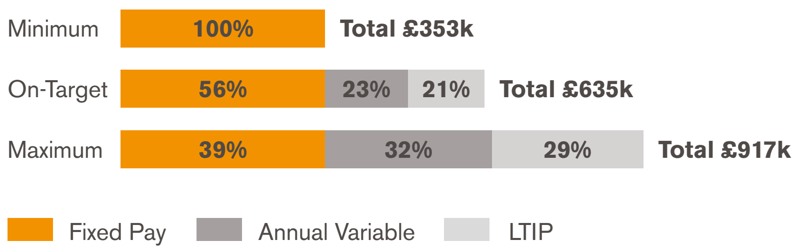
Mark Hews: Effect of the application of this policy in financial year 2017



S. Jacinta Whyte: Effect of the application of this policy in financial year 2017



Ian Campbell: Effect of the application of this policy in financial year 2017



- The value of benefits in-kind is taken from the single figure table for 2016, which can be found on page 161.

Approach to recruitment remuneration

Ecclesiastical is a specialist financial services group competing for talent across a variety of markets and frequently against 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 Group. Where it is thought necessary to compensate for an individual's awards resulting 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 of events, 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	-
Annual bonus	100%
LTIP	150% – Group Chief Executive 100% – Deputy Group Chief Executive and Group Chief Financial Officer
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, comprising of 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, with the option to 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 £483k 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 £142k.

Service contracts and policy on payment for loss of office continued

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 is to be made unless the executive is employed on the 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 reasons at the discretion of the Committee. If there is a change of control event, then an early payment can be made, at the discretion of the committee.	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.

Service contracts and policy on payment for loss of office continued

Standard provision	Policy	Details
Exercise of discretion	Discretion is intended to be relied upon only in certain circumstances as set out on page 152.	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.
Other matters	The Group's policy is to honour commitments made under 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.	
Non-Executive Directors	Each NED is appointed for an initial three-year term, and is subject to re-election by the shareholder at the first AGM following their appointment. In addition, the Board has agreed that all directors (including NEDs) will be subject to annual re-election by the shareholder at each AGM. NEDs are entitled to receive a pro-rata proportion of their fees that they have accrued up to the date of termination of their contract.	

NEDs' fees policy

How the element supports the Group's 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 the Group's 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. NEDs take no part in the discussion relating to their own 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.	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 and 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.

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

Statement of consideration of shareholder views
The Committee, through the Board, consults with the shareholder on any changes to this policy in order to understand expectations with regard to executive directors' remuneration and any changes in shareholder's views.

Annual Report on Remuneration

This section of the Directors' Remuneration Report sets out how the above Remuneration Policy was implemented in 2016 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 on the following page shows a single total figure of remuneration received in respect of qualifying services for the 2016 financial year for each executive director, together with comparative figures for 2015. Aggregate executive directors' emoluments are shown on page 168. Details of NEDs' fees are set out in a separate table on page167.

Executive Directors	Fixed pay (£000)				Variable pay (£000)				Pension (£000)		Total remuneration (£000)	
	Salary		Benefits[1]		Annual bonus[2]		LTIP[3]		Pension benefit[5]		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Mark Hews	393	381	14	15	385	338	527[4]	306	51	49	1,370	1,089
S. Jacinta Whyte[6]	325	319	21	20	322[7]	259	109	97	49	38	826	733
Ian Campbell	267	259	27	26	236	235[8]	64	0	36	38	630	558
Total	**985**	**959**	**62**	**61**	**943**	**832**	**700**	**403**	**136**	**125**	**2,826**	**2,380**

[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 2016 was in line with the previous year and the Directors' Remuneration Policy, and no exceptional benefits were paid.
[2] In line with the deferral policy, annual bonus earned in excess of 75% of the maximum bonus opportunity is deferred over a period of three years. In 2016 the value of executive directors' annual bonuses that were deferred was: £88k (Group Chief Executive), £50k (Deputy Group Chief Executive) and £34k (Group Chief Financial Officer).
[3] LTIP represents the amount payable in respect of the three-year LTIP performance period 2014-2016 for 2016 and 2013-2015 for 2015, together with the amounts payable in respect of the Group Chief Executive's three-year incentive plan (2016: £198k; 2015: £98k) and the Deputy Group Chief Executive's 3-year incentive plan (2016: £36k; 2015: £48k). All executive directors hold unvested LTIP awards in accordance with the rules of the LTIP plan.
[4] The Group Chief Executive received a transitional payment of £32k to facilitate the transition from the previously applicable remuneration structure to that applicable from 2017.
[5] Mark Hews and Ian Campbell received a cash allowance in lieu of pension during 2016, in line with company policy that a cash allowance of 15% of salary (net of NI contributions) can be paid to UK-based executive directors where continued company contributions would result in a breach of the HMRC annual and or lifetime allowance.
[6] Contributions to the Canadian pension plan that are above the Canadian Revenue Agency's prescribed limit are paid into a SERP. These contributions for S. Jacinta Whyte are included in the figures shown. An average 2016 exchange rate of 1.7991 Canadian dollars to 1 GBP have been used in respect of both 2016 and 2015.
[7] S. Jacinta Whyte received an award of £27k in respect of the incentive plan approved for July to December 2016 in relation to the transition of the leadership of the UK and General Insurance transformation programme and of UK General Insurance to the Managing Director of UK General Insurance.
[8] 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 £26k that Mark Hews 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 2016 (audited)
The annual bonuses payable to executive directors in respect of 2016 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 2016, 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 out-turn for each executive director is the product of the 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 2016 were:

Performance condition	Threshold (0.5x)	Target (1.0x)	Maximum (1.5x)	Weighting
Group EIG PBT	£18.6m	£41.3m	£65.2m	30%
Group COR	97.9%	92.9%	90.9%	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 2016, and the resultant aggregate Group performance multiplier, are shown below.

Performance condition	Result	Multiplier	Weighting	Weighted multiplier
Group EIG PBT	£61.8m	1.4	30%	0.4
Group COR	89.8%	1.5	40%	0.6
Strategic Targets	88%	1.3	15%	0.2
Customer and Conduct	93%	1.2	15%	0.2
Aggregate Group performance multiplier				1.39

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 three years, in cash. All annual bonus outcomes are subject to malus and clawback as set out on page 152.

LTIP outcomes in 2016 (audited)
The LTIP amount included in the single total figure of remuneration is the cash award resulting from the Group LTIP grant in 2014 for the period 2014-2016. Vesting was dependent on performance over the three financial years ending on 31 December 2016 and continued service until March 2017.

The 2014-2016 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 condition	Threshold – 20% vesting	Target – 50% vesting	Maximum – 100% vesting	Actual	Vesting (% of maximum for performance condition)
Group COR	100.0%	97.3%	95.0%	92.7%	100%
Group PBT	£100m	£131m	£200m	£164.2m	70.2%
Total					85.1%

The Group LTIP outcome that vests in respect of each executive director in respect of 2014-2016 is shown below.

	LTIP grant	Total LTIP vesting	
	% of salary	£000	% of maximum
Mark Hews	100%	298	85%
S. Jacinta Whyte[1]	30%	74	85%
Ian Campbell	30%	64	85%

[1] An average 2016 exchange rate of 1.7991 Canadian dollars to 1 GBP has been used in respect of 2016.

Scheme interests awarded during 2016 (audited)

During 2016, awards comprising of a cash sum were granted under the 2016-2018 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 2019, to the extent that the applicable performance targets are met. The vesting date for these awards is the date on which the Group's 2018 results are announced, anticipated to be during March 2019.

Executive director	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]
2016-2018 Group LTIP						
Mark Hews	19 Sep 2016	100%	386	20%	31 December 2018	• 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 targets (20%)
S. Jacinta Whyte[1]	19 Sep 2016	100%	319	20%	31 December 2018	
Ian Campbell	19 Sep 2016	100%	263	20%	31 December 2018	

[1] An average 2016 exchange rate of 1.7991 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 2015 to 2016) 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	3.1%	5.3%
Taxable benefits[2]	0.0%	0.0%
Annual bonus	14.0%	18.6%

[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.

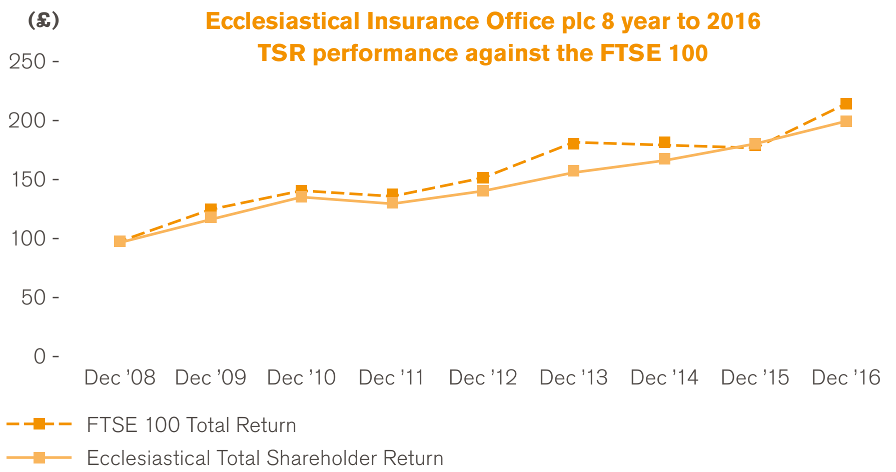
Relative importance of spend on pay

The table below sets out for 2016 and 2015, the actual costs of employee remuneration, grants paid to Allchurches Trust Limited and dividends paid to Preference shareholders. PBT in each year is provided for context.

	2016	2015	% change
	£000	£000	
Remuneration paid to all Group employees	70,163	62,706	11.9%
Gross charitable grants to the ultimate parent company, Allchurches Trust Limited	24,000	20,000	20.0%
Non-Cumulative Irredeemable Preference share dividend	9,181	9,181	Nil
PBT	62,422	53,605	16.4%

Group Chief Executive pay for performance comparison

As Ecclesiastical does not have equity shares traded on a regulated market, total equity shareholder funds growth over time as reported each year (plus the grant to Allchurches Trust Limited) have been used in the performance graph compared with the FTSE 100. Total equity excludes Preference shareholders' capital since this is not attributable to Allchurches Trust Limited.



The table below shows the single figure of total remuneration for the incumbent and prior Group Chief Executive for the eight years to 31 December 2016.

		Financial year ending 31 December							
Financial year	Group Chief Executive[1]	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Total remuneration (single figure) £000	Mark Hews	N/A	N/A	N/A	N/A	569	907	1,089	1,370
	Michael Tripp	516	430	416	390	330	162	N/A	N/A
Annual bonus received (% of maximum)	Mark Hews	N/A	N/A	N/A	N/A	45%	78%	88%	97%
	Michael Tripp	88%	23%	0%	0%	N/A[2]	N/A	N/A	N/A
Long-term incentive vesting (% of maximum)	Mark Hews	N/A	N/A	N/A	N/A	4%	60%	70%	88%
	Michael Tripp[3]	27%	27%	34%	0%	4%	47%	N/A	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 116.

Directors' service agreements

Mark Hews has a service contract which provides for a notice period of 12 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 NED has a service contract.

Payments for loss of office (audited)

No termination payments were made to executive directors in 2016.

Early vesting of LTIP award

There is no early vesting of the executive directors' LTIP.

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.

The Committee believes that it is appropriate that the level of fees paid to NEDs should reflect equivalent fees paid by organisations of similar size and complexity and that this will enable the Group to attract NEDs of the calibre required to help the Group to implement its future strategy.

NED fees were reviewed by the Board in December 2015 with increased fees becoming effective from 1 January 2016. An additional review of fees was also undertaken in late 2016 to ensure that the fees reflected the continuing increases in workloads and, in particular, with regard to the implementation of Solvency II and IMAP. The fees set out below are commensurate with the demands and responsibilities of the NED roles, are in line with those fees paid at similar-sized companies and will ensure that the Group will continue to be able to attract NEDs with the range of experience and skill levels required.

Non-Executive Directors	**Fees (£000) 2016**	**Fees (£000) 2015**
Edward Creasy[1]	116	-
John Hylands[2]	64	55
Anthony Latham[4]	80	55
Denise Wilson	60	53
Tim Carroll	58	53
The Very Revd Christine Wilson[5]	50	45
Caroline Taylor	50	45
David Henderson[3]	49	18
Will Samuel[6]	14	68
David Christie[7]	14	60
Total	**555**	**452**

[1] Edward Creasy was appointed to the Board on 10 February 2016 and was appointed as Chairman of the Group on 16 March 2016.
[2] John Hylands was appointed as Deputy Chairman on 16 March 2016.
[3] David Henderson was appointed to the Board on 20 April 2016. David Henderson receives an additional fee of £10k per annum for services to EdenTree Investment Management Limited as a NED which will increase to £15k per annum with effect from 1 January 2017.
[4] Anthony Latham received an additional fee of £20k for significant additional work as Chairman of the Group Risk Committee in relation to Solvency II and IMAP.
[5] The Very Revd Christine Wilson's fees are paid directly to charity at her request.
[6] Will Samuel waived £57k of his 2016 annualised fee which was increased to £125k from 1 January 2016. Will Samuel retired as Chairman of the Group and from the Board on 16 March 2016.
[7] David Christie resigned from the Board on 16 March 2016.

Total aggregate emoluments of directors

The total aggregate remuneration of the directors in respect of qualifying services during 2016 was £2,365k (2015: £2,304k). After inclusion of amounts receivable under long-term incentive schemes and pension benefits, the total aggregate emoluments of the directors was £3,201k (2015: £2,832k).

EdenTree

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 2017

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 2017 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 2017.

Name	Salary (£000)	Salary (£000)	Percentage increase
	1 April 2017	1 April 2016	
Mark Hews	440	396	11.2%
S. Jacinta Whyte[1]	345	327	5.5%
Ian Campbell	295	269	9.6%

[1] An average 2016 exchange rate of 1.7991 Canadian dollars to 1 GBP has been used.

Annual bonus for 2017

The annual bonus performance conditions and targets have been set in accordance with the Directors' Remuneration Policy above, on the same basis as 2016.

As in 2016, the annual bonuses payable to executive directors in respect of 2017 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 2017, 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 out-turn 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 2017 is unchanged at 100% of salary.

Annual bonuses in respect of 2017 will be subject to deferral, over a period of three years, of any bonus earned in excess of 75% of an executive director's maximum bonus opportunity.

LTIP for 2017-2019

The 2017-2019 LTIP performance conditions and targets have been set in accordance with the Directors' Remuneration Policy above, on the same basis as the 2016-2018 LTIP.

The 2017-2019 Group LTIP will be subject to the following performance conditions (which are unchanged from 2016): 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 2017-2019 Group LTIP will be up to 150% of salary in the case of the Group Chief Executive and of up to 100% of salary in the case of the Deputy Group Chief Executive and Group Chief Financial Officer.

Fees (Non-Executive Directors)

The following fee structure will apply from 1 January 2017.

	Fees (£000)
All-inclusive fee for the Group Chairman	125
All-inclusive fee for the Deputy Chairman/SID	65
Basic fee for a NED (including Committee Membership)	50
Fee for NED of separate regulated or legal entity	15
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[1]

[1] In 2016 and 2017 only the Chairman of the Group Risk Committee will receive an additional fee of £20k per annum for significant additional work in relation to Solvency II and IMAP

Independent Auditor's Report

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 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements that we have audited comprise:

- the Consolidated Statement of Profit or Loss;
- the Consolidated and Parent Statement of Comprehensive Income;
- the Consolidated and Parent Company Statements of Changes in Equity;
- the Consolidated and Parent Statement of Financial Position;
- the Consolidated and Parent Company Statement of Cash Flows; and
- the Notes to the financial statements 1 to 36.

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.

Summary of our audit approach

Key risk areas	Materiality	Scoping	Significant changes in our approach
The key risks that we identified in the current year were: • general insurance reserves • life insurance reserves • valuation of retirement benefit and private medical insurance obligations • carrying value of goodwill • revenue recognition Risks identified in this report are consistent to those in the prior year report.	The materiality that we used in the current year was £5m which equates to less than 1% of total shareholders' equity.	As in the prior year, our Group audit included the audit of subsidiary entities in the United Kingdom and in Australia, as well as the overseas branches in Canada and the Republic of Ireland. All trading components of the Group were included in the scope for statutory audits. Subsidiary and parent audits for trading companies were executed at levels of materiality applicable to each individual entity, in the range £0.024m to £4.3m.	In the prior year our risk in respect of the valuation of the pension scheme included the judgement as to whether a surplus on the scheme should be fully recognised. In the current year, changes in the assumptions applied to the scheme's liabilities have resulted in the scheme being in a deficit. As a result, this element of the risk is not applicable in 2016. In 2016, we reassessed our key risk in revenue recognition. As a result, we included the risk that the data transferred from the policy administration system to the general ledger may be inaccurate or incomplete or altered due to the manual override or intervention during the process.

