Ecclesiastical
Annual Report
& Accounts
2017

Building a movement for good.

A good head and a good heart are always a formidable combination.

Nelson Mandela

A clear head and a warm heart. It's what shapes the way we do business.

Ecclesiastical is a commercial business owned by a charity and with a purely charitable purpose.

This sets us apart from others.

We've never been afraid to stand up for what we believe in. Even if that means doing things differently from everyone else.

Building a movement for good.

It’s easy to stand with the crowd.
It takes courage to stand alone.

Mahatma Gandhi

**My religion is very simple.
My religion is kindness.**

Dalai Lama

For it is in giving that we receive.

Francis of Assisi

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Section One

About Us

We exist to contribute to the greater good of society.

We do this by managing a successful, ethically run portfolio of businesses. And by giving a significant proportion of our profits to our owner, Allchurches Trust, which donates independently to deserving causes.

We're committed to doing the right thing for our customers and to delivering growing financial returns to our owner.

So they can continue with their good work, helping improve people's lives.

These strongly held beliefs, together with deep expertise in our chosen markets, give us a competitive edge.

And have helped us deliver impressive returns. So, by daring to be different – and working in a way that's good, not just a little less bad – everyone benefits.

Building a movement for good.

Ecclesiastical at a glance

Who we are

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

No.1
insurer for charitable giving in the UK

One of the UK's top five corporate donors to charity*

* Directory of Social Change UK Guide to Company Giving 2017-18

Insurance Company of the Year
UK's Better Society Awards in 2017 & 2016

33%
of pre-tax profit to good causes

£45m
to charity against our target of £100m by 2020

£2.7bn
Funds under management

£0.59bn
Net assets

What we do

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

£305bn
of property insured worldwide

Award-winning ethical investment
Moneyfacts 'Best Ethical Investment Provider' for ninth successive year (2009 to 2017)

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

Leading insurer for the Anglican church
in all our territories

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

Gold standard home insurance
Awarded 1st place Gold Ribbon by Fairer Finance as most trusted provider of UK home insurance

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

Main insurer of the UK's Grade 1 listed buildings

Trusted to do the right thing

97%–99%

UK overall customer satisfaction

Across all the sectors we measure

One of fewer than 30 insurers to achieve CII Chartered Status

Awarded to both UK and Ireland insurance operations

Chartered Insurers

98%

of our UK customers satisfied with how their claim is handled

98% in UK
100% in Ireland

97%

of key brokers satisfied with our service

97% of top 250 brokers in UK
92% in Ireland

Recognised by UK brokers as the best insurer in the charity, commercial heritage, education and faith sectors*

* Independent survey by FWD

Making a difference

CommunityMark
BUSINESS IN THE COMMUNITY

CommunityMark status

Our UK business is one of only 34 companies to hold the Business in the Community (BITC) CommunityMark

£27.5m

given to charity in 2017

£26m to our charitable owner and £1.5m Ecclesiastical Group giving

60%+

of our employees volunteer

£100,000

Closer to You grants to brokers to give to charities close to their hearts

Gold Standard for Payroll Giving

We match 100% of what our employees give to charity

A different kind of business

CANADA'S TOP EMPLOYERS FOR YOUNG PEOPLE 2017

Best for developing young people

Canada recognised as Top 100 Employer for Young People for the fifth consecutive year

85%

Staff survey employee engagement score

88% are "Proud to work for my company" (8% above the finance industry average)

Leading the way for Health and Safety

First insurer to register commitment to Health and Safety Executive (HSE) 'Helping Great Britain Work Well' strategy

Living Wage accredited

We are a Living Wage Employer

A UK Living Wage employer

Founding signatory of the Women in Finance Charter

Our financial performance

£82m

profit before tax, + 31.6% from 2016

86.9%

combined operating ratio, improved by 2.9pp*

£27.1m

underwriting result

(£20.1m in previous year)*

* Alternative performance measure, refer to note 33 to the financial statements for further explanation.