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

We are required to state whether we have anything material to add or draw attention to in relation to:

- the directors' confirmation on page 118 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 66 to 73 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; and
- the directors' explanation on page 74 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.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

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.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards.

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.

Our assessment of risks of material misstatement

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

General insurance reserves

Risk description	How the scope of our audit responded to the risk	Key observations
The general insurance reserves remain the largest single area of judgement within the Group financial statements. Gross provisions for outstanding claims and incurred but not reported claims amount to £541m (2015: £552m), as set out in note 27 to the financial statements. We have pinpointed our key risk to the assumptions used in the valuation models of certain liability reserves; in particular physical and sexual abuse ('PSA') and asbestos claims, as referred to by the Group Audit Committee in their report on page 134. Management judgement, including in respect of actuarial assumptions, is required when setting these technical reserves. The value of these long-tailed technical reserves remains sensitive to the movement in discount rates which were volatile in 2016 as a result of uncertain market conditions. Claims frequency and claims severity have a material impact on the valuation of these portfolios. In particular, claims frequency is volatile for both PSA and asbestos.	We challenged the key judgements within the calculation of the general insurance reserves by working with our general insurance actuarial experts, to specifically assess the movements from prior year reserves, material changes in methodology and assumptions used as well as the impact of claims experience in the year. Key assumptions such as claims frequency and severity as well as methodologies applied in projecting claim amounts were reviewed. We also benchmarked key diagnostics using our wider industry knowledge and taking into account any factors specific to the Group's portfolio. In particular, we focused on the latent claims portfolios, PSA and asbestos, as the most judgemental reserves. Management implemented some changes to the models in 2016 to reflect the unusual frequency patterns and scaling of claims severity. Our general insurance experts critically assessed whether those changes were reasonable by comparing them to market observations and by considering factors that may render the methodology used by EIO unsuitable or inappropriate for the respective claims categories. In addition, we performed reviews of other portfolios, with the help of our actuarial experts, challenging management on the assumptions and models applied. This included the employers' and public liability reserves. We also evaluated the design and implementation of key internal controls governing the actuarial models, assumption setting process and data flows. With the input of our IT specialists, we tested key general computer controls. We also tested the completeness and accuracy of key underlying data used in the reserving process.	Overall we consider that the methodology applied and significant assumptions used by management in the general insurance reserving process are reasonable and consistent with the prior year.

Life insurance reserves

Risk description	How the scope of our audit responded to the risk	Key observations
The life book comprises prepaid funeral plan business and continues to be closed to new business, however, the Group retains long-term exposure for liabilities solely in respect of funeral plan life insurance business written in the past. In arriving at the technical provision there are a number of key actuarial assumptions applied: • valuation rate of interest used to discount the cash flows; • mortality rates; and • expense assumptions. Given the nature of these assumptions, they are subject to significant judgement and due to the size of the balance (2016: £91.9m, 2015: £85.4m, as set out in note 27 to the financial statements) could materially affect the financial statements if incorrectly or inconsistently determined and applied. This risk is being referred to by the Group Audit Committee in their report on page 134.	We challenged the key judgements within the calculation of the life insurance reserves by working with our life insurance actuarial experts, to specifically assess the movements from prior year reserves and material changes in methodology and assumptions applied. The key assumptions of valuation rate of interest, mortality rates and expenses as well as methodologies applied were benchmarked by our experts using our wider industry knowledge and taking into account any factors specific to the Group's funeral plan book. We also evaluated the design and implementation of key internal controls governing the actuarial models, assumption setting process and data flows. We tested the completeness and accuracy of key underlying data used in the reserving process, in particular, policyholder data, fixed and variable expense data and data in relation to the assets backing the life insurance reserves.	Overall, we consider that the methodology applied and significant assumptions used by management in the life insurance reserving process are reasonable and consistent with the prior year.

Valuation of Retirement Benefit and Private Medical Insurance obligations

Risk description	How the scope of our audit responded to the risk	Key observations
The Group's Staff Retirement Benefit Fund is a defined benefit pension scheme for which the valuation of the scheme liabilities requires significant assumptions and key judgements to be made. We identified the discount rate and inflation rate assumptions as our areas of key focus within the pension scheme. The Group also operates a post-employment private medical insurance scheme for which the medical expense inflation is a significant judgemental assumption used in the valuation of the liability. The Group recognises a net pension deficit of £20m (2015: net pension surplus of £11m) and a net liability of £12m (2015: £9m) for the post-employment private medical insurance scheme, as set out in note 18 to the financial statements. The pension risk is referred to by the Group Audit Committee in their report on page 134.	We assessed the key assumptions used by the Group with the assistance of our pension actuarial experts against those adopted by other companies observed in the market at 31 December 2016 in order to determine whether they are within acceptable ranges. This benchmarking exercise included the discount rate and inflation rates applied by management in the valuation process. We benchmarked the medical expense inflation assumption and assessed if it has been consistently derived in line with management's prior year methodology. We also evaluated the design and implementation of key internal controls governing the assumption setting process for the valuation of the Group's defined benefit scheme obligation. We tested the completeness and accuracy of key underlying data used by the Group's pension actuaries, including benefits and contributions paid in the year.	Overall, we consider the liabilities to be appropriately valued. The assumptions used in the valuation of the defined benefit pension scheme liability are within the acceptable ranges at 31 December 2016. The medical expense inflation assumption applied in the valuation of the post-employment private medical insurance scheme is reasonable and has been derived consistently with the prior year.

Carrying value of goodwill

Risk description	How the scope of our audit responded to the risk	Key observations
The assessment of impairment of goodwill relating to business acquisitions requires significant judgement to be applied in determining the estimated future cash flows, short and long-term growth rates and the associated discount rate. These cash flow forecasts are inherently judgemental as well as uncertain, and there is an additional judgement in determining the appropriate rate at which to discount the projected future cash flows in order to arrive at the net present value. The Group's goodwill assets amount to £23m (2015: £24m). The only material goodwill is held in respect of the Group's broker business, South Essex Insurance Holdings Limited ('SEIB'), as set out in note 16 to the financial statements. This risk is referred to by the Group Audit Committee in their report on page 134.	We assessed SEIB's cash flow forecast against actual results and challenged short-term growth rates based on past and current year performance. We benchmarked the perpetual growth rate applied to the long-term cash flows against market predictions. In assessing the reasonableness of the discount rate, we have challenged the inputs that management uses in their model with the assistance of our internal valuation experts. With their input, we independently calculated a discount rate range which we would consider appropriate and we compared this to management's selected rate. We tested the mathematical accuracy of management's calculations and performed sensitivity analysis on the headroom of the recoverable amount over the carrying value of the SEIB business, using a reasonable range of assumptions. We also evaluated the design and implementation of key controls around the impairment review process.	Overall, we found the assumptions applied by management to be within acceptable ranges. We did not identify any impairment to the SEIB goodwill balance.

Revenue recognition

Risk description	How the scope of our audit responded to the risk	Key observations
We have identified the following key risks in relation to revenue recognition: • the risk that incorrect earnings patterns are applied to United Kingdom general insurance premiums as the business is exposed to seasonality; and • the risk that the data transferred from the policy administration system to the general ledger may be inaccurate or incomplete or altered due to the manual override or intervention during the process. Gross written premium revenue comprises a large volume of low value transactions which are largely processed in an automated manner. Based on our risk assessment, a material misstatement could arise from manipulation of data in the policy administration system, system failure, error or omission on transfer of premiums data to the general ledger or manual intervention in the process. Gross written premiums amount to £310m in 2016 (2015: £308m), as set out in notes 5 and 6 to the financial statements. The accounting policies applied are included in note 1.	We performed data analysis, with the involvement of our IT specialists, of the earnings pattern on a monthly basis throughout the year in comparison to prior years to assess whether it is consistent and in line with our understanding of the seasonality of the business. Our IT specialists also assisted us in reconciling the premiums data from the policy administration system to the general ledger. We then tested all manual adjustments made to arrive at gross written premium per the general ledger. We have tested the design and implementation and operating effectiveness of the key controls over revenue recognition and underwriting, with the assistance of our IT specialists for automated controls. We also used the help of our IT specialists in testing key general computer controls for the premium administration system and the general ledger system.	Revenue patterns from the United Kingdom general insurance business were in line with our expectations, reflecting the seasonality of the business. We did not identify any material discrepancies arising from the transfer of data from the policy administration system to the general ledger.

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.

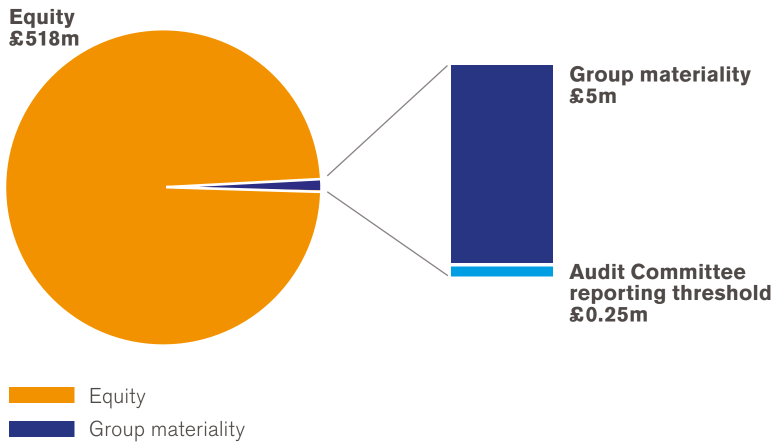
Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

We determined materiality for the Group to be £5m (2015: £5m).

Group materiality is less than 1% of total shareholders' equity in line with the size and risk profile of the Group.
We have used total shareholders' equity as a base for our materiality to reflect the Group's strategic ambition to deliver longer-term value and support charitable giving. By using total shareholders' equity as a basis, our judgement on materiality is in line with the focus and risk profile of the Group.

Following us reassessing the levels at which we would report to the Group Audit Committee, we discussed and agreed with the Group Audit Committee that we would report to the Committee all audit differences in excess of £254k (2015: £96k).

We also report on differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Group Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements 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 general and life insurance businesses in the UK, Ireland, Australia and Canada and the UK broker subsidiary. All trading 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 £0.024m 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 included the component audit teams in our team briefings, discussed their risk assessments, and reviewed documentation of the findings from their work. This year, the Group Engagement Partner visited the Australian Subsidiary, Ansvar Insurance Limited, as well as usual visits to UK-based components.

At the Group 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 matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if, in our opinion, certain disclosures of directors' remuneration have not been made.

We have nothing to report arising from this matter.

Our duty to read other information in the Annual Report

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

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

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

We confirm that we have not identified any such inconsistencies or misleading statements.

Other matters

Directors' remuneration:
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:
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.

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 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
15 March 2017

Section Four

Financial Statements

Consolidated statement of profit or loss
for the year ended 31 December 2016

	Notes	2016 £000	Restated * 2015 £000
Revenue			
Gross written premiums	5, 6	**310,138**	308,199
Outward reinsurance premiums	6	**(114,041)**	(113,115)
Net change in provision for unearned premiums	6	**1,103**	4,677
Net earned premiums		**197,200**	199,761
Fee and commission income		**53,730**	53,009
Other operating income		**843**	-
Net investment return	7	**54,410**	47,470
Total revenue		**306,183**	300,240
Expenses			
Claims and change in insurance liabilities	8	**(139,383)**	(168,055)
Reinsurance recoveries	8	**51,164**	66,822
Fees, commissions and other acquisition costs	9	**(61,318)**	(61,202)
Other operating and administrative expenses		**(94,097)**	(84,099)
Total operating expenses		**(243,634)**	(246,534)
Operating profit		**62,549**	53,706
Finance costs		**(97)**	(101)
Profit before tax	5	**62,452**	53,605
Tax expense	13	**(8,740)**	(6,988)
Profit for the year (attributable to equity holders of the Parent)	10	**53,712**	46,617

* The impact of discount rate changes on insurance contract liabilities has been presented within net investment return for the first time in the current year. In the prior year the impact was included in claims and change in insurance liabilities, and reinsurance recoveries. The comparative financial statements have been restated to the revised basis, detailed in note 35.

Consolidated and parent statement of comprehensive income
for the year ended 31 December 2016

	2016 Group £000	2016 Parent £000	2015 Group £000	2015 Parent £000
Profit for the year	**53,712**	**54,178**	46,617	42,759
Other comprehensive income				
Items that will not be reclassified to profit or loss:				
Fair value gains on property	**-**	**-**	30	30
Actuarial losses on retirement benefit plans	**(32,745)**	**(32,745)**	(5,809)	(5,809)
Attributable tax	**5,466**	**5,466**	1,061	1,061
	(27,279)	**(27,279)**	(4,718)	(4,718)
Items that may be reclassified subsequently to profit or loss:				
Gains/(losses) on currency translation differences	**13,482**	**6,332**	(6,461)	(3,913)
Gains on net investment hedges	**2,067**	**113**	-	-
Attributable tax	**(223)**	**(19)**	-	-
	15,326	**6,426**	(6,461)	(3,913)
Net other comprehensive income	**(11,953)**	**(20,853)**	(11,179)	(8,631)
Total comprehensive income attributable to equity holders of the Parent	**41,759**	**33,325**	35,438	34,128

Consolidated and parent statement of changes in equity
for the year ended 31 December 2016

Group	Share capital £000	Share premium £000	Equalisation reserve £000	Revaluation reserve £000	Translation and hedging reserve £000	Retained earnings £000	Total £000
At 1 January 2016	**120,477**	**4,632**	**24,957**	**496**	**6,182**	**348,190**	**504,934**
Profit for the year	**-**	**-**	**-**	**-**	**-**	***53,712***	***53,712***
Other net income/(expense)	**-**	**-**	**-**	***5***	***15,326***	***(27,284)***	***(11,953)***
Total comprehensive income	**-**	**-**	**-**	**5**	**15,326**	**26,428**	**41,759**
Dividends	**-**	**-**	**-**	**-**	**-**	**(9,181)**	**(9,181)**
Gross charitable grant	**-**	**-**	**-**	**-**	**-**	**(24,000)**	**(24,000)**
Tax relief on charitable grant	**-**	**-**	**-**	**-**	**-**	**4,800**	**4,800**
Reserve transfers	**-**	**-**	**(24,957)**	**-**	**-**	**24,957**	**-**
At 31 December 2016	**120,477**	**4,632**	**-**	**501**	**21,508**	**371,194**	**518,312**
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

Parent	Share capital £000	Share premium £000	Equalisation reserve £000	Revaluation reserve £000	Translation and hedging reserve £000	Retained earnings £000	Total £000
At 1 January 2016	**120,477**	**4,632**	**24,957**	**496**	**2,140**	**276,421**	**429,123**
Profit for the year	**-**	**-**	**-**	**-**	**-**	***54,178***	***54,178***
Other net income/(expense)	**-**	**-**	**-**	***5***	***6,426***	***(27,284)***	***(20,853)***
Total comprehensive income	**-**	**-**	**-**	**5**	**6,426**	**26,894**	**33,325**
Dividends	**-**	**-**	**-**	**-**	**-**	**(9,181)**	**(9,181)**
Gross charitable grant	**-**	**-**	**-**	**-**	**-**	**(24,000)**	**(24,000)**
Tax relief on charitable grant	**-**	**-**	**-**	**-**	**-**	**4,800**	**4,800**
Group tax relief in excess of standard rate	**-**	**-**	**-**	**-**	**-**	**(218)**	**(218)**
Reserve transfers	**-**	**-**	**(24,957)**	**-**	**-**	**24,957**	**-**
At 31 December 2016	**120,477**	**4,632**	**-**	**501**	**8,566**	**299,673**	**433,849**
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

The equalisation reserve was previously required by law and maintained in compliance with the insurance companies' regulations and INSPRU prudential sourcebook for insurers. Solvency II replaces these rules with effect from 1 January 2016 and does not require an equalisation reserve to be held. The reserve was transferred to retained earnings on 1 January 2016.

The revaluation reserve represents cumulative net fair value gains on owner-occupied property. Further details of the translation and hedging reserve are included in note 26.

Consolidated and parent statement of financial position
for the year ended 31 December 2016

	Notes	2016 Group £000	2016 Parent £000	Restated * 2015 Group £000	Restated * 2015 Parent £000
Assets					
Goodwill and other intangible assets	16	**28,659**	**4,053**	29,104	4,206
Deferred acquisition costs	17	**30,705**	**25,672**	28,394	24,582
Deferred tax assets	29	**2,185**	**-**	1,674	-
Pension assets	18	**144**	**144**	10,893	10,893
Property, plant and equipment	19	**8,698**	**7,735**	7,704	6,922
Investment property	20	**125,284**	**125,284**	98,750	98,750
Financial investments	21	**866,517**	**694,696**	843,111	692,270
Reinsurers' share of contract liabilities	27	**165,932**	**119,960**	170,740	130,414
Current tax recoverable		**1,400**	**794**	331	331
Other assets	23	**141,011**	**103,711**	124,842	96,547
Cash and cash equivalents	24	**89,494**	**59,743**	108,720	75,058
Total assets		**1,460,029**	**1,141,792**	1,424,263	1,139,973
Equity					
Share capital	25	**120,477**	**120,477**	120,477	120,477
Share premium account		**4,632**	**4,632**	4,632	4,632
Retained earnings and other reserves		**393,203**	**308,740**	379,825	304,014
Total shareholders' equity		**518,312**	**433,849**	504,934	429,123
Liabilities					
Insurance contract liabilities	27	**793,052**	**585,845**	790,690	605,824
Finance lease obligations		**1,417**	**1,417**	1,431	1,431
Provisions for other liabilities	28	**5,401**	**5,324**	4,066	3,890
Pension liabilities	18	**20,464**	**20,464**	240	240
Retirement benefit obligations	18	**11,913**	**11,913**	9,193	9,193
Deferred tax liabilities	29	**28,848**	**27,801**	34,124	33,511
Current tax liabilities		**4,000**	**3,817**	3,403	2,308
Deferred income		**15,726**	**12,873**	15,532	13,079
Other liabilities	30	**60,896**	**38,489**	60,650	41,374
Total liabilities		**941,717**	**707,943**	919,329	710,850
Total shareholders' equity and liabilities		**1,460,029**	**1,141,792**	1,424,263	1,139,973

* For the Group and Parent, the comparative financial statements have been restated to reflect a reclassification of cash and cash equivalents to financial investments, detailed in note 35.

The financial statements of Ecclesiastical Insurance Office plc, registered number 24869, on pages 184 to 246 were approved and authorised for issue by the Board of Directors on 15 March 2017 and signed on its behalf by:

Edward Creasy
Chairman

Mark Hews
Group Chief Executive

Consolidated and parent statement of cash flows
for the year ended 31 December 2016

	Notes	2016 Group £000	2016 Parent £000	Restated * 2015 Group £000	Restated * 2015 Parent £000
Profit before tax		**62,452**	**61,659**	53,605	47,926
Adjustments for:					
Depreciation of property, plant and equipment		**1,773**	**1,594**	1,708	1,555
Revaluation of property, plant and equipment		**(25)**	**-**	(140)	(90)
Loss/(profit) on disposal of property, plant and equipment		**26**	**18**	16	(18)
Amortisation and impairment of intangible assets		**1,329**	**1,036**	1,397	1,116
Loss on disposal of intangible assets		**-**	**-**	11	-
Net fair value (gains)/losses on financial instruments and investment property		**(34,229)**	**(23,520)**	(7,737)	(10,665)
Dividend and interest income		**(31,488)**	**(29,690)**	(29,934)	(25,792)
Finance costs		**97**	**93**	101	101
Adjustment for pension funding		**792**	**792**	702	702
Changes in operating assets and liabilities:					
Net decrease in insurance contract liabilities		**(33,430)**	**(37,331)**	(15,193)	(5,004)
Net decrease/(increase) in reinsurers' share of contract liabilities		**15,218**	**13,423**	(17,068)	(16,666)
Net (increase)/decrease in deferred acquisition costs		**(124)**	**351**	1,754	1,670
Net (increase)/decrease in other assets		**(10,987)**	**(5,403)**	(6,954)	5,187
Net (decrease)/increase in operating liabilities		**(2,036)**	**(3,340)**	14,884	12,935
Net increase in other liabilities		**1,443**	**1,586**	802	1,420
Cash (used)/generated by operations		**(29,189)**	**(18,732)**	(2,046)	14,377
Purchases of financial instruments and investment property		**(203,932)**	**(166,815)**	(103,333)	(75,141)
Sale of financial instruments and investment property		**219,445**	**177,200**	127,420	86,337
Dividends received		**8,175**	**12,691**	8,714	11,194
Interest received		**20,834**	**14,232**	23,868	16,984
Interest paid		**(97)**	**(93)**	(101)	(101)
Tax paid		**(4,722)**	**(1,921)**	(6,886)	(5,218)
Net cash from operating activities		**10,514**	**16,562**	47,636	48,432
Cash flows from investing activities					
Purchases of property, plant and equipment		**(2,314)**	**(2,007)**	(2,657)	(2,437)
Proceeds from the sale of property, plant and equipment		**45**	**45**	260	260
Purchases of intangible assets		**(237)**	**(237)**	(1,817)	(1,392)
Disposal of business		**-**	**-**	5,260	-
Net cash (used by)/from investing activities		**(2,506)**	**(2,199)**	1,046	(3,569)
Cash flows from financing activities					
Payment of finance lease liabilities		**(368)**	**(368)**	(331)	(331)
Payment of group tax relief in excess of standard rate		**(6)**	**(246)**	-	(746)
Dividends paid to Company's shareholders		**(9,181)**	**(9,181)**	(9,181)	(9,181)
Charitable grant paid to ultimate parent undertaking		**(24,000)**	**(24,000)**	(20,000)	(20,000)
Net cash used by financing activities		**(33,555)**	**(33,795)**	(29,512)	(30,258)
Net (decrease)/increase in cash and cash equivalents		**(25,547)**	**(19,432)**	19,170	14,605
Cash and cash equivalents at beginning of year		**108,720**	**75,058**	92,904	63,152
Exchange gains/(losses) on cash and cash equivalents		**6,321**	**4,117**	(3,354)	(2,699)
Cash and cash equivalents at end of year	24	**89,494**	**59,743**	108,720	75,058

* For the Group and Parent, the comparative financial statements have been restated to reflect a reclassification of cash and cash equivalents to financial investments, detailed in note 35.

Notes to the financial statements

1 Accounting policies

Ecclesiastical Insurance Office plc (hereafter referred to as the 'Company', or 'Parent'), a public limited company incorporated and domiciled in England, together with its subsidiaries (collectively, the 'Group') operates principally as a provider of general insurance and in addition offers a range of financial services, with offices in the UK & 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 2016 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 £866.5m, 94% of which are liquid (2015: financial investments of £843.1m, 95% liquid), cash and cash equivalents of £89.5m and no borrowings (2015: cash and cash equivalents of £108.7m and no borrowings). Liquid financial investments consist of listed equities and open-ended investment companies, government bonds and listed debt. The Group also has a strong risk management framework and solvency position, and has proved resilient to stress testing. 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 at least twelve months from the date of this report. 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 Group'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.

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 the IASB's ongoing insurance accounting project. No changes are expected from the more principles-based hedge accounting requirements.	Annual periods beginning on or after 1 January 2018. Although can be deferred until 2021 for insurers (subject to EU endorsement).
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 non-insurance 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.
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 31) 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. There is not expected to be a significant impact on profit or loss.	Annual periods beginning on or after 1 January 2019 (subject to EU endorsement).

Notes to the financial statements

1 Accounting policies (continued)

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 less impairment, 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 amount of 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, along with the corresponding movement on net investment hedges, 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 life 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 Group's long-term business contracts are referred to as non-profit contracts in the financial statements.

Notes to the financial statements

1 Accounting policies (continued)

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.

Life 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.

Other operating income
Other operating income consists of the return of reserves from a reinsurance scheme and income arising from a lease transfer.

Net investment return
Net investment return consists of dividends, interest and rents receivable for the year, realised gains and losses, 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.

The impact of discount rate changes on insurance contract liabilities has also been included within net investment for the first time in the current year. The prior period has been restated for the retrospective application of the change in accounting policy, detailed in note 35.

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.

Life 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.

Notes to the financial statements

1 Accounting policies (continued)

(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 and a provision is held for any net deficit.

Life business provisions
Under current IFRS requirements, insurance contract liabilities are measured using accounting policies consistent with those adopted previously. The life business provision is held in respect of funeral plans and determined using methods and assumptions approved by the directors based on advice from the Chief Actuary.

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 life 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 impairment, and amortised over a useful life of between three and ten years, using the straight-line method. The amortisation and impairment 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 and impairment after acquisition. Amortisation is on a straight-line basis over the weighted average estimated useful life of intangible assets acquired. The amortisation and impairment 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 and impairment.

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 straight line
Motor vehicles	4 years straight line or 27% reducing balance
Fixtures, fittings and office equipment	3 - 10 years or length of lease straight line

Notes to the financial statements

1 Accounting policies (continued)

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, those held for trading, and hedge accounted derivatives under IFRIC 16 are subsequently carried at fair value. Changes in the fair value of hedge accounted derivatives are recognised in other comprehensive income, with all other fair value changes recognised through profit or loss in the period in which they arise.

- All other financial assets and liabilities are measured at amortised cost, using the effective interest method (except for short-term receivables and payables when the recognition of interest would be immaterial).

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, held for trading or hedge accounted derivatives) 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 that are not accounted for as a net investment hedge or are 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 loans and cash held on deposit for more than three months, are carried at amortised cost using the effective interest method. Loans are recognised when cash is advanced to borrowers. To the extent that a loan or receivable is uncollectable, it is written off as impaired. Subsequent recoveries are credited to profit or loss.

Derivative financial instruments
Derivative financial instruments and hedging
Derivative financial instruments include foreign exchange contracts and other financial instruments that derive their value from underlying equity instruments.

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 the method for recognising changes in the fair value depending on whether they are designated as hedges of net investments in foreign operations. 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.

Notes to the financial statements

1 Accounting policies (continued)

Certain 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. Their fair value gains and losses are recognised immediately in net investment return. The fair value gains and losses for derivatives which are hedge accounted in line with IFRIC 16 are recognised in other comprehensive income.

Derivative instruments for hedging of net investments in foreign operations
On the date a foreign exchange contract is entered into, the Group designates certain contracts as a hedge of a net investment in a foreign operation (net investment hedge) and hedges the forward foreign currency rate.

Hedge accounting is used for derivatives designated in this way, provided certain criteria are met. At the inception of the transaction, the Group documents the relationship between the hedging instrument and the hedged item, as well as the risk management objective and the strategy for undertaking the hedge transaction. The Group also documents its assessment of whether the hedge is expected to be, and has been, highly effective in offsetting the risk in the hedged item, both at inception and on an ongoing basis.

Gains and losses on the hedging instrument, relating to the effective portion of the net investment hedge, are recognised in other comprehensive income and accumulated in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in net investment return.

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the foreign currency translation reserve are reclassified to profit or loss on disposal of the related investment.

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.

Life 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.

Notes to the financial statements

1 Accounting policies (continued)

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 of economic benefits 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. Interest expense (calculated by applying a discount rate to the net obligations) is recognised through profit or loss. 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 Non-Cumulative Irredeemable Preference shares are recognised in the period in which they are declared and appropriately approved.

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

Notes to the financial statements

1 Accounting policies (continued)

Use of Alternative Performance Measures (APM)
As detailed in the Strategic Report, the Group uses certain key performance indicators which, although not defined under IFRS, provide useful information and aim to enhance understanding of the Group's performance. The key performance indicators should be considered complementary to, rather than a substitute for, financial measures defined under IFRS. Note 36 provides details of how these key performance indicators reconcile to the results reported under IFRS.

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, including the discount rate applied in assessing lump sums, which may apply retrospectively;
- the way in which certain reinsurance contracts (principally liability) will be interpreted in relation to unusual/latent claims where aggregation of claimants and exposure over time are issues; and
- whether all such reinsurances will remain in force over the long term.

The uncertainties surrounding the estimates of claims payments for the various classes of business are discussed further in note 3, and where discount rates have been applied these are disclosed in note 27. General business insurance liabilities include a margin for risk and uncertainty in addition to the best estimates for future claims. The sensitivity of profit or loss to changes in the ultimate settlement cost of claims reserves is presented in note 27.

(b) Estimate of future benefit payments arising from life insurance contracts
The determination of the liabilities under life 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, adjusted to reflect recent historical mortality experience of the Group's portfolio, with allowance also being made for expected future mortality improvements where prudent. The estimated mortality rates are used to determine forecast benefit payments net of forecast premium receipts.

Estimates are also made as to future investment returns arising from the assets backing life 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 life insurance contracts. The sensitivity of profit or loss to changes in the key assumptions is presented in note 27.

(c) Pension and other post-employment benefits
The cost of these benefits and the present value of the pension and other post-employment benefit liabilities depend on factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the charge to profit or loss for these benefits include the discount rate and, in the case of the post-employment medical benefits, expected medical expense inflation. Any changes in these assumptions will impact profit or loss and may affect planned funding of the pension plans. The effect of movements in the actuarial assumptions during the year on the pension and other post-employment liabilities is recognised in other comprehensive income. An explanation of the actuarial losses recognised in the current year is included in note 18. 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.

Notes to the financial statements

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

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 18.

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

(e) Carrying value of tax liabilities
Calculating tax liabilities requires management to make judgements in respect of the tax payable for current and prior periods based on the interpretation of applicable tax legislation. In particular, the material deferred tax liability held by the Group primarily relates to future tax due on unrealised gains in respect of equities held prior to 2002. Gains on these assets are only recognised for tax purposes when sold. 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.

(f) Unlisted equity securities
The value of unlisted equity securities requires the Group to make judgements in respect of the most appropriate valuation technique to apply and the inputs used in the technique. The inputs require judgement in terms of the price-to-book ratio chosen, illiquidity discount and credit rating discount. Further details, including the sensitivity of the valuation to these inputs, are shown in note 4 (b).

Notes to the financial statements

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, 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 miscellaneous financial loss class of business covers personal accident, fidelity guarantee and loss of money, profits and licence. The other class of business includes cover of legal expenses and also a small portfolio of motor policies, but this is in run off in the United Kingdom since November 2012. The Group's whole-of-life insurance policies support funeral planning products. These classifications have changed in 2016 in line with how the business looks at the classes of business under Solvency II, with the prior year restated.

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

2016		General insurance				Life insurance	
Group		Property £000	Liability £000	Miscellaneous financial loss £000	Other £000	Funeral plans £000	Total £000
Territory							
United Kingdom and Ireland	Gross	156,083	50,152	14,000	2,546	77	222,858
	Net	84,843	47,713	9,040	550	77	142,223
Australia	Gross	23,112	16,769	1,105	824	-	41,810
	Net	3,091	14,459	1,065	817	-	19,432
Canada	Gross	31,159	14,311	-	-	-	45,470
	Net	21,057	13,385	-	-	-	34,442
Total	Gross	210,354	81,232	15,105	3,370	77	310,138
	Net	108,991	75,557	10,105	1,367	77	196,097
Parent							
Territory							
United Kingdom and Ireland	Gross	156,101	50,152	14,000	2,546	-	222,799
	Net	84,843	47,713	9,040	550	-	142,146
Canada	Gross	31,159	14,311	-	-	-	45,470
	Net	21,057	13,385	-	-	-	34,442
Total	Gross	187,260	64,463	14,000	2,546	-	268,269
	Net	105,900	61,098	9,040	550	-	176,588

Notes to the financial statements

3 Insurance risk (continued)

2015 (restated)		General insurance				Life insurance	
Group		Property £000	Liability £000	Miscellaneous financial loss £000	Other £000	Funeral plans £000	Total £000
Territory							
United Kingdom and Ireland	Gross	162,401	49,380	16,351	2,596	113	230,841
	Net	89,062	46,480	11,370	621	113	147,646
Australia	Gross	20,708	15,062	1,131	550	-	37,451
	Net	1,936	12,993	1,089	545	-	16,563
Canada	Gross	28,194	11,713	-	-	-	39,907
	Net	19,995	10,880	-	-	-	30,875
Total	Gross	211,303	76,155	17,482	3,146	113	308,199
	Net	110,993	70,353	12,459	1,166	113	195,084
Parent							
Territory							
United Kingdom and Ireland	Gross	162,401	49,380	16,351	2,596	-	230,728
	Net	89,062	46,480	11,370	621	-	147,533
Canada	Gross	28,194	11,713	-	-	-	39,907
	Net	19,995	10,880	-	-	-	30,875
Total	Gross	190,595	61,093	16,351	2,596	-	270,635
	Net	109,057	57,360	11,370	621	-	178,408

(c) General insurance risks

Property classes

Property cover mainly compensates the policyholder for damage suffered to their property 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 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 cost 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.

Notes to the financial statements

3 Insurance risk (continued)

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, legal costs and the potential for periodic payment awards.

The severity of bodily injury claims can be 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, including the discount rate applied for assessing lump sums. On 27 February 2017, the Lord Chancellor and Secretary of State for Justice made an announcement in relation to decreasing the Ogden discount rate from 2.5% to -0.75% which affected the discount rate applied. The impact of this change is detailed in note 34. 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 27 presents the development of the estimate of ultimate claim cost for public and employers' liability claims occurring in a given year. This gives an indication of the accuracy of the estimation technique for incurred claims.

(d) Life insurance risks

The Group provides whole-of-life insurance policies to support funeral planning products, for most of which the future benefits are linked to inflation and backed by index-linked assets. Although assets are well matched to liabilities, the risk that returns on assets held to back liabilities are insufficient to meet future claims payments may occur, particularly if the timing of claims is different from that assumed. This is not one of the Group's principal risks and new policies are no longer being written in the life fund, 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 and its own experience. 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 attached to corporate bonds held to match the liabilities. The small mortality risk is retained by the Group.