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 Financial Services 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)


Image courtesy of Storah Architecture Ltd

Ecclesiastical UK
Rededication of St Michael's, Mytholmroyd

On Boxing Day 2015 Cumbria suffered one of its worst floods on record. Thousands of people were displaced and hundreds of buildings, including 30 churches, were devastated following a series of severe storms which hit the country during December.

Among them was the Grade II listed St Michael's, Mytholmroyd. The entire ground floor, including tiles, pews and historic organ, were extensively damaged along with the church hall and adjacent bowling club. It was a major blow to the church and the local community, with many groups using the church and its hall.

Repairing the damage was a major and complex undertaking due to the age and structure of the building and the types of construction materials used. Ecclesiastical worked closely to support the church, sharing its specialist expertise of historic buildings. This was particularly important during the initial stages of drying and decontamination as water and silt had penetrated several layers of flooring.

The restoration of the church took almost two years to complete, including internal renovations and rebuilding the church organ. It was rededicated at a special service led by the Archbishop of York, John Sentamu, on 5 November 2017.

"Having seen the terrible destruction which the Boxing Day floods caused to St Michael's church, Mytholmroyd, I didn't know what to expect when I went to rededicate the church on 5 November this year. I was bowled over by what I saw – a magnificent restoration of the church, made possible by Ecclesiastical's specialist expertise and deep understanding of churches and the communities they serve and working in a sensitive partnership with the clergy and congregation of St Michael's church. A truly fantabulous result."

John Sentamu
Archbishop of York

"It was such a long haul to get to the day when we can return to worship in our church building. Ecclesiastical Insurance were amazing, going above and beyond what might have been hoped for. On behalf of everyone who uses and loves our buildings, thank you."

Eric Alston
Church Warden at St Michael's, Mytholmroyd

Building a movement for good.

Section Two

Strategic Report

Chairman's Statement

The journey continues

2017 saw the Group benefit further from its drive for sustainable, profitable growth. I am pleased to report increased profits for the third successive year at £82.2m (2016: £62.5m), underpinned by strong investment returns, GWP growth across our territories and good underwriting profit.

The profits we made in 2017 enabled us to pay £26m to our charitable owner Allchurches Trust and £1.5m through our own giving programme, meaning we have given £45.2m since setting our new target in 2016 of giving £100m to charity by 2020.

The Group's pleasing and consistent financial performance reflects the continued progress of our strengthened management team in harnessing the Group's core strengths – our deep understanding of our customers' needs, the properties we insure and our specialist markets.

Specialism is our strength

We are a specialist financial services group with a diversified portfolio of insurance, investment management, broking and advisory businesses. Our aim is to be the most expert, ethical and trusted player in all our chosen markets, providing our customers with the specialist products and services they prize.

Feedback from our customers and partners confirms that we are recognised as one of the few true specialists in the markets we serve.

We do not seek to compete in terms of scale with the large generalist players in our chosen markets. With trust in financial services remaining low, our focus instead remains on exceeding our customers' service expectations and differentiating ourselves through our responsible approach to business.

We believe firmly that this approach helps us to stand out in an increasingly competitive and homogenised market.

As chairman, I have become keenly aware of the high levels of recognition our brand enjoys and the positive, often affectionate feedback we receive from those who have dealt with us. This is a strong indication of the significant influence and reach of our business into its communities, both through our work supporting customers and business partners and also our charitable endeavours within those communities.

Governance

The financial services sector continues to respond to regulatory changes. In 2017 our Group gave considerable and sustained management focus to preparing for our Internal Model application to the Prudential Regulation Authority, with emphasis not only on the technical elements of the application but also on enhancing management systems to control and manage risk.

Board developments

During the year there were a number of important changes to the Board. In March 2017 we announced that chairman Edward Creasy was stepping down. I would like to thank Edward for the wide-ranging and considerable contribution he made to the Ecclesiastical Insurance Group, firstly as chairman of our insurance broker Lycetts and latterly as chairman of the Ecclesiastical Insurance Office Group Board.