Notes to the financial statements

4 Financial risk and capital management

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

There has been no change from the prior period in the nature of the financial risks to which the Group is exposed, although the impact of Brexit has resulted in greater uncertainty in relation to the economic risks to which the Group is exposed, including equity price volatility, narrowing of interest and discount rates, movements in exchange rates and long-term UK growth prospects. The Group's management and measurement of financial risks is informed by either stochastic modelling or stress testing techniques.

(a) Categories of financial instruments

	Financial assets				Financial liabilities			
Group	**Designated at fair value £000**	**Held for trading £000**	**Loans and receivables* £000**	**Hedge accounted derivatives £000**	**Held for trading £000**	**Financial liabilities** £000**	**Other assets and liabilities £000**	**Total £000**
At 31 December 2016								
Financial investments	**851,657**	**2,974**	**9,819**	**2,067**	**-**	**-**	**-**	**866,517**
Other assets	**-**	**-**	**137,789**	**-**	**-**	**-**	**3,222**	**141,011**
Cash and cash equivalents	**-**	**-**	**89,494**	**-**	**-**	**-**	**-**	**89,494**
Other liabilities	**-**	**-**	**-**	**-**	**(543)**	**(52,423)**	**(7,930)**	**(60,896)**
Net other	**-**	**-**	**-**	**-**	**-**	**-**	**(517,814)**	**(517,814)**
Total	**851,657**	**2,974**	**237,102**	**2,067**	**(543)**	**(52,423)**	**(522,522)**	**518,312**
At 31 December 2015 (restated)								
Financial investments	832,661	713	9,737	-	-	-	-	843,111
Other assets	-	-	121,840	-	-	-	3,002	124,842
Cash and cash equivalents	-	-	108,720	-	-	-	-	108,720
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
Parent								
At 31 December 2016								
Financial investments	**629,774**	**4,928**	**9,816**	**113**	**-**	**-**	**50,065**	**694,696**
Other assets	**-**	**-**	**101,017**	**-**	**-**	**-**	**2,694**	**103,711**
Cash and cash equivalents	**-**	**-**	**59,743**	**-**	**-**	**-**	**-**	**59,743**
Other liabilities	**-**	**-**	**-**	**-**	**(543)**	**(31,734)**	**(6,212)**	**(38,489)**
Net other	**-**	**-**	**-**	**-**	**-**	**-**	**(385,812)**	**(385,812)**
Total	**629,774**	**4,928**	**170,576**	**113**	**(543)**	**(31,734)**	**(339,265)**	**433,849**
At 31 December 2015 (restated)								
Financial investments	631,757	713	9,735	-	-	-	50,065	692,270
Other assets	-	-	93,950	-	-	-	2,597	96,547
Cash and cash equivalents	-	-	75,058	-	-	-	-	75,058
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

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

** Financial liabilities are held at amortised cost.

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.

As described in note 35, the comparative period has been restated for cash held on deposit, which has been reclassified from cash and cash equivalents to financial investments.

Notes to the financial statements

4 Financial risk and capital management (continued)

(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, translated into the Group's functional currency 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

Group	Fair value measurement at the end of the reporting period based on Level 1 £000	Level 2 £000	Level 3 £000	Total £000
At 31 December 2016				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	**262,460**	**267**	**35,376**	**298,103**
Debt securities	**551,539**	**1,876**	**139**	**553,554**
Derivatives	**-**	**2,974**	**-**	**2,974**
Hedged accounted derivatives	**-**	**2,067**	**-**	**2,067**
Total financial assets at fair value	**813,999**	**7,184**	**35,515**	**856,698**
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	798,746	3,223	31,405	833,374

Parent	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
At 31 December 2016				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	**232,056**	**267**	**35,375**	**267,698**
Debt securities	**360,498**	**1,439**	**139**	**362,076**
Derivatives	**-**	**4,928**	**-**	**4,928**
Hedged accounted derivatives	**-**	**113**	**-**	**113**
Total financial assets at fair value	**592,554**	**6,747**	**35,514**	**634,815**
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	598,367	2,699	31,404	632,470

The derivative liabilities of the Group and Parent are measured at fair value through profit or loss and categorised as level 2 (see note 22).

Notes to the financial statements

4 Financial risk and capital management (continued)

Fair value measurements based on level 3

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

Group	Financial assets at fair value through profit and loss: Equity securities £000	Debt securities £000	Total £000
At 31 December 2016			
Opening balance	**31,218**	**187**	**31,405**
Total gains/(losses) recognised in profit or loss	**4,158**	**(48)**	**4,110**
Closing balance	**35,376**	**139**	**35,515**
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	**4,158**	**(48)**	**4,110**
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

Parent	Equity securities £000	Debt securities £000	Total £000
At 31 December 2016			
Opening balance	**31,217**	**187**	**31,404**
Total gains/(losses) recognised in profit or loss	**4,158**	**(48)**	**4,110**
Closing balance	**35,375**	**139**	**35,514**
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	**4,158**	**(48)**	**4,110**
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

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.

Notes to the financial statements

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 corresponding to the maturity of the contract and the contract forward rate. 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 (2015: +/-£3m).

The increase in value during the year is primarily the result of a weakening of sterling against the Euro and an increase in underlying net assets, partially offset by a decrease in the price-to-book ratio.

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

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

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

Notes to the financial statements

4 Financial risk and capital management (continued)

(c) Interest rate risk
The Group's exposure to interest rate risk arises primarily from movements on financial investments that are measured at fair value and have fixed interest rates, which represent a significant proportion of the Group's assets, and from those insurance liabilities for which discounting is applied at a market interest rate. The Group's investment strategy is set in order to control the impact of interest rate risk on anticipated 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 life business, the average duration of the Group's fixed income portfolio is two years (2015: two years), reflecting the relatively short-term average duration of its general insurance liabilities. The mean term of discounted general insurance liabilities is disclosed in note 27 (a) part (iv).

For the Group's life business, consisting of policies to support funeral planning products, 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 is mitigated by purchasing fixed interest investments with durations that 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 life business assets and liabilities that are exposed to interest rate risk.

	Maturity			
Group life business	**Within 1 year £000**	**Between 1 & 5 years £000**	**After 5 years £000**	**Total £000**
At 31 December 2016				
Assets				
Debt securities	**9,359**	**20,578**	**77,580**	**107,517**
Cash and cash equivalents	**2,695**	**-**	**-**	**2,695**
	12,054	**20,578**	**77,580**	**110,212**
Liabilities (discounted)				
Life business provision	**6,189**	**21,812**	**63,899**	**91,900**
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)				
Life business provision	6,354	21,976	57,092	85,422

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

Notes to the financial statements

4 Financial risk and capital management (continued)

(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 2016 reinsurance programme having a minimum rating of 'A-' from Standard & Poor's or an equivalent rating from a similar 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.

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:

	2016			2015	
	Group £000	**Parent £000**		Group £000	Parent £000
UK	**373,984**	**266,467**	UK	381,087	284,331
Australia	**83,961**	**-**	Australia	73,429	778
Canada	**72,353**	**72,353**	Canada	52,350	52,350
Europe	**23,256**	**23,256**	Europe	15,876	15,876
Other	**-**	**-**	Other	4,187	4,187
Total	**553,554**	**362,076**	Total	526,929	357,522

Notes to the financial statements

4 Financial risk and capital management (continued)

(e) Liquidity risk

Liquidity risk is the risk that funds may not be available to pay obligations when due. The Group is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts. An estimate of the timing of the net cash outflows resulting from insurance contracts is provided in note 27. The Group has robust processes in place to manage liquidity risk and has available cash balances, other readily marketable assets and access to funding in case of exceptional need. This is not considered to be a significant risk to the Group.

Non-derivative financial liabilities consist of finance leases, which are not material to the Group, and other liabilities for which a maturity analysis is included in note 30.

(f) Currency risk

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

In the current year, the Group has designated certain derivatives as a hedge of its net investments in Canada and Australia, which have Canadian and Australian dollars respectively as their functional currency. The forward foreign currency risk arising on translation of these foreign operations is hedged by the derivatives which are detailed in note 22.

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

	2016			2015	
	Group £000	**Parent £000**		Group £000	Parent £000
Aus $	**48,665**	**3,519**	Aus $	45,431	6,839
Can $	**38,592**	**38,592**	Can $	32,544	32,544
Euro	**32,770**	**32,770**	Euro	19,598	19,598
Japanese Yen	**603**	**603**	USD $	2,598	2,598
USD $	**329**	**329**	NZ $	2,125	2,125

The figures in the table above, for the current and prior years, do not include currency risk that the Group and Parent are exposed to on a 'look through' basis in respect of collective investment schemes denominated in Sterling. In the current year, the Group and Parent entered into derivatives to hedge currency exposure, including exposures on a 'look through' basis. The open derivatives held by the Group and Parent at the year end to hedge currency exposure are detailed in note 22.

(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.

Notes to the financial statements

4 Financial risk and capital management (continued)

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:

	2016 Group	2016 Parent
UK	**257,856**	**227,451**
Europe	**35,372**	**35,372**
Canada	**3,085**	**3,085**
US	**1,585**	**1,585**
Other	**205**	**205**
Total	**298,103**	**267,698**

	2015 Group	2015 Parent
UK	269,724	238,227
Europe	31,440	31,440
Canada	2,257	2,257
US	2,139	2,139
Other	172	172
Total	305,732	274,235

(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 and before the mitigating effect of derivatives, 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 18.

Group		**Potential increase/ (decrease) in profit**		**Potential increase/ (decrease) in other equity reserves**	
Variable	**Change in variable**	**2016 £000**	2015 £000	**2016 £000**	2015 £000
Interest rate risk	-100 basis points	**(8,335)**	(6,377)	**122**	(29)
	+100 basis points	**4,464**	2,154	**(139)**	29
Currency risk	-10%	**3,915**	3,627	**8,453**	7,052
	+10%	**(3,203)**	(2,968)	**(6,916)**	(5,770)
Equity price risk	+/-10%	**23,848**	24,382	**-**	-

Parent		**Potential increase/ (decrease) in profit**		**Potential increase/ (decrease) in other equity reserves**	
Variable	**Change in variable**	**2016 £000**	2015 £000	**2016 £000**	2015 £000
Interest rate risk	-100 basis points	**(7,706)**	(5,786)	**98**	(33)
	+100 basis points	**4,696**	3,524	**(107)**	33
Currency risk	-10%	**3,915**	3,628	**3,437**	2,764
	+10%	**(3,203)**	(2,968)	**(2,812)**	(2,262)
Equity price risk	+/-10%	**21,416**	21,870	**-**	-

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.

Notes to the financial statements

4 Financial risk and capital management (continued)

(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 both regulatory and economic capital, at a group and parent entity level.

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).

With effect from 1 January 2016 a new Europe-wide regulatory capital regime (Solvency II) came into effect, with capital assessed at both individual regulated entity and group level. The PRA expects a firm, at all times, to hold Solvency II Own Funds in excess of its calculated Solvency Capital Requirement (SCR). Group solvency is assessed at the level of EIO's parent, Ecclesiastical Insurance Group (EIG). Consequently, there is no directly comparable solvency measure for EIO group. Both quarterly and annual quantitative returns are submitted to the PRA, in addition to an annual narrative report, the Solvency and Financial Condition Report (SFCR) which must be published on the company website. A further report, the Regular Supervisory Report (RSR) is periodically submitted to the PRA.

The figures in the table below are unaudited and based on the latest information provided to management. These figures will be subject to a separate independent audit, as part of the Group's process for Solvency II reporting to the PRA. Final audited figures will be made publically available in the SFCR. The Group's regulated entities, Ecclesiastical Insurance Office Plc and Ecclesiastical Life Limited, expect to meet the deadline for submission to the PRA of 20 May 2017 and their respective SFCRs will be made available on the Group's website shortly thereafter.

	2016 (unaudited) Ecclesiastical Insurance Office plc Parent £000	**2016 (unaudited) Ecclesiastical Life Limited £000**	2015 (unaudited) Ecclesiastical Insurance Office plc Parent £000	2015 (unaudited) Ecclesiastical Life Limited £000
Solvency II Own Funds	**479,990**	**42,495**	483,508	41,541
Solvency Capital Requirement	**(285,711)**	**(15,514)**	(285,483)	(15,076)
Own Funds in excess of Solvency Capital Requirement	**194,279**	**26,981**	198,025	26,465
Solvency II Capital Cover	**168%**	**274%**	169%	276%

The regulated entities of the Group have adopted the Solvency II standard formula approach to determine their respective solvency capital requirements (SCR). The Group is working with the PRA to gain approval of a full internal model for EIO Parent in the near future.

Economic capital is the Group's own internal view of the level of capital required, and this measure is an integral part of the Own Risk and Solvency Assessment Report (ORSA) which is a private, internal forward-looking assessment of own risk, as required as part of the Solvency II regime. Risk appetite is set such that the target level of economic capital is always higher than the regulatory SCR.

Notes to the financial statements

5 Segment information

(a) Operating segments

The Group segments its business activities on the basis of differences in the products and services offered and, for general insurance, the underwriting territory. Expenses relating to Group management activities are included within 'Corporate costs'. This reflects the management and internal Group reporting structure. A change has been made to segments during 2016 as follows:

- The investment management operating result which was previously included as part of the 'investment' result has been reclassified to 'other'.

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.

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.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 1.

Notes to the financial statements

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.

	2016 Gross written premiums £000	2016 Non-insurance services £000	2016 Total £000	2015 Gross written premiums £000	2015 Non-insurance services £000	2015 Total £000
General business						
United Kingdom and Ireland	220,342	-	220,342	228,056	-	228,056
Australia	41,810	-	41,810	37,451	-	37,451
Canada	45,470	-	45,470	39,907	-	39,907
Other insurance operations	2,439	-	2,439	2,672	-	2,672
Total	310,061	-	310,061	308,086	-	308,086
Life business	77	-	77	113	-	113
Investment management	-	10,227	10,227	-	11,394	11,394
Broking and Advisory	-	8,542	8,542	-	9,586	9,586
Group revenue	310,138	18,769	328,907	308,199	20,980	329,179

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. Further details on the underwriting profit or loss and COR, which are alternative performance measures that are not defined under IFRS, are detailed in note 36.

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.

2016	*Combined operating ratio*	Insurance £000	Investments £000	Other £000	Total £000
General business					
United Kingdom and Ireland	82.5%	25,015	42,456	(11)	67,460
Australia	106.7%	(1,202)	2,392	(80)	1,110
Canada	110.3%	(3,447)	751	(2)	(2,698)
Other insurance operations		(291)	-	-	(291)
	89.8%	20,075	45,599	(93)	65,581
Life business		(652)	3,950	-	3,298
Investment management		-	-	1,587	1,587
Broking and Advisory		-	-	2,120	2,120
Corporate costs		-	-	(10,134)	(10,134)
Profit before tax		19,423	49,549	(6,520)	62,452

Notes to the financial statements

5 Segment information (continued)

2015 (restated)	Combined operating ratio	Insurance £000	Investments £000	Other £000	Total £000
General business					
United Kingdom and Ireland	92.3%	11,571	37,575	(5)	49,141
Australia	99.4%	104	1,994	(96)	2,002
Canada	96.4%	1,066	1,041	-	2,107
Other insurance operations		792	-	-	792
	93.2%	13,533	40,610	(101)	54,042
Life business		1,001	2,157	-	3,158
Investment management		-	-	1,812	1,812
Broking and Advisory		-	-	1,934	1,934
Corporate costs		-	-	(7,341)	(7,341)
Profit before tax		14,534	42,767	(3,696)	53,605

The prior period has been restated for the retrospective application of the change in accounting policy, as detailed in note 35.

(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:

	2016 Gross written premiums £000	2016 Non-current assets £000	2015 Gross written premiums £000	2015 Non-current assets £000
United Kingdom and Ireland	**222,858**	**184,103**	230,841	153,674
Australia	**41,810**	**1,445**	37,451	190
Canada	**45,470**	**3,789**	39,907	3,154
	310,138	**189,337**	308,199	157,018

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.