In April we welcomed Andrew McIntyre, who brings his extensive experience of financial services to the Board, while in September the Board was further strengthened by the appointment of Chris Moulder, former director of general insurance at the Prudential Regulation Authority.

I would like to take this opportunity to thank all my fellow directors for their expertise and support during a busy year.

Our people

I never cease to be impressed with the motivation and desire of our people to serve customers better and make the business better, and their firm alignment to the Group's charitable purpose. They also deserve the Board's thanks and congratulations for the successes of 2017 and the continued upward trajectory of the business.

It is important to us that we support and invest continuously in our employees, whose specialist skills and knowledge are our biggest asset. To this end, in 2017 we launched a new leadership development programme for leaders across our Group, while continuing to develop our ongoing programme of training courses.

To support our established Diversity Policy, in 2017 we undertook a number of initiatives including the production of our first diversity report, online training for all employees on unconscious bias, specific training for recruiting managers and the publication of our gender pay gap statistics.

Looking to the future

In 2018 and beyond, we will continue to focus on creating competitive advantage from our position as a trusted specialist in our chosen markets and through our responsible approach to doing business.

We will also, thanks to a number of years of profitable growth, take the opportunity to invest in our business, with particular emphasis on improving our technology and infrastructure as well as on delivering the second phase of our change programme.

With committed and motivated teams across the Group, we are well placed to continue punching well above our weight in the markets and communities in which we operate.

John Hylands
Chairman

Ecclesiastical UK
Insuring the moon

Not many insurers can say they insure part of the moon. But as insurer of the National Space Centre in Leicester, it's a claim that we can proudly justify. As the only dedicated facility for space science and astronomy in the UK, the National Space Centre is a truly unique building, providing resources for education and research and an internationally recognised exhibition venue.

Built in 2001, the building evokes the wonders of space, with the main visitor centre wrapped in a perforated metal shell, and overlooked by its soaring rocket tower. Standing 42m high and clad in plastic 'pillows', the tower contains the Blue Streak and Thor Able rockets, built in the early pioneering days of space exploration. Alongside the rockets, the space centre houses a unique collection of artefacts relating to space discovery – including moon rocks from the last moon landing.

Ecclesiastical's expertise in insuring some of the UK's most irreplaceable items made us the ideal insurer for the centre. Having previously insured the centre, we worked hard to win the business back when the policy came up again, developing a strategic relationship with the broker Berkeley Insurance Group, and working with the centre to understand their specific needs. Our specialist knowledge in risk management and understanding of the fine art exposures were key factors in the space centre's decision to choose Ecclesiastical.

"When broking a risk like the National Space Centre we have to be incredibly particular about the insurer we choose to work with. Not only do we need the confidence that they understand the uniqueness of the exposures – but also the relationship between ourselves and the client. With such a high profile and complex risk, we are only going to do that with an insurance partner we really trust."

Tim Maxted
CEO, Berkeley Insurance Group

Building a movement for good.

Chief Executive's Report

Doing business differently

In the world of financial services, Ecclesiastical treads a different path. For us, charitable giving is not something we do as part of our corporate responsibility programme, or something we do to meet our reporting obligations. Instead, it's the very reason we exist.

This is because, unlike others in our sector, our sole purpose is to contribute to the greater good of society. A significant proportion of our profits are channelled towards funding good causes, through independent grants from our charitable owner or our own considerable donations to the communities we serve.

This very different purpose means we are able to do business in a very different way.

Yes, we work hard to be successful, so our growing profits can be used to help even more people who find themselves in need.

But we also strive to be the most trusted and caring business in our chosen markets. A business that supports its customers not just by giving them first-class service and products, but by prioritising their needs should the worst happen.