Notes to the financial statements

6 Net insurance premium revenue

	General business £000	Life business £000	Total £000
For the year ended 31 December 2016			
Gross written premiums	**310,061**	**77**	**310,138**
Outward reinsurance premiums	**(114,041)**	**-**	**(114,041)**
Net written premiums	**196,020**	**77**	**196,097**
Change in the gross provision for unearned premiums	**2,926**	**-**	**2,926**
Change in the provision for unearned premiums, reinsurers' share	**(1,823)**	**-**	**(1,823)**
Change in the net provision for unearned premiums	**1,103**	**-**	**1,103**
Earned premiums, net of reinsurance	**197,123**	**77**	**197,200**
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

7 Net investment return

	2016 £000	Restated 2015 £000
Income from financial assets at fair value through profit or loss		
- equity income	**9,667**	8,720
- debt income	**17,682**	20,510
Income from financial assets not at fair value through profit or loss		
- interest income on mortgages and other loans	**-**	26
- cash and cash equivalents income, net of exchange movements	**3,819**	(154)
- other income received	**1,257**	1,412
Other income		
- rental income	**6,368**	4,977
Investment income	**38,793**	35,491
Fair value movements on financial instruments at fair value through profit or loss	**35,345**	2,892
Fair value movements on investment property	**(1,116)**	4,845
Impact of discount rate change on insurance contract liabilities	**(18,612)**	4,242
Net investment return	**54,410**	47,470

Included within cash and cash equivalents income are exchange gains of £2,913,000 (2015: £1,405,000 losses).

Included within fair value movements on financial instruments at fair value through profit or loss are £681,000 losses (2015: £2,133,000 gains) in respect of derivative instruments.

As described in note 35, the impact of discount rate changes on insurance contract liabilities has been reclassified from claims and change in insurance liabilities (see note 8) to net investment return, with the comparative period being restated to the revised basis.

Notes to the financial statements

8 Claims and change in insurance liabilities and reinsurance recoveries

	General business £000	Life business £000	Total £000
For the year ended 31 December 2016			
Gross claims paid	**184,763**	**6,254**	**191,017**
Gross change in the provision for claims	**(47,073)**	**(84)**	**(47,157)**
Gross change in life business provision	**-**	**(4,477)**	**(4,477)**
Claims and change in insurance liabilities	**137,690**	**1,693**	**139,383**
Reinsurers' share of claims paid	**(64,907)**	**-**	**(64,907)**
Reinsurers' share of change in the provision for claims	**13,743**	**-**	**13,743**
Reinsurance recoveries	**(51,164)**	**-**	**(51,164)**
Claims and change in insurance liabilities, net of reinsurance	**86,526**	**1,693**	**88,219**
For the year ended 31 December 2015 (restated)			
Gross claims paid	167,364	6,899	174,263
Gross change in the provision for claims	809	3	812
Gross change in life business provision	-	(7,020)	(7,020)
Claims and change in insurance liabilities	168,173	(118)	168,055
Reinsurers' share of claims paid	(50,721)	-	(50,721)
Reinsurers' share of change in the provision for claims	(16,101)	-	(16,101)
Reinsurance recoveries	(66,822)	-	(66,822)
Claims and change in insurance liabilities, net of reinsurance	101,351	(118)	101,233

As described in note 35, the impact of discount rate changes on insurance contract liabilities has been reclassified from claims and change in insurance liabilities to net investment return (see note 7), with the comparative period being restated to the revised basis.

9 Fees, commissions and other acquisition costs

	2016 £000	2015 £000
Fees paid	**109**	665
Commission paid	**46,333**	45,086
Change in deferred acquisition costs	**(124)**	1,754
Other acquisition costs	**15,000**	13,697
Fees, commissions and other acquisition costs	**61,318**	61,202

Notes to the financial statements

10 Profit for the year

	2016 £000	2015 £000
Profit for the year has been arrived at after (crediting)/charging		
Net foreign exchange (gains)/losses	**(2,913)**	1,405
Depreciation of property, plant and equipment	**1,773**	1,708
Loss on disposal of property, plant and equipment	**26**	16
Amortisation of intangible assets	**1,252**	1,333
Decrease/(increase) in fair value of investment property	**1,116**	(4,845)
Employee benefits expense including termination benefits	**70,834**	63,606
Operating lease rentals	**3,528**	3,391

11 Auditor's remuneration

	2016 £000	2015 £000
Fees payable to the Company's auditor and its associates for the audit of the Company's annual accounts	**313**	292
Fees payable to the Company's auditor and its associates for other services:		
- The audit of the Company's subsidiaries	**121**	119
Total audit fees	**434**	411
- Audit-related assurance services	**226**	86
- Other assurance services	**7**	6
Total non-audit fees	**233**	92
Fees payable to the Company's auditor in respect of associated pension schemes		
- The audit of assoicated pension schemes	**17**	17
Total auditor's remuneration	**684**	520

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

The Company's policy on the use of the auditor for non-audit services is detailed in the Group Audit Committee Report in the Corporate Governance section of this report.

Notes to the financial statements

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:

	2016 General business No.	2016 Life business No.	2016 Other No.	2015 General business No.	2015 Life business No.	2015 Other No.
United Kingdom and Ireland	**727**	**1**	**129**	709	1	127
Australia	**87**	**-**	**-**	92	-	-
Canada	**71**	**-**	**-**	68	-	-
	885	**1**	**129**	869	1	127

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.

	2016 £000	2015 £000
Wages and salaries	**58,482**	52,204
Social security costs	**5,564**	4,539
Pension costs - defined contribution plans	**3,045**	2,734
Pension costs - defined benefit plans	**2,726**	2,770
Other post-employment benefits	**346**	459
	70,163	62,706

The above figures do not include termination benefits of £671,000 (2015: £900,000).

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.

Notes to the financial statements

13 Tax expense

(a) Tax charged/(credited) to the statement of profit or loss

		2016 £000	2015 £000
Current tax	- current year	**8,814**	7,771
	- prior year adjustments	**73**	474
Deferred tax	- temporary differences	**1,223**	2,421
	- prior year adjustments	**-**	2
	- reduction in tax rate	**(1,370)**	(3,680)
Total tax expense		**8,740**	6,988

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:

	2016 £000	2015 £000
Profit before tax	**62,452**	53,605
Tax calculated at the UK standard rate of tax of 20% (2015: 20.25%)	**12,490**	10,853
Factors affecting charge for the year:		
Expenses not deductible for tax purposes	**504**	450
Non-taxable income	**(2,642)**	(979)
Life insurance and other tax paid at non-standard rates	**(377)**	71
Generation/(utilisation) of tax losses for which no deferred tax asset has been recognised	**62**	(203)
Impact of reduction in deferred tax rate	**(1,370)**	(3,680)
Adjustments to tax charge in respect of prior periods	**73**	476
Total tax expense	**8,740**	6,988

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 a rate of 20% for the current year and at the blended rate of 20.25% for the prior year. A further reduction in the rate of corporation tax to 19% will become effective from April 2017, reducing again to 17% effective from April 2020. Deferred tax has been provided at an average rate of 17.9% (2015: 18.2%).

(b) Tax charged/(credited) to other comprehensive income

	2016 £000	2015 £000
Current tax charged on:		
Fair value movements on hedge derivatives	**204**	-
Deferred tax (credited)/charged on:		
Fair value movements on property	**(5)**	(22)
Actuarial movements on retirement benefit plans	**(5,461)**	(1,039)
Fair value movements on hedge derivatives	**19**	-
Total tax credited to other comprehensive income	**(5,243)**	(1,061)

Tax relief on charitable grants of £4,800,000 (2015: £4,050,000) has been taken directly to equity.

Notes to the financial statements

14 Appropriations

	2016 £000	2015 £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	24,000	20,000
Tax relief	(4,800)	(4,050)
Net appropriation for the year	19,200	15,950

15 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.

	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.

In 2015, the fair value of the contingent consideration was estimated to be £824,000, with the final amount payable being dependent on the development of the mortgage book over the 7 years after disposal. At 31 December 2016, £194,000 of the contingent consideration had been received.

Notes to the financial statements

16 Goodwill and other intangible assets

Group

	Goodwill £000	Computer software £000	Other intangible assets £000	Total £000
Cost				
At 1 January 2016	23,779	20,288	5,084	49,151
Additions	-	237	-	237
Disposals	-	(1,012)	-	(1,012)
Exchange differences	-	797	-	797
At 31 December 2016	23,779	20,310	5,084	49,173
Accumulated impairment losses and amortisation				
At 1 January 2016	203	15,704	4,140	20,047
Amortisation charge for the year	-	1,122	130	1,252
Impairment losses for the year	77	-	-	77
Disposals	-	(1,012)	-	(1,012)
Exchange differences	-	150	-	150
At 31 December 2016	280	15,964	4,270	20,514
Net book value at 31 December 2016	23,499	4,346	814	28,659
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

£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 2014.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. The calculations for all recoverable amounts use 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, usually sourced from the Office for Budget Responsibility (OBR). An update to the long-term rate has not been provided by the OBR since the June 2016 EU referendum result so the Group selected a rate of 1.9% (2015: 2.3%) as being appropriate, based on medium-term rates published in the OBR's November report. The pre-tax discount rate of 11.3% (2015: 11%) reflects the way that the market would assess the specific risks associated with the estimated cash flows.

The recoverable amount of the investment in South Essex Insurance Holdings Limited exceeds its carrying amount by £2.4m. If the cash flow projections decreased by 2.3% or the discount rate increased by 0.7%, then the recoverable amount would equal the carrying amount. For the investment in Lansdown Insurance Brokers Limited, the headroom above the carrying value is significant and reasonably possible changes to the key assumptions do not result in impairment.

Assumptions used are consistent with historical experience within the business acquired and external sources of information.

Other intangible assets consist of acquired brand, customer and distribution relationships, which have an overall remaining useful life of one year on a weighted average basis (2015: two years).

Notes to the financial statements

16 Goodwill and other intangible assets (continued)

Parent	Computer software 2016 £000	2015 £000
Cost		
At 1 January	**19,141**	19,629
Additions	**237**	1,392
Disposals	**(1,012)**	(1,462)
Exchange differences	**794**	(418)
At 31 December	**19,160**	19,141
Amortisation		
At 1 January	**14,935**	15,399
Charge for the year	**1,036**	1,116
Disposals	**(1,012)**	(1,462)
Exchange differences	**148**	(118)
At 31 December	**15,107**	14,935
Net book value at 31 December	**4,053**	4,206

17 Deferred acquisition costs

	2016		2015	
	Group £000	**Parent £000**	Group £000	Parent £000
At 1 January	**28,394**	**24,582**	31,117	26,974
Increase in the period	**29,756**	**25,056**	28,626	24,831
Release in the period	**(29,632)**	**(25,407)**	(30,380)	(26,501)
Exchange differences	**2,187**	**1,441**	(969)	(722)
At 31 December	**30,705**	**25,672**	28,394	24,582

All balances are current.

Notes to the financial statements

18 Retirement benefit schemes

Defined benefit pension plans

The Group's main plan is a defined benefit plan operated by the Parent for UK employees, which includes two discrete sections, the EIO Section and Ansvar Section. The assets of the plan are held separately from those of the Group by the Trustee of the Ecclesiastical Insurance Office plc Staff Retirement Benefit Fund (the 'Fund'). The Fund is subject to the Statutory Funding Objective under the Pensions Act 2004. An independent qualified actuary appointed by the Trustee is responsible for undertaking triennial valuations to determine whether the Statutory Funding Objective is met. Pension costs for the plan are determined by the Trustee, having considered the advice of the actuary and having consulted with the employer. The most recent triennial valuation was at 31 December 2013. Actuarial valuations were reviewed and updated by an actuary at 31 December 2016 for IAS 19 (R) purposes. In the prior year, the IAS 19 (R) surplus in the scheme was restricted in accordance with International Financial Reporting Interpretations Committee 14 (IFRIC 14).

In the current year, actuarial losses arising from changes in financial assumptions of £68.2m (2015: actuarial gains of £5.7m) have been recognised in the statement of other comprehensive income. These losses resulted from a 1.2% fall in the discount rate and a 0.2% increase in inflation, partially offset by gains arising from the changes in financial assumptions noted below.

In line with common market practice, an allowance has been made in the current year for the future volatility in inflation when setting the inflation assumption for the Group's main plan. This has resulted in a reduction in the plan's liabilities by approximately £20m which is recognised within the statement of other comprehensive income. No allowance for inflation volatility was made in the prior year.

The Parent has a constructive obligation to award discretionary pension increases in the EIO Section for service prior to 6 April 1997. In setting the assumption for discretionary pension increases in the IAS 19 valuation, consideration is given to the expectations around future increases in light of the plan's circumstances at the balance sheet date. This approach has been formalised in the current year through the development of a sliding scale to determine the discretionary pension increase assumption. In the current year the discretionary pension increase assumption fell to 0.8% (2015: 2.1%) which reduced the value of the plan's liabilities by approximately £9m.

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.

In the prior year, formal notice was given to the Trustees of 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 current and prior year end date. The wind-up is expected to complete in the first half of 2017. In the current and prior year, the IAS 19 (R) surplus in the scheme has been restricted in line with IFRIC 14 to the amount of surplus that is expected to be refunded to the Parent when the scheme wind-up is completed.

The main plan typically exposes the Group to risks such as:

- Investment risk: The Fund holds some of its investments in asset classes, such as equities, which have volatile market values and, while these assets are expected to provide the best returns over the long term, any short-term volatility could cause additional funding to be required if a deficit emerges. Derivative contracts are used from time to time, which would limit losses in the event of a fall in equity markets.

- Interest rate risk: 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. During the year the Group's main plan invested in liability driven investments (LDIs) to hedge part of the exposure of the scheme's liabilities to movements in interest rates.

- 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. During the year the Group's main plan invested in LDIs to hedge part of the exposure of the scheme's liabilities to movements in inflation expectations.

- 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.

Notes to the financial statements

18 Retirement benefit schemes (continued)

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	2016 £000	2015 £000
The amounts recognised in the statement of financial position are determined as follows:		
Present value of funded obligations	**(349,570)**	(276,562)
Fair value of plan assets	**329,394**	294,498
	(20,176)	17,936
Restrictions on asset recognised	**(144)**	(7,283)
Net defined benefit pension scheme (liability)/asset in the statement of financial position	**(20,320)**	10,653
Movements in the net defined benefit pension scheme asset/(liability) recognised in the statement of financial position are as follows:		
At 1 January	**10,653**	20,818
Expense charged to profit or loss*	**(3,361)**	(3,305)
Amounts recognised in other comprehensive income	**(30,180)**	(9,462)
Contributions paid	**2,568**	2,602
At 31 December	**(20,320)**	10,653
The amounts recognised through profit or loss are as follows:		
Current service cost	**3,376**	3,645
Administration cost	**435**	342
Interest expense on liabilities	**10,386**	10,125
Interest income on plan assets	**(11,105)**	(10,962)
Gains on settlements/curtailments	**269**	155
Total, included in employee benefits expense	**3,361**	3,305
The amounts recognised in the statement of other comprehensive income are as follows:		
Return on plan assets, excluding interest income	**27,826**	(8,594)
Experience gains on liabilities	**2,739**	197
(Losses)/gains from changes in financial assumptions	**(68,153)**	5,655
Change in asset ceiling	**7,408**	(6,720)
Total included in other comprehensive income	**(30,180)**	(9,462)

* Charge to profit or loss includes £635,000 (2015: £535,000) 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	2016 £000	2015 £000
Pension assets	**144**	10,893
Pension liabilities	**(20,464)**	(240)
	(20,320)	10,653

Notes to the financial statements

18 Retirement benefit schemes (continued)

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

	2016 %	2015 %
Discount rate	**2.60**	3.80
Inflation (RPI)	**3.30**	3.10
Inflation (CPI)	**2.30**	2.10
Future salary increases	**4.55**	4.60
Future increase in pensions in deferment	**2.30**	2.10
Future average pension increases (linked to RPI)	**3.00**	3.10
Future average pension increases (linked to CPI)	**1.15**	2.10

Mortality rate	2016	2015
The average life expectancy in years of a pensioner retiring at age 65, at the year end date, is as follows:		
Male	**24.1**	24.0
Female	**25.7**	25.6
The average life expectancy in years of a pensioner retiring at age 65, 20 years after the year end date, is as follows:		
Male	**26.4**	26.3
Female	**28.0**	27.9

Plan assets are weighted as follows:	2016 £000	2015 £000
Cash and cash equivalents	**16,871**	8,115
Equity instruments		
UK quoted	**82,591**	71,187
UK unquoted	**179**	275
Overseas quoted	**79,637**	66,776
	162,407	138,238
Debt instruments		
UK public sector quoted - fixed interest	**263**	6,381
UK non-public sector quoted - fixed interest	**66,777**	57,838
UK quoted - index-linked	**38,812**	42,530
	105,852	106,749
Derivative financial instruments	**2,143**	(564)
Property	**42,121**	41,960
	329,394	294,498

The actual return on plan assets was a gain of £38,931,000 (2015: gain of £2,368,000).