We are, together, demonstrating that the way Ecclesiastical does business is a powerful movement for good – a 'beacon of light' that I hope others will follow.

Our approach is shaped by our charitable purpose. 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 driven by building a sustainable, ethical, values-driven business over the longer term, providing insurance that you can believe in rather than cheap insurance that may not provide the cover you expected at your time of need.

It is for this reason that for 130 years, we have been trusted to protect so much of the heritage and history in the countries where we operate, insuring as we do palaces and castles, World Heritage sites, museums, treasure houses, independent schools and cherished faith buildings – including the majority of the UK's Grade I listed buildings.

Society demands more

Today's consumers and employees are demanding higher standards and increased responsibility from businesses, led by millennials – 'the most socially responsible generation that ever existed'[1].

This trend is evidenced by international surveys showing that a third of consumers are now choosing to buy from brands they believe are doing social or environmental good[2] and 73% of millennials are prepared to pay more for products from such brands[3]. Furthermore, 67% of global consumers want to work for companies that are giving back to society[4].

As businesses debate how best to secure the trust of such consumers, I believe it has never been more important for companies such as ours to demonstrate that it is possible to be commercially successful while fulfilling a charitable purpose, so that others may consider doing business differently.

[1] Who Cares Wins: Why Good Business Is Better Business, David Jones, 2011
[2] Europanel/Flamingo/Unilever, January 2017
[3] The Sustainability Imperative, Nielsen Report 2015
[4] Global Shopper survey, Nielsen Q1 2015

Our profits change lives and benefit society

I am delighted to report that in 2017 we again delivered strongly against our charitable purpose, with a pre-tax profit of £82.2m compared with £62.5m in 2016 and GWP growth of 11% to £343m.

These excellent results enabled us to make donations of £27.5m during the year, meaning that we have now given £45.2m of the £100m target we set ourselves in April 2016. In doing so, we have supported around 2,750 charities worldwide, helping to improve the lives of many thousands of people. Thanks to the considerable sums we give every year, we are now ranked as the UK's fourth largest UK corporate donor by value, alongside major international companies[5].

However, looking at our charitable donations as a percentage of our profit, we stand alone. The rankings show that we give over 30% of our profits to charity[5].

Of course this is about so much more than financial metrics; the thousands of good causes we have supported since we set our new target are wide ranging and touch lives in moving ways. They range from charities supporting children who have been bereaved of their parents, through to hospices that provide so much care to loved ones in their final days.

They range from charities supporting vulnerable people like the homeless, or those suffering from addiction problems with alcohol or drugs, through to parish churches setting themselves up as a community hub in deprived areas. They include charities that support people whose lives have been destroyed by natural catastrophes all over the world. Reviewing the long list of charities supported and the thousands of thank-you letters received is a humbling and uplifting experience.

Clearly, our charitable purpose is a powerful force for good.

It is also a powerful motivator. The fact that our profits change lives makes our people look at their work in a different way. It motivates them to be even better at what they do and to go above and beyond for our customers. And because we give them the opportunity to contribute directly to the causes closest to their hearts, it motivates them to do good in our communities. With our employees committed to the Company's charitable goals[6], it is no surprise that our employees' engagement reached a record high in 2017[6].

A trusted business

Lack of trust in institutions and businesses has become a pervading social theme, and every year the leading global trust survey shows that financial services remains the least trusted industry in the world[7].

Yet every year, independent surveys show that our own customers and business partners continue to put their trust in Ecclesiastical – a remarkable achievement in today's climate of mistrust.

For the 11th consecutive year, we were recognised by UK brokers as the best insurer in the charity, heritage and education sectors, as well as in the faith sector where we measured broker sentiment for the first time.

Our UK customer satisfaction levels remained exceptionally high at 97-99% across all sectors, while 98% of customers were satisfied with how we handled their claim. I am proud to report that we again received many external accolades for the way we do business. For the second year running, we were named Insurance Company of the Year by the UK's Better Society Awards and ranked by UK customers as the Fairer Finance most trusted home insurance provider for the fourth consecutive time. In the UK our chartered status was renewed, making us one of only five composite UK insurers to hold this prestigious status.

EdenTree, our investment management business, was named Moneyfacts Best Ethical Investment Provider for an extraordinary ninth year in a row, while our Canadian insurance business was recognised as a Top Employer for Young People for the fifth consecutive year.

One of the most inspiring parts of my job is receiving written and verbal thanks for the outstanding work and compassion shown by our exceptional people. This year it gladdened us all to be described as 'fantabulous' for the very first time, by the Archbishop of York John Sentamu for the restoration of a rural church which is featured on pages 12-13 of this report.

We do not take the trust placed in us for granted and work hard to remain 'fantabulous' in the eyes of our customers. In striving to do this, we will continue to put their needs first as befits a values-driven business.

Progress in detail

2017 marked a fourth year of robust financial performance, testimony to the focus on achieving sustainable, profitable long-term growth that has underpinned our turnaround.

In 2017 we benefited from exceptional investment returns driven by stable

We achieved a pre-tax profit of £82.2m compared with £62.5m in 2016 and GWP growth of 11% to £343m. Our underwriting profit increased to £27.1m from £20.1m the previous year, resulting in a Group combined operating ratio of 86.9% compared with 89.8% during 2016.

investment income and double-digit returns on equities as stock markets rose, due to the low value of sterling and strong growth in the world economy. These returns reflect our long-term strategy of holding a relatively high proportion of higher risk assets, which we believe will continue to deliver strong returns over the long term while our capital strength allows us to withstand short-term market volatility such as that seen at the beginning of 2018.

We seek to mitigate our exposure to risk by holding a balanced portfolio of businesses and saw the benefit of this in our insurance business as significant natural events including winter storms, floods and wildfires in Canada were offset by benign weather conditions in other territories.

In the UK and Ireland GWP grew by 5% with positive contributions from most sectors. We achieved a £33m underwriting profit compared with £25m in 2016. This was driven by an exceptionally low level of weather claims for the second time in three years and a large reduction in case reserves as older claims continue to close, coupled with an associated release of IBNR reserves. This exceptional underwriting performance is unlikely to be sustained into the future, underpinned as it is by a confluence of favourable factors on our property and liability accounts.

We continued to monitor and consult on the shape of our defined benefit pension scheme and any potential long-term risks it may present.

[5] 2016-17 UK Guide to Company Giving
[6] Ecclesiastical employee survey, November 2017
[7] Edelman Trust Barometer 2017

The Canadian and Australian insurance businesses delivered GWP growth of 6% and 26% respectively in local currency. Canada experienced an underwriting loss of £7.2m due to a number of large property claims and reserve strengthening in relation to physical and sexual abuse claims, while Australia's underwriting profit of £0.7m was driven by strong revenue growth and reserve releases on the liability account.

EdenTree, our investment management business, saw profits increase from £1.6m in 2016 to £1.7m, benefiting from higher fee income due to higher fund valuations as assets performed strongly, and supported by strong levels of net new money from both retail and institutional clients. These factors saw funds under management increase to £2.7bn from £2.5bn the previous year. The company also launched its new Amity Short Dated Bond Fund during the year.

SEIB, our insurance brokerage, enjoyed moderate growth, increasing profit to £2.5m from £2.4m in 2016. It reinforced its reputation as a provider of specialist insurance that meets customers' changing needs, with new and refreshed products for the equine, small pets, vineyards, and funeral director sectors.

Looking forward to 2020

We look forward to 2020 with optimism and confidence, having achieved so much in the last four years.

Our consistently strong financial performance is enabling us to invest significantly in the future of our business. In 2016, having reached our goal of giving £50m to good causes over three years, we launched the second phase of our change programme to support a new target of giving £100m by 2020.