Notes to the financial statements

18 Retirement benefit schemes (continued)

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

	2016 £000	2015 £000
Plan assets		
At 1 January	**294,498**	298,840
Interest income	**11,105**	10,962
Return on plan assets, excluding interest income	**27,826**	(8,594)
Pension benefits paid and payable	**(6,452)**	(7,113)
Contributions paid	**2,568**	2,602
Assets distributed on settlements	**-**	(2,199)
Administration cost	**(151)**	-
At 31 December	**329,394**	294,498
Defined benefit obligation		
At 1 January	**276,562**	277,459
Current service cost	**3,376**	3,645
Administration cost	**284**	342
Interest cost	**10,386**	10,125
Pension benefits paid and payable	**(6,452)**	(7,113)
Experience gains on liabilities	**(2,739)**	(197)
Losses/(gains) from changes in financial assumptions	**68,153**	(5,655)
Liabilities extinguished on settlements/curtailments	**-**	(2,044)
At 31 December	**349,570**	276,562
Asset ceiling		
At 1 January	**7,283**	563
Effect of interest on the asset ceiling	**269**	-
Change in asset ceiling	**(7,408)**	6,720
At 31 December	**144**	7,283

History of plan assets and liabilities	2016 £000	2015 £000	2014 £000	2013 £000	2012 £000
Present value of defined benefit obligations	**(349,570)**	(276,562)	(277,459)	(255,604)	(225,164)
Fair value of plan assets	**329,394**	294,498	298,840	287,892	261,685
	(20,176)	17,936	21,381	32,288	36,521
Restrictions on asset recognised	**(144)**	(7,283)	(563)	-	-
(Deficit)/surplus	**(20,320)**	10,653	20,818	32,288	36,521

The weighted average duration of the defined benefit obligation at the end of the reporting period is 23 years (2015: 23 years).

The contribution expected to be paid by the Group during the year ending 31 December 2017 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**	**Increase/(decrease) in plan liabilities** 2016 £000	2015 £000
Discount rate	Increase by 0.5%	**(36,040)**	(28,480)
	Decrease by 0.5%	**40,140**	33,520
Inflation	Increase by 0.5%	**33,530**	28,510
	Decrease by 0.5%	**(26,300)**	(25,830)
Salary increase	Increase by 0.5%	**10,660**	7,690
	Decrease by 0.5%	**(9,840)**	(6,960)
Life expectancy	Increase by 1 year	**9,460**	7,460
	Decrease by 1 year	**(9,790)**	(7,790)

Notes to the financial statements

18 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 inflation risk: Future medical costs are influenced by a number of factors including economic trends and advances in medical technology and sciences. An increase in medical expense inflation would lead to an increase in the reserves required to be held.
- Medical claims experience: 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	2016 £000	2015 £000
Present value of unfunded obligations and net obligations in the statement of financial position	**11,913**	9,193
Movements in the net obligations recognised in the statement of financial position are as follows:		
At 1 January	**9,193**	12,547
Total expense charged to profit or loss	**346**	459
Net actuarial losses/(gains) during the year, recognised in other comprehensive income	**2,565**	(3,653)
Benefits paid	**(191)**	(160)
At 31 December	**11,913**	9,193
The amounts recognised through profit or loss are as follows:		
Interest cost	**346**	459
Total, included in employee benefits expense	**346**	459

The weighted average duration of the net obligations at the end of the reporting period is 18.5 years (2015: 19 years).

The main actuarial assumptions for the plan are a long-term increase in medical costs of 9.3% (2015: 9.1%) and a discount rate of 2.6% (2015: 3.8%). 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**	**Increase/(decrease) in plan liabilities** 2016 £000	2015 £000
Discount rate	Increase by 0.5%	**(1,006)**	(776)
	Decrease by 0.5%	**1,143**	882
Medical expense inflation	Increase by 1.0%	**2,224**	1,716
	Decrease by 1.0%	**(1,781)**	(1,374)
Life expectancy	Increase by 1 year	**1,028**	793
	Decrease by 1 year	**(921)**	(711)

Notes to the financial statements

19 Property, plant and equipment

Group

	Land and buildings £000	Motor vehicles £000	Furniture, fittings and equipment £000	Computer equipment £000	Total £000
Cost or valuation					
At 1 January 2016	**2,540**	**2,519**	**6,899**	**5,807**	**17,765**
Additions	**-**	**522**	**1,575**	**739**	**2,836**
Disposals	**-**	**(653)**	**(946)**	**(773)**	**(2,372)**
Revaluation	**25**	**-**	**-**	**-**	**25**
Exchange differences	**-**	**-**	**231**	**144**	**375**
At 31 December 2016	**2,565**	**2,388**	**7,759**	**5,917**	**18,629**
Depreciation					
At 1 January 2016	**-**	**964**	**4,625**	**4,472**	**10,061**
Charge for the year	**-**	**380**	**691**	**702**	**1,773**
Disposals	**-**	**(421)**	**(942)**	**(769)**	**(2,132)**
Exchange differences	**-**	**-**	**146**	**83**	**229**
At 31 December 2016	**-**	**923**	**4,520**	**4,488**	**9,931**
Net book value at 31 December 2016	**2,565**	**1,465**	**3,239**	**1,429**	**8,698**
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

All properties were revalued at 31 December 2015, with the exception of two properties, one of which was revalued at 31 December 2014 and the other at 31 December 2016. 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 3 assets.

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

The value of land and buildings on a historical cost basis is £2,723,000 (2015: £2,723,000).

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

Included within net book value of motor vehicles is £1,359,000 (2015: £1,364,000) in respect of assets held under finance leases.

Notes to the financial statements

19 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 2016	**2,190**	**2,381**	**6,640**	**5,271**	**16,482**
Additions	**-**	**522**	**1,369**	**638**	**2,529**
Disposals	**-**	**(653)**	**(885)**	**(752)**	**(2,290)**
Exchange differences	**-**	**-**	**222**	**93**	**315**
At 31 December 2016	**2,190**	**2,250**	**7,346**	**5,250**	**17,036**
Depreciation					
At 1 January 2016	**-**	**883**	**4,461**	**4,216**	**9,560**
Charge for the year	**-**	**365**	**643**	**586**	**1,594**
Disposals	**-**	**(421)**	**(885)**	**(752)**	**(2,058)**
Exchange differences	**-**	**-**	**142**	**63**	**205**
At 31 December 2016	**-**	**827**	**4,361**	**4,113**	**9,301**
Net book value at 31 December 2016	**2,190**	**1,423**	**2,985**	**1,137**	**7,735**
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

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 3 assets.

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

The value of land and buildings on a historical cost basis is £2,323,000 (2015: £2,323,000).

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

Included within net book value of motor vehicles is £1,359,000 (2015: £1,364,000) in respect of assets held under finance leases.

Notes to the financial statements

20 Investment property

Group and Parent	2016 £000	2015 £000
Fair value at 1 January	98,750	69,775
Additions - acquisitions	27,851	24,130
Additions - subsequent expenditure	142	-
Disposals	(343)	-
Fair value (losses)/gains recognised in profit or loss	(1,116)	4,845
Fair value at 31 December	125,284	98,750

The Group's investment properties were last revalued at 31 December 2016 by Cluttons LLP, an external firm of chartered surveyors. Valuations were carried out using standard industry methodology to determine a fair market value. All properties are classified as level 3 assets. There have been no transfers between investment categories in the current year.

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 £6,368,000 (2015: £4,977,000) and is included in net investment return. Other operating and administrative expenses include £423,000 (2015: £742,000) relating to investment property.

21 Financial investments

Financial investments summarised by measurement category are as follows:

	2016 Group £000	2016 Parent £000	Restated 2015 Group £000	Restated 2015 Parent £000
Financial investments at fair value through profit or loss				
Equity securities				
- listed	262,727	232,323	274,514	243,018
- unlisted	35,376	35,375	31,218	31,217
Debt securities				
- government bonds	179,227	108,207	160,691	95,874
- listed	374,188	253,730	366,051	261,461
- unlisted	139	139	187	187
Derivative financial instruments				
- forwards	5,041	5,041	-	-
- options	-	-	713	713
	856,698	634,815	833,374	632,470
Loans and receivables				
Cash held on deposit	9,802	9,802	9,721	9,721
Other loans	17	14	16	14
Parent investments in subsidiary undertakings				
Shares in subsidiary undertakings	-	50,065	-	50,065
Total financial investments	866,517	694,696	843,111	692,270
Current	392,036	344,855	418,160	380,108
Non-current	474,481	349,841	424,951	312,162

All investments in subsidiary undertakings are unlisted.

As described in note 35, the comparative period has been restated for cash held on deposit, which has been reclassified from cash and cash equivalents to financial investments.

Notes to the financial statements

22 Derivative financial instruments

The Group utilises derivatives to mitigate equity price risk arising from investments held at fair value, foreign exchange risk arising from investments denominated in foreign currencies, and foreign exchange risk arising from investments denominated in Sterling that contain underlying foreign currency exposure. These 'non-hedge' derivatives either do not qualify for hedge accounting or the option to hedge account has not been taken.

In the current year, the Group has also formally designated certain derivatives as a hedge of its net investments in Australia and Canada. A gain of £2,067,000 (2015: £nil) in respect of these 'hedge' derivatives has been recognised in the hedging reserve within shareholders' equity, as disclosed in note 26. The Group has formally assessed and documented the effectiveness of derivatives that qualify for hedge accounting in accordance with IAS 39, *Financial Instruments: Recognition and Measurement.*

Group	2016 Contract/ notional amount £000	2016 Fair value asset £000	2016 Fair value liability £000	2015 Contract/ notional amount £000	2015 Fair value asset £000	2015 Fair value liability £000
Non-hedge derivatives						
Equity/Index contracts						
Futures	25,157	-	543	30,763	-	1,466
Options	-	-	-	7,501	713	-
Foreign exchange contracts						
Forwards (Euro)	78,511	2,974	-	-	-	-
Hedge derivatives						
Foreign exchange contracts						
Forwards (Australian dollar)	39,443	1,954	-	-	-	-
Forwards (Canadian dollar)	29,047	113	-	-	-	-
	172,158	5,041	543	38,264	713	1,466

All balances are current.

The derivative financial instruments of the Parent are the same as the Group, with the exception that the Australian dollar foreign exchange contract is classified as a non-hedge derivative.

The notional amounts above reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of the derivative transactions. They do not reflect current market values of the open positions.

Derivative fair value assets are recognised within financial investments (note 21) and derivative fair value liabilities are recognised within other liabilities (note 30).

Amounts pledged as collateral in respect of derivative contracts are disclosed in note 24.

Notes to the financial statements

23 Other assets

	2016 Group £000	2016 Parent £000	2015 Group £000	2015 Parent £000
Receivables arising from insurance and reinsurance contracts				
- due from contract holders	**25,579**	**25,334**	27,310	27,310
- due from agents, brokers and intermediaries	**45,054**	**30,797**	40,095	28,733
- due from reinsurers	**15,631**	**8,120**	9,481	4,432
Other receivables				
- accrued interest and rent	**5,370**	**4,146**	6,109	4,725
- other prepayments and accrued income	**4,886**	**4,345**	3,173	2,756
- amounts owed by related parties	**25,092**	**29,737**	20,673	26,760
- other debtors	**19,399**	**1,232**	18,001	1,831
	141,011	**103,711**	124,842	96,547
Current	**114,315**	**74,640**	103,384	70,567
Non-current	**26,696**	**29,071**	21,458	25,980

The Group has recognised a charge of £49,000 (2015: credit of £63,000) in other operating and administrative expenses in the statement of profit or loss for the impairment of its trade and other receivables during the year. The Parent has recognised a charge of £48,000 (2015: credit of £67,000).

There has been no significant change in the recoverability of the Group's or Parent'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 £3,599,000 (2015: £4,948,000) pledged as collateral in respect of an insurance liability.

Movement in the allowance for doubtful debts	2016 Group £000	2016 Parent £000	2015 Group £000	2015 Parent £000
Balance at 1 January	**151**	**106**	214	169
Movement in the year	**3**	**-**	(63)	(63)
Balance at 31 December	**154**	**106**	151	106

Included within trade receivables of the Group is £3,214,000 (2015: £3,457,000) overdue but not impaired, of which £2,972,000 (2015: £3,178,000) is not more than three months overdue at the reporting date. Included within trade receivables of the Parent is £2,617,000 (2015: £2,533,000) overdue but not impaired, of which £2,381,000 (2015: £2,255,000) is not more than three months overdue at the reporting date.

24 Cash and cash equivalents

	2016 Group £000	2016 Parent £000	Restated 2015 Group £000	Restated 2015 Parent £000
Cash at bank and in hand	**50,255**	**31,307**	51,454	29,318
Short-term bank deposits	**39,239**	**28,436**	57,266	45,740
	89,494	**59,743**	108,720	75,058

Included within short-term bank deposits of the Group and Parent are cash deposits of £1,956,000 (2015: £3,122,000) pledged as collateral by way of cash margins on open derivative contracts and cash to cover derivative liabilities.

Included within cash at bank and in hand are cash deposits of £2,612,000 (2015: £nil) pledged as collateral by way of cash calls from reinsurers.

Notes to the financial statements

24 Cash and cash equivalents (continued)

As described in note 35, the comparative period has been restated for cash held on deposit, which has been reclassified from cash and cash equivalents to financial investments.

25 Called up share capital

	Issued, allotted and fully paid 2016 £000	2015 £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.

26 Translation and hedging reserve

Group	Translation reserve £000	Hedging reserve £000	Total £000
At 1 January 2016	**6,182**	**-**	**6,182**
Gains on currency translation differences	**13,482**	**-**	**13,482**
Gains on net investment hedges	**-**	**2,067**	**2,067**
Attributable tax	**-**	**(223)**	**(223)**
At 31 December 2016	**19,664**	**1,844**	**21,508**
At 1 January 2015	12,643	-	12,643
Losses on currency translation differences	(6,461)	-	(6,461)
At 31 December 2015	6,182	-	6,182
Parent			
At 1 January 2016	**2,140**	**-**	**2,140**
Gains on currency translation differences	**6,332**	**-**	**6,332**
Gains on net investment hedges	**-**	**113**	**113**
Attributable tax	**-**	**(19)**	**(19)**
At 31 December 2016	**8,472**	**94**	**8,566**
At 1 January 2015	6,053	-	6,053
Losses on currency translation differences	(3,913)	-	(3,913)
At 31 December 2015	2,140	-	2,140

The translation reserve arises on consolidation of the Group's and Parent's foreign operations. The hedging reserve represents the cumulative amount of gains and losses on hedging instruments in respect of net investments in foreign operations.

Notes to the financial statements

27 Insurance liabilities and reinsurance assets

	2016 Group £000	2016 Parent £000	2015 Group £000	2015 Parent £000
Gross				
Claims outstanding	**540,864**	**451,199**	551,571	472,542
Unearned premiums	**160,288**	**134,646**	153,697	133,282
Life business provision	**91,900**	**-**	85,422	-
Total gross insurance liabilities	**793,052**	**585,845**	790,690	605,824
Recoverable from reinsurers				
Claims outstanding	**115,179**	**81,083**	120,753	90,646
Unearned premiums	**50,753**	**38,877**	49,987	39,768
Total reinsurers' share of insurance liabilities	**165,932**	**119,960**	170,740	130,414
Net				
Claims outstanding	**425,685**	**370,116**	430,818	381,896
Unearned premiums	**109,535**	**95,769**	103,710	93,514
Life business provision	**91,900**	**-**	85,422	-
Total net insurance liabilities	**627,120**	**465,885**	619,950	475,410
Gross insurance liabilities				
Current	**312,224**	**260,982**	321,812	279,883
Non-current	**480,828**	**324,863**	468,878	325,941
Reinsurance assets				
Current	**94,791**	**75,364**	98,967	82,913
Non-current	**71,141**	**44,596**	71,773	47,501

(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. 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.

Notes to the financial statements

27 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	**2016**	2015	**2016**	2015
UK and Ireland	**0.7% to 2.7%**	1.0% to 3.5%	**16**	15
Canada	**1.1% to 3.1%**	1.1% to 3.2%	**14**	14
Australia	**2.5%**	2.0%	**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 £581,958,000 for the Group (2015: £603,735,000), and £487,894,000 for the Parent (2015: £520,085,000).

The impact of discount rate changes on the outstanding claims provision is presented within net investment return (note 7).

At 31 December 2016, it is estimated that a fall of 1% in the discount rates used would increase the Group's net outstanding claims provisions by £17,482,000 (2015: £14,380,000). 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:

		2016 Gross £000	2016 Net £000	2015 Gross £000	2015 Net £000
Liability	- UK	**24,700**	**22,600**	26,000	24,000
	- Overseas	**10,100**	**8,600**	8,400	7,200
Property	- UK	**7,100**	**4,000**	9,300	4,700
	- Overseas	**6,500**	**2,400**	4,900	1,600
Motor	- UK	**1,500**	**700**	2,200	1,100

Notes to the financial statements

27 Insurance liabilities and reinsurance assets (continued)

(viii) Claims development tables

The nature of liability classes of business is that claims may take a number of years to settle and before the final liability is known. The tables below show the development of the undiscounted estimate of ultimate gross and net claims cost for these classes across all territories.

Estimate of ultimate gross claims

Group	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	Total £000
At end of year	50,840	56,420	74,742	84,476	82,095	100,612	81,725	61,901	46,464	51,738	
One year later	47,307	53,552	59,807	75,550	76,371	88,046	80,027	50,571	43,582		
Two years later	43,270	47,643	55,250	62,239	71,543	78,196	69,860	48,327			
Three years later	35,510	44,658	57,134	66,422	68,587	72,516	66,192				
Four years later	35,556	40,433	55,695	61,330	60,841	67,980					
Five years later	34,925	37,546	58,631	62,074	59,914						
Six years later	34,036	37,864	54,942	61,871							
Seven years later	33,917	37,289	57,729								
Eight years later	33,028	38,014									
Nine years later	34,136										
Current estimate of ultimate claims	34,136	38,014	57,729	61,871	59,914	67,980	66,192	48,327	43,582	51,738	529,483
Cumulative payments to date	(29,757)	(32,332)	(48,145)	(49,733)	(46,668)	(43,481)	(31,943)	(9,440)	(3,949)	(1,298)	(296,746)
Outstanding liability	4,379	5,682	9,584	12,138	13,246	24,499	34,249	38,887	39,633	50,440	232,737
Effect of discounting											(11,684)
Present value											221,053
Discounted liability in respect of earlier years											127,137
Total discounted gross liability (for liability classes) included in insurance liabilities in the statement of financial position											348,190

Parent	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	Total £000
At end of year	41,927	46,882	60,810	69,230	66,864	84,511	71,798	52,350	34,769	37,891	
One year later	38,967	43,344	46,660	60,202	63,770	77,629	60,950	40,153	31,941		
Two years later	33,464	37,204	43,853	50,834	62,587	69,580	54,792	39,015			
Three years later	28,093	37,669	49,444	53,390	60,653	63,068	50,492				
Four years later	28,569	34,514	47,970	50,526	52,985	56,225					
Five years later	28,679	33,384	47,482	51,031	50,355						
Six years later	29,217	33,667	45,534	48,499							
Seven years later	29,904	33,020	45,718								
Eight years later	29,037	33,285									
Nine years later	29,251										
Current estimate of ultimate claims	29,251	33,285	45,718	48,499	50,355	56,225	50,492	39,015	31,941	37,891	422,672
Cumulative payments to date	(25,289)	(28,124)	(38,657)	(39,299)	(40,050)	(36,386)	(20,406)	(7,610)	(3,124)	(705)	(239,650)
Outstanding liability	3,962	5,161	7,061	9,200	10,305	19,839	30,086	31,405	28,817	37,186	183,022
Effect of discounting											(8,786)
Present value											174,236
Discounted liability in respect of earlier years											122,519
Total discounted gross liability (for liability classes) included in insurance liabilities in the statement of financial position											296,755

Notes to the financial statements

27 Insurance liabilities and reinsurance assets (continued)

Estimate of ultimate net claims

Group	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	Total £000
At end of year	46,235	51,795	64,476	73,218	75,302	88,247	76,729	59,633	42,739	47,402	
One year later	43,107	48,432	53,700	64,796	72,336	79,272	66,475	47,690	40,397		
Two years later	38,979	44,498	50,805	57,758	68,057	73,735	60,075	47,428			
Three years later	34,180	42,524	50,168	59,353	66,822	69,837	55,710				
Four years later	35,004	39,321	50,062	55,975	60,314	65,872					
Five years later	34,688	37,208	49,879	57,012	59,521						
Six years later	33,702	37,606	48,960	57,070							
Seven years later	33,718	37,089	52,254								
Eight years later	32,819	37,996									
Nine years later	34,102										
Current estimate of ultimate claims	34,102	37,996	52,254	57,070	59,521	65,872	55,710	47,428	40,397	47,402	497,752
Cumulative payments to date	(29,757)	(32,332)	(43,822)	(45,485)	(46,449)	(42,540)	(23,983)	(9,439)	(3,949)	(1,298)	(279,054)
Outstanding liability	4,345	5,664	8,432	11,585	13,072	23,332	31,727	37,989	36,448	46,104	218,698
Effect of discounting											(11,684)
Present value											207,014
Discounted liability in respect of earlier years											108,949
Total discounted net liability (for liability classes) included in insurance liabilities in the statement of financial position											315,963

Parent	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	Total £000
At end of year	36,959	41,631	51,226	57,135	59,011	74,361	67,690	50,025	33,122	35,882	
One year later	34,656	38,270	39,841	49,060	59,873	69,805	57,538	38,944	31,041		
Two years later	29,650	33,814	40,198	48,250	59,997	65,297	51,828	38,215			
Three years later	26,905	34,983	43,879	51,827	59,352	61,795	47,942				
Four years later	28,322	34,458	44,064	49,171	52,850	55,686					
Five years later	28,670	33,366	43,640	49,598	50,189						
Six years later	29,203	33,666	41,966	47,783							
Seven years later	29,904	33,021	42,761								
Eight years later	29,037	33,283									
Nine years later	29,248										
Current estimate of ultimate claims	29,248	33,283	42,761	47,783	50,189	55,686	47,942	38,215	31,041	35,882	412,030
Cumulative payments to date	(25,289)	(28,124)	(36,735)	(38,745)	(39,992)	(36,383)	(20,290)	(7,609)	(3,124)	(705)	(236,996)
Outstanding liability	3,959	5,159	6,026	9,038	10,197	19,303	27,652	30,606	27,917	35,177	175,034
Effect of discounting											(8,786)
Present value											166,248
Discounted liability in respect of earlier years											105,921
Total discounted net liability (for liability classes) included in insurance liabilities in the statement of financial position											272,169

Notes to the financial statements

27 Insurance liabilities and reinsurance assets (continued)

(b) Life insurance contracts
(i) Assumptions
The most significant assumptions in determining life 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:

	2016	2015
UK and overseas government bonds: non-linked	**0.75%**	1.66%
UK and overseas government bonds: index-linked	**-1.83%**	-0.78%
Corporate debt instruments: index-linked	**-1.29%**	-0.10%

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. 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 £2.90 per annum (2015: £2.70 per annum). As expenses are not incurred proportionally to policy numbers and are more fixed in nature, a number of expenses are reserved for in a separate exercise. A reserve for these expenses is held at £6.1 million (2015: £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 4.21% per annum (2015: 3.54%).

Tax
It has been assumed that tax legislation and rates applicable at 1 January 2017 will continue to apply. All in-force business is classed as protection business and is expected to be taxed on a profits basis.

(ii) Changes in assumptions
Projected investment returns have been revised in line with the changes in the actual yields of the underlying assets. As a result, liabilities have increased by £10.9 million (2015: £1.9 million decrease).

Changes to unit renewal expense assumptions (described in (b)(i) above), was a £0.6 million increase (2015: £0.3m increase).

(iii) Sensitivity analysis
The sensitivity of profit before tax to changes in the key assumptions used to calculate the life 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		2016 £000	2015 £000
Deterioration in annuitant mortality	+10%	**900**	300
Improvement in annuitant mortality	-10%	**(1,100)**	(400)
Increase in fixed interest/cash yields	+1% pa	**(100)**	(100)
Decrease in fixed interest/cash yields	-1% pa	**(200)**	(400)
Worsening of base renewal expense level	+10%	**(700)**	(600)
Improvement in base renewal expense level	-10%	**700**	500
Increase in expense inflation	+1% pa	**(1,100)**	(800)
Decrease in expense inflation	-1% pa	**900**	700

Notes to the financial statements

27 Insurance liabilities and reinsurance assets (continued)

(c) Movements in insurance liabilities and reinsurance assets

Group	Gross £000	Reinsurance £000	Net £000
Claims outstanding			
At 1 January 2016	**551,571**	**(120,753)**	**430,818**
Cash (paid)/received for claims settled in the year	**(191,017)**	**64,907**	**(126,110)**
Change in liabilities/reinsurance assets			
- arising from current year claims	**171,887**	**(59,074)**	**112,813**
- arising from prior year claims	**(28,027)**	**7,910**	**(20,117)**
- change in discount rate	**7,470**	**187**	**7,657**
Exchange differences	**28,980**	**(8,356)**	**20,624**
At 31 December 2016	**540,864**	**(115,179)**	**425,685**
Provision for unearned premiums			
At 1 January 2016	**153,697**	**(49,987)**	**103,710**
Increase in the period	**156,245**	**(49,673)**	**106,572**
Release in the period	**(159,171)**	**51,496**	**(107,675)**
Exchange differences	**9,517**	**(2,589)**	**6,928**
At 31 December 2016	**160,288**	**(50,753)**	**109,535**
Life business provision			
At 1 January 2016	**85,422**	**-**	**85,422**
Effect of claims during the year	**(6,252)**	**-**	**(6,252)**
Changes in assumptions	**729**	**-**	**729**
Change in discount rate	**10,955**	**-**	**10,955**
Other movements	**1,046**	**-**	**1,046**
At 31 December 2016	**91,900**	**-**	**91,900**
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	(25,073)	7,213	(17,860)
- change in discount rate	(2,257)	(103)	(2,360)
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
Life 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)
Change in discount rate	(1,882)	-	(1,882)
Other movements	2,079	-	2,079
At 31 December 2015	85,422	-	85,422

Notes to the financial statements

27 Insurance liabilities and reinsurance assets (continued)

Parent	Gross £000	Reinsurance £000	Net £000
Claims outstanding			
At 1 January 2016	**472,542**	**(90,646)**	**381,896**
Cash (paid)/received for claims settled in the year	**(148,056)**	**39,749**	**(108,307)**
Change in liabilities/reinsurance assets			
- arising from current year claims	**130,618**	**(36,179)**	**94,439**
- arising from prior year claims	**(25,582)**	**8,802**	**(16,780)**
- change in discount rate	**7,226**	**-**	**7,226**
Exchange differences	**14,451**	**(2,809)**	**11,642**
At 31 December 2016	**451,199**	**(81,083)**	**370,116**
Provision for unearned premiums			
At 1 January 2016	**133,282**	**(39,768)**	**93,514**
Increase in the period	**132,302**	**(38,584)**	**93,718**
Release in the period	**(136,543)**	**40,169**	**(96,374)**
Exchange differences	**5,605**	**(694)**	**4,911**
At 31 December 2016	**134,646**	**(38,877)**	**95,769**
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	(22,967)	8,918	(14,049)
- change in discount rate	(2,834)	-	(2,834)
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

Notes to the financial statements

28 Provisions for other liabilities and contingent liabilities

Group	Regulatory and legal provisions £000	Other provisions £000	Total £000
At 1 January 2016	3,243	823	4,066
Additional provisions	3,835	939	4,774
Used during year	(2,943)	(146)	(3,089)
Not utilised	(339)	(32)	(371)
Exchange differences	-	21	21
At 31 December 2016	3,796	1,605	5,401
Current	2,308	74	2,382
Non-current	1,488	1,531	3,019

Parent	Regulatory and legal provisions £000	Other provisions £000	Total £000
At 1 January 2016	3,243	647	3,890
Additional provisions	3,835	905	4,740
Used during year	(2,943)	-	(2,943)
Not utilised	(339)	(26)	(365)
Exchange differences	-	2	2
At 31 December 2016	3,796	1,528	5,324
Current	2,308	39	2,347
Non-current	1,488	1,489	2,977

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.

Other provisions

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

Notes to the financial statements

29 Deferred tax

An analysis and reconciliation of the movement of the key components of the net deferred tax liability during the current and prior reporting period is as follows:

Group	Unrealised gains on investments £000	Net retirement benefit assets £000	Equalisation reserve £000	Other differences £000	Total £000
At 1 January 2015	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
Charged/(credited) to profit or loss	**1,816**	**(115)**	**(832)**	**354**	**1,223**
(Credited)/charged to profit or loss					
- resulting from reduction in tax rate	**(1,372)**	**(195)**	**125**	**72**	**(1,370)**
(Credited)/charged to other comprehensive income	**-**	**(5,643)**	**-**	**19**	**(5,624)**
Charged/(credited) to other comprehensive income					
- resulting from reduction in tax rate	**-**	**182**	**-**	**(5)**	**177**
Exchange differences	**(19)**	**-**	**-**	**(174)**	**(193)**
At 31 December 2016	**30,458**	**(5,505)**	**3,784**	**(2,074)**	**26,663**

Parent	Unrealised gains on investments £000	Net retirement benefit assets £000	Equalisation reserve £000	Other differences £000	Total £000
At 1 January 2015	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
Charged/(credited) to profit or loss	**1,624**	**(115)**	**(832)**	**218**	**895**
(Credited)/charged to profit or loss					
- resulting from reduction in tax rate	**(1,290)**	**(195)**	**125**	**69**	**(1,291)**
(Credited)/charged to other comprehensive income	**-**	**(5,643)**	**-**	**19**	**(5,624)**
Charged/(credited) to other comprehensive income					
- resulting from reduction in tax rate	**-**	**182**	**-**	**(5)**	**177**
Exchange differences	**-**	**-**	**-**	**133**	**133**
At 31 December 2016	**29,693**	**(5,503)**	**3,784**	**(173)**	**27,801**

The equalisation reserve was previously required by law and maintained in compliance with insurance companies' regulations. Transfers to this reserve were deemed to be tax deductible under legislation that applied prior to 1 January 2016 and gave rise to deferred tax. With effect from the implementation date of Solvency II, 1 January 2016, these reserves become taxable over 6 years under the transition rules set out by HM Treasury.

Notes to the financial statements

29 Deferred tax (continued)

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

	2016 Group £000	Parent £000	2015 Group £000	Parent £000
Deferred tax liabilities	**28,848**	**27,801**	34,124	33,511
Deferred tax assets	**(2,185)**	**-**	(1,674)	-
	26,663	**27,801**	32,450	33,511

The Group has unused tax losses of £22,293,000 (2015: £21,135,000) arising from life business and capital transactions, which are available for offset against future profits and can be carried forward indefinitely. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

30 Other liabilities

	2016 Group £000	Parent £000	2015 Group £000	Parent £000
Creditors arising out of direct insurance operations	**1,464**	**724**	1,277	724
Creditors arising out of reinsurance operations	**18,698**	**11,189**	24,671	17,894
Derivative liabilities	**543**	**543**	1,466	1,466
Other creditors	**20,073**	**9,514**	15,762	7,106
Amounts owed to related parties	**-**	**77**	45	556
Accruals	**20,118**	**16,442**	17,429	13,628
	60,896	**38,489**	60,650	41,374
Current	**60,562**	**38,489**	60,344	41,374
Non-current	**334**	**-**	306	-

Derivative liabilities are in respect of equity futures contracts and are detailed in note 22.

31 Commitments

Capital commitments

At the end of the current and prior year, the Group and Parent had no capital commitments.

Operating lease commitments

Amounts receivable

The Group leases premises under non-cancellable operating lease agreements. The future aggregate minimum lease rentals receivable are as follows:

	2016 Group £000	Parent £000	2015 Group £000	Parent £000
Within 1 year	**6,857**	**6,857**	5,263	5,263
Between 1 & 5 years	**24,218**	**24,218**	16,649	16,649
After 5 years	**35,620**	**35,620**	28,858	28,858
	66,695	**66,695**	50,770	50,770

Notes to the financial statements

31 Commitments (continued)

Amounts payable

The Group leases premises and equipment under non-cancellable operating lease agreements. The future aggregate minimum lease payments are as follows:

	2016		2015	
	Group £000	Parent £000	Group £000	Parent £000
Within 1 year	3,417	2,461	2,711	1,866
Between 1 & 5 years	11,725	8,885	8,481	7,806
After 5 years	4,448	3,868	5,001	4,341
	19,590	15,214	16,193	14,013
Operating lease rentals charged to profit or loss during the year	3,528	2,436	3,391	2,380

32 Related 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 the United Kingdom and copies of their financial statements are available from the registered office as shown on page 250. 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.

Related undertakings

The Company's interest in related undertakings at 31 December 2016 is as follows:

Company	Company Registration Number	Share Capital	Holding of shares by Company	Holding of shares by Group	Activity
Subsidiary undertakings					
Incorporated in the United Kingdom					
Ecclesiastical Financial Advisory Services Limited *	2046087	Ordinary	100%	-	Independent financial advisory
Ecclesiastical Life Limited *	0243111	Ordinary	100%	-	Life insurance
EdenTree Investment Management Limited *	2519319	Ordinary	100%	-	Investment management
E.I.O. Trustees Limited * ^	0941199	Ordinary	100%	-	Dormant company
South Essex Insurance Brokers Limited *	6317314	Ordinary	-	100%	Insurance agents and brokers
South Essex Insurance Holdings Limited *	6317313	Ordinary	100%	-	Investment holding company
Incorporated in Australia					
Ansvar Insurance Limited **	007216506	Ordinary	100%	-	Insurance
Ansvar Insurance Services Pty Limited ** ^	162612286	Ordinary	-	100%	Dormant company
Associated undertakings					
Incorporated in the United Kingdom					
Regis Mutual Management Limited ***	4194000	Ordinary A	26%	-	Insurance management services

* Registered office: Beaufort House, Brunswick Road, Gloucester, GL1 1JZ, United Kingdom
** Registered office: Level 5, Southbank Boulevard, Melbourne, VIC 3006, Australia
*** Registered office: 7 Maltings Place, 169 Tower Bridge Road, London, SE1 3JB, United Kingdom
^ not audited

The holding in Regis Mutual Management Limited is included within financial investments.