This programme is designed to position us for further profitable growth in our existing markets, both organic and inorganic, and to develop new market segments which capitalise on our existing specialisms and knowledge.

I am pleased to report that we have made considerable progress, with over 90% of the programme's 2017 deliverables attained and many others in train.

We are also strengthening technology and systems across the Group. Having upgraded our IT platforms in Canada, streamlined EdenTree's front-end operations and embarked on a project to integrate the systems of our broker businesses, we are now investing in a new core operating system for our UK and Ireland general insurance business. This will improve processes for front-line staff, provide a platform for business growth and better serve our customers and partners.

The changes effected in our Group have been made by exceptional, reshaped teams in our businesses worldwide. We are committed to ongoing investment in developing their specialist knowledge and expertise, so we can continue to anticipate and meet our customers' changing needs.

In 2018, the UK's Independent Inquiry into Child Sexual Abuse (IICSA) will continue to scrutinise institutions in England and Wales. We will provide information and expertise as required by IICSA and will refresh our industry-leading guiding principles on handling abuse claims, principles that have been received so positively by a number of audiences, including lawyers representing abuse survivors. We encourage other insurers to follow suit in the interests of the abuse survivors.

We will maintain our prudent reserving strategy for potential claims of physical and sexual abuse against our policyholders.

Our financial strength, robust reinsurance programme and hedged investment portfolio see us not only well positioned to withstand the uncertainty of insurance and investment markets, but also to capitalise on the opportunities that such events may present.

We expect the insurance market to remain extremely competitive in most of our sectors. However, our consistent results demonstrate that we are able to overcome such challenges successfully, thanks to our specialist focus, exceptional service and trusted status.

Working together in a movement for good

This is our 130th year and over the past three decades the amount we have given to charity exceeds £220m. Quite something for a small financial services group of around 1,200 people.

For this, I say a heartfelt thank you.

Thank you to our customers and our business partners for trusting us to protect the places and things that are irreplaceable to those who own and care for them. Thank you to our employees, for working so exceptionally hard every day to do the best for our customers.

And thank you to people across all those groups who have volunteered, raised money and nominated charities for us to support on their behalf.

We are, together, demonstrating that the way Ecclesiastical does business is a powerful movement for good – a 'beacon of light' that I hope others will follow. In 2018 we wish to build on this success and increase our momentum. We are clear in our vision and sure in our purpose. We have record financial strength, an ambitious group-wide transformation programme well on track, and we have a high-performing, aligned team, with strong ethics and values running through their bloodstream working hard to make a difference.

On behalf of so many beneficiaries and customers worldwide, we thank all our supporters. Whether we realise it in the cut and thrust of our day-to-day lives or not, there is no doubt that we are working together in a movement for good, touching and transforming lives in our villages, in our towns, in our communities, in this country and abroad. Because that is what we exist to do.

Mark Hews
Group Chief Executive

Image courtesy of the Art Gallery of Alberta

Ecclesiastical Canada
Protecting Canada's heritage

2017 was a landmark year for Ecclesiastical as we celebrated 130 years in business. It was also a significant milestone for our Canadian business, which celebrated its 45th birthday, and the 10th anniversary of a very special relationship – our partnership with the Canadian Museums Association (CMA).

The CMA is responsible for the advancement of the Canadian museum sector, representing Canadian museum professionals both within Canada and internationally. Its 2,000 members range from large metropolitan galleries, such as the sleek steel and glass Art Gallery of Alberta, to small community museums, many of which are housed in older buildings.

One of the core values of our Canadian business is to provide specialist insurance solutions and services designed to protect and preserve Canada's distinct communities, cultures and heritage. These values are shared by the CMA and so when it came to finding a specialist insurance partner to help develop the Association's group insurance programme – the only known group insurance plan offered for museums in the world – Ecclesiastical was a clear choice. Since then, the programme has more than doubled in size and now includes many of the landmark museums across the country.