Notes to the financial statements

33 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not included in the Group analysis, but are included within the Parent analysis below.

The Parent related party transactions below relate to Ecclesiastical Insurance Group plc, the Group and Parent's immediate parent company. Group and Parent other related parties include the Group's pension plans, fellow subsidiary undertakings and the ultimate parent undertaking.

	Parent £000	Subsidiaries £000	Other related parties £000
2016			
Group			
Trading, investment and other income, including recharges, and amounts received	367	-	1,538
Trading, investment and other expenditure, including recharges, and amounts paid	4,000	-	902
Amounts owed by related parties	23,504	-	1,588
Parent			
Trading, investment and other income, including recharges, and amounts received	367	9,167	431
Trading, investment and other expenditure, including recharges, and amounts paid	4,000	3,789	887
Amounts owed by related parties	23,504	4,671	1,562
Amounts owed to related parties	-	77	-
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	-

During the year, the Company received premiums, commission and reinsurance recoveries via a related party insurance agency amounting to £1,031,000 (2015: £1,093,000) and paid reinsurance protection, commission and claims amounting to £902,000 (2015: £1,979,000).

Transactions and services within the Group are made on commercial terms. Amounts outstanding between Group companies are unsecured, are not subject to guarantees, and will be settled in cash. No provisions have been made in respect of these balances.

The remuneration of the directors, who are the key management personnel of the Group, is disclosed in the Group Remuneration Report in the Corporate Governance section of this report.

34 Events after the reporting period

On 27 February 2017, the Lord Chancellor and Secretary of State for Justice made an announcement in relation to decreasing the Ogden discount rate from 2.5% to -0.75%, based on a three year average of real returns on index linked gilts. A government review of the framework under which the future rate is set will also be undertaken. Courts must consider the Ogden rate when awarding compensation for future financial losses in the form of a lump sum in personal injury cases.

The Group's continuing UK Employers Liability and Public Liability portfolio of risks currently have low order sensitivity to the level of the rate due to low frequency of catastrophic injury cases, and discontinued UK Motor business is at an advanced stage of run off. The insurance contract liabilities at the balance sheet date reflect the current rate of -0.75% and uncertainties over the future rate. It is estimated that a 1% fall in the rate would increase the ultimate claims cost to the Group in the order of £1m with no adverse profit or loss impact due to uncertainty margins held.

Notes to the financial statements

35 Prior year restatement

During the year the Group made a voluntary amendment to its policy of presenting the impact of discount rate changes on insurance contract liabilities within claims and change in insurance liabilities in the consolidated statement of profit or loss, instead presenting it within net investment return. The revised presentation matches movements in insurance liabilities due to discount rate changes with movements in the assets backing the liabilities. This results in the claims and change in insurance liabilities being more relevant and comparable from year to year. There is no net impact on profit before tax or shareholders' equity as a result of this reclassification.

Under IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors,* where a new standard requires it or when a change in accounting policy is applied voluntarily, a retrospective restatement of the prior period results is required. The effects of the restatement are detailed in this note, and included throughout the financial statement comparatives, where appropriate.

Consolidated Statement of Profit or Loss
for the year ended 31 December 2015

	As reported 2015 £000	Accounting policy change General business £000	Accounting policy change Life business £000	Restated 2015 £000
Revenue				
Gross written premiums	308,199	-	-	308,199
Outward reinsurance premiums	(113,115)	-	-	(113,115)
Net change in provision for unearned premiums	4,677	-	-	4,677
Net earned premiums	199,761	-	-	199,761
Fee and commission income	53,009	-	-	53,009
Net investment return	43,228	2,360	1,882	47,470
Total revenue	295,998	2,360	1,882	300,240
Expenses				
Claims and change in insurance liabilities	(163,916)	(2,257)	(1,882)	(168,055)
Reinsurance recoveries	66,925	(103)	-	66,822
Fees, commissions and other acquisition costs	(61,202)	-	-	(61,202)
Other operating and administrative expenses	(84,099)	-	-	(84,099)
Total operating expenses	(242,292)	(2,360)	(1,882)	(246,534)
Operating profit	53,706	-	-	53,706
Finance costs	(101)	-	-	(101)
Profit before tax	53,605	-	-	53,605
Tax expense	(6,988)	-	-	(6,988)
Profit for the year (attributable to equity holders of the Parent)	46,617	-	-	46,617

In addition to the above, the comparative financial statements have been restated to reclassify £9,271,000 from cash and cash equivalents to financial investments, to better reflect the expected maturity of the cash held on deposit. There is no net impact on profit before tax, or shareholders' equity as a result of this reclassification.

The effects of the restatement are included in the consolidated and parent statement of financial position, the consolidated and parent statement of cash flows, and throughout the financial statement comparatives, where appropriate.

Notes to the financial statements

36 Reconciliation of Alternative Performance Measures

The Group uses alternative performance measures (APM) in addition to the figures which are prepared in accordance with IFRS. The financial measures included in our key performance indicators are set out on page 46: regulatory capital, combined operating ratio (COR), net expense ratio (NER) and net inflows are APM. These measures are commonly used in the industries we operate in and we believe provide useful information and enhance the understanding of our results.

Users of the accounts should be aware that similarly titled APM reported by other companies may be calculated differently. For that reason, the comparability of APM across companies might be limited.

In line with the European Securities and Markets Authority guidelines, we provide a reconciliation of the combined operating ratio and net expense ratio to its most directly reconcilable line item in the financial statements. Regulatory capital and gross inflows to funds managed by Ecclesiastical Insurance Office plc's subsidiary, EdenTree Investment Management Limited, do not have an IFRS equivalent.

2016		Insurance General £000	Insurance Life £000	Inv'mnt return £000	Inv'mnt mngt £000	Broking and Advisory £000		Corporate costs £000	Total £000
Revenue									
Gross written premiums		310,061	77	-	-	-		-	310,138
Outward reinsurance premiums		(114,041)	-	-	-	-		-	(114,041)
Net change in provision for unearned premiums		1,103	-	-	-	-		-	1,103
Net earned premiums	[1]	197,123	77	-	-	-		-	197,200
Fee and commission income	[2]	34,961	-	-	10,227	8,542		-	53,730
Other operating income		843	-	-	-	-		-	843
Net investment return		-	1,290	52,365	54	701		-	54,410
Total revenue		232,927	1,367	52,365	10,281	9,243		-	306,183
Expenses									
Claims and change in insurance liabilities		(137,689)	(1,694)	-	-	-		-	(139,383)
Reinsurance recoveries		51,164	-	-	-	-		-	51,164
Fees, commissions and other acquisition costs	[3]	(60,653)	(17)	-	(908)	260		-	(61,318)
Other operating and administrative expenses	[4]	(65,674)	(308)	(2,816)	(7,782)	(7,383)	[5]	(10,134)	(94,097)
Total operating expenses		(212,852)	(2,019)	(2,816)	(8,690)	(7,123)		(10,134)	(243,634)
Operating profit	[6]	20,075	(652)	49,549	1,591	2,120		(10,134)	62,549
Finance costs		(93)	-	-	(4)	-		-	(97)
Profit before tax		19,982	(652)	49,549	1,587	2,120		(10,134)	62,452
Underwriting profit	[6]	20,075							
Combined operating ratio		89.8%							
Net expenses (= [2] + [3] + [4] + [5])	[7]	(101,500)							
Net expense ratio		51%							

The underwriting profit of the Group is defined as the operating profit of the general insurance business.

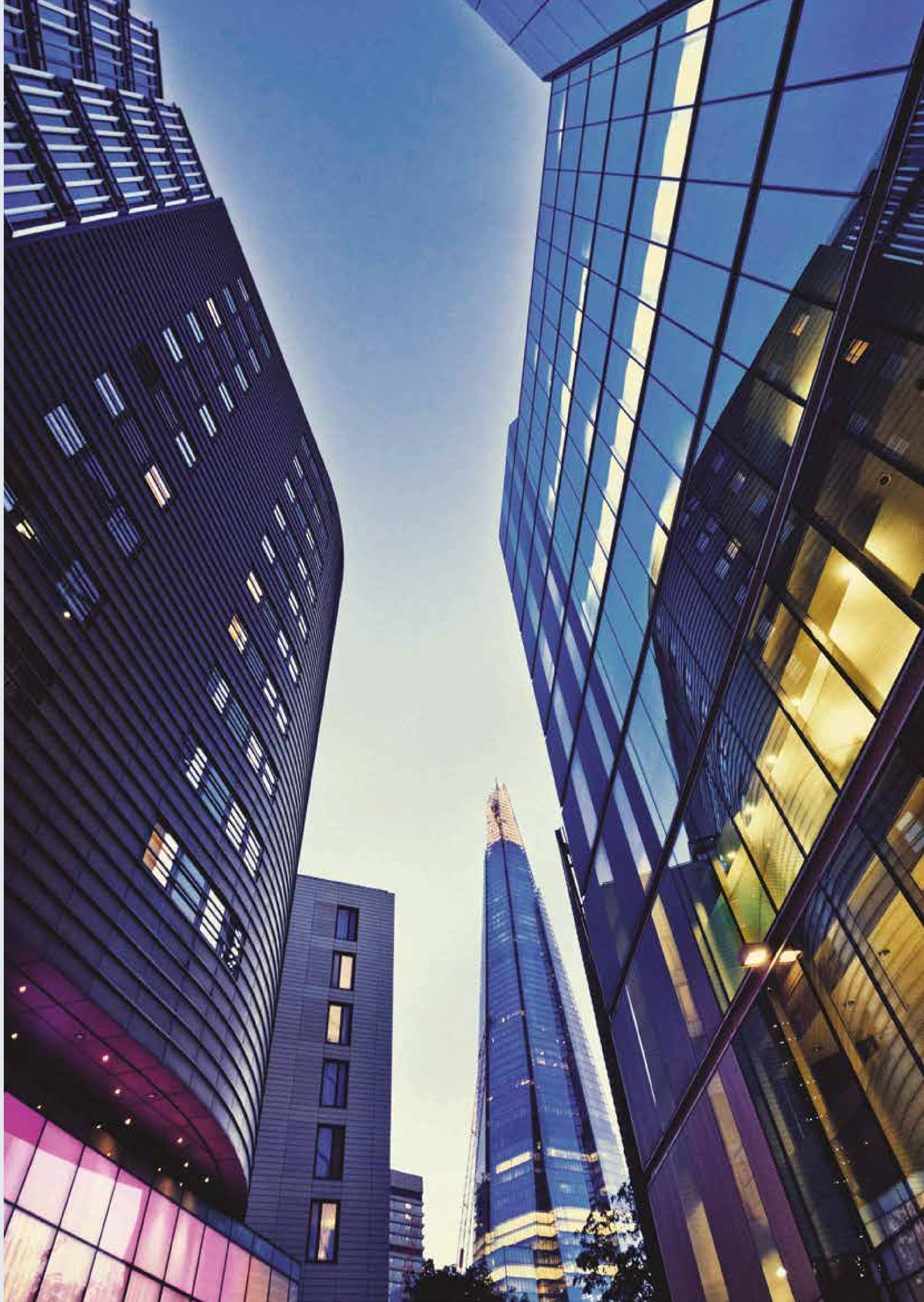
The Group uses the industry standard net combined operating ratio as a measure of underwriting efficiency. The COR expresses the total of net claims costs, commission and underwriting expenses as a percentage of net earned premiums. It is calculated as ([1] - [6]) / [1].

The net expense ratio expresses total underwriting and corporate expenses as a proportion of net earned premiums. It is calculated as - [7] / [1].

Notes to the financial statements

36 Reconciliation of Alternative Performance Measures (continued)

		2015						
		Insurance		Inv'mnt return	Inv'mnt mngt	Broking and Advisory	Corporate costs	Total
		General £000	Life £000	£000	£000	£000	£000	£000
Revenue								
Gross written premiums		308,086	113	-	-	-	-	308,199
Outward reinsurance premiums		(113,115)	-	-	-	-	-	(113,115)
Net change in provision for unearned premiums		4,677	-	-	-	-	-	4,677
Net earned premiums	[1]	199,648	113	-	-	-	-	199,761
Fee and commission income	[2]	32,030	-	-	11,394	9,585	-	53,009
Net investment return		-	1,025	45,772	27	646	-	47,470
Total revenue		231,678	1,138	45,772	11,421	10,231	-	300,240
Expenses								
Claims and change in insurance liabilities		(168,173)	118	-	-	-	-	(168,055)
Reinsurance recoveries		66,822	-	-	-	-	-	66,822
Fees, commissions and other acquisition costs	[3]	(59,848)	(19)	-	(974)	(361)	-	(61,202)
Other operating and administrative expenses	[4]	(56,946)	(236)	(3,005)	(8,635)	(7,936)	[5] (7,341)	(84,099)
Total operating expenses		(218,145)	(137)	(3,005)	(9,609)	(8,297)	(7,341)	(246,534)
Operating profit	[6]	13,533	1,001	42,767	1,812	1,934	(7,341)	53,706
Finance costs		(101)	-	-	-	-	-	(101)
Profit before tax		13,432	1,001	42,767	1,812	1,934	(7,341)	53,605
Underwriting profit	[6]	13,533						
Combined operating ratio		93.2%						
Net expenses (= [2] + [3] + [4] + [5])	[7]	(92,105)						
Net expense ratio		46%						



Section Five

Other Information

Directors, executive management and company information

Directors	* E. G. Creasy MA, MBA, FCII *Chairman* * J. F. Hylands FFA *Deputy Chairman and Senior Independent Director* I. G. Campbell BSc (Econ) (Hons), ACA *Group Chief Financial Officer* * T. J. Carroll BA, MBA, FCII * R.D.C. Henderson FCA M. C. J. Hews BSc (Hons), FIA *Group Chief Executive* * 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 Very Reverend C. L. Wilson * D. P. Wilson BA (Hons), FCII
Group Management Board	I. G. Campbell BSc (Econ) (Hons), ACA *Group Chief Financial Officer* R. Cox FCII, DMS M. C. J. Hews BSc (Hons), FIA Group Chief Executive N. M. Louth-Davies MA D. R. Moore BA (Hons), MBA J. Schofield CFIIA C. M. Taplin BSc (Hons), MSc, MBA A. J. Titchener LLB (Hons) S. J. Whyte MC Inst. M, ACII Deputy Group Chief Executive
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 Gowling WLG (UK) LLP London Harrison Clark Rickerbys LLP Cheltenham Matheson Dublin McDowell Purcell Solicitors Dublin Pinsent Masons LLP Birmingham

* Non-Executive Directors

Directors, executive management and company information

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:	12th Floor Alpha Tower Suffolk Street Queensway Birmingham B1 1TT
	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:	R. Lane TD, BA, FCII, MCMI, MCGI
	Office:	Ansvar House St. Leonards Road Eastbourne, East Sussex BN21 3UR
	Tel:	0345 60 20 999
Canada Branch	Deputy Group Chief Executive, Ecclesiastical Insurance and General Manager and Chief Agent:	S. J. Whyte MC Inst M, ACII
	Chief Office:	20 Eglinton Avenue West, Suite 2200 P.O. Box 2004 Toronto, Ontario M4R 1K8
- **Eastern Region:**	Interim Regional Vice President:	S. A. Venturini 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:**	Interim Regional Vice President:	E. M. Mak BA, BSc, FCIP Suite 1713, Three Bentall Centre 595 Burrard Street, Box 49096 Vancouver, British Columbia V7X 1G4
- **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:	D. G. Lane B.Comm (Hons), Certified Insurance Director
	Office:	2nd Floor, Block F2 Eastpoint Dublin 3, DO3 T6P8

Insurance subsidiaries and agencies

Ansvar Insurance Limited	Chief Executive Officer:	W. R. Hutcheon MBA, GCM, Graduate AICD, Fellow ANZIIF (CIP)
	Head Office:	Level 5 1 Southbank Boulevard Southbank Melbourne VIC 3006
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 of meeting

NOTICE is hereby given that the Annual General Meeting of Ecclesiastical Insurance Office plc will be held at Beaufort House, Brunswick Road, Gloucester, GL1 1JZ on Thursday, 15 June 2017 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 2016 and the report of the auditors 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 Very Revd C. L. Wilson as a director.*
10. To re-elect Ms D. P. Wilson as a director.*
11. To elect Mr D. Henderson as a director.*
12. To consider the declaration of a dividend.
13. To re-appoint Deloitte LLP as auditors and authorise the directors to fix their remuneration.

By order of the Board

Mrs R. J. Hall, Secretary
23 March 2017

* Brief biographies of the directors seeking election or re-election are shown on pages 112 and 113 of the 2016 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.

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Annual Report & Accounts 2016
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