Ten years on and our relationship with the CMA has gone from strength to strength. By working closely together, we have helped the CMA improve its coverage, reduce premiums and helped the museum community better manage its risks, including our staff offering training for museum workers.

We also support the Association through our sponsorship of the Governor General's History Award for Excellence in Museums: History Alive! Award, which recognises individuals or institutions that have made remarkable contributions to a better knowledge of Canadian history.

"We discovered Ecclesiastical Insurance 10 years ago and they have become one of the primary insurers for our large group plan for the museums in Canada. We are extremely satisfied with Ecclesiastical's work, their openness, their friendliness as well as the coverage they provide. Ecclesiastical has generously supported us by being the named sponsor to our History Alive! Award presented annually by the Governor General of Canada at a gala ceremony at Rideau Hall in Ottawa. We are honoured to work with such a trusted and respected partner, whose origins and charitable values relate so closely to our own."

John G. McAvity
Executive Director and CEO
Canadian Museums Association

Building a movement for good.

Global trends in financial services

As part of our everyday business management, we monitor a number of global trends that we believe have the potential to impact our business in the future. Our insight into these trends is shown over the next few pages and our response to these trends is demonstrated within Strategy in action:

Trend	Our perspective
Regulation	Regulators have continued to focus on capital strength, transparency and governance It is essential for businesses to focus on their customers to ensure a successful response to regulatory needs. Financial services organisations need to continue investment in their businesses, processes, systems and culture to support their efforts to meet customers' evolving needs Regulatory scrutiny continues on financial services across the value chain. 2018 sees the introduction of new EU regulation including the Markets in Financial Instruments Directive (MiFiD II), General Data Protection Regulations (GDPR), the Insurance Distribution Directive and the Senior Insurance Managers' Regime (SIMR). All our businesses have been considering the impact of the updated regulatory environment as shown in Strategy in action (page 37) including EdenTree's preparations for the January 2018 effective date for the MiFiD II regulations Further regulatory developments are anticipated, with considerable focus on asset management due to the UK's exceptionally strong global position and the £6.9 trillion marketplace
Changing demographic and social trends; increased customer expectations	Over the past decade, demographics have changed with social profiles changing across our key markets and territories. In much of the developed world, populations are ageing – leading to a fall in the working population. This creates expectations of increased participation in the workforce, alongside higher levels of immigration, delayed retirement and increased productivity arising from progress in digital technology The above-mentioned migration is likely to lead to greater ethnic diversity which in turn will provide new opportunities for businesses, particularly those operating in faith markets. Ecclesiastical insures a wide variety of faith risks including Muslim, Hindu and Jewish places of worship, attracting and retaining prestigious customers across its territories, as shown in Strategy in action (page 37) Over a similar time period, the pace of change (particularly in technology) has been significant. This is an important factor in the increased expectations of customers and business partners, who are more assertive, expecting enhanced levels of service and tailored propositions that meet their specific needs. In 2017 Ecclesiastical entered the UK e-trading channel with tailored charity products, reflecting its understanding of its customers' needs Increased standards in public life are influencing expectations from businesses with customers and business partners actively seeking proven ethical and trusted providers. Young people have become more marginalised in terms of financial services provision, but they are showing strong appetite for ethical employers and businesses

Trend	Our perspective
Developments in technology, data and analytics	Today's insurers are rapidly moving towards digitalisation and now depend on innovation to introduce products faster, improve efficiency and provide a superior customer service. As technology evolves, data is becoming more accessible leading to smarter insights into customer behaviour and risk assessment In insurance, data insights are underpinning new pricing models that are creating superior insights and significantly enhance risk selection. This leads to improved underwriting performance as a result of improved offerings and a better experience for customers. A deeper understanding of customer behaviour is also being sought by businesses across the financial services sector in order to build desirable value propositions to increase their competitive advantage Across the sector, investment continues in underlying systems and technology to increase operational efficiency and agility. Cyber security is of paramount importance as the threat of a cyber-attack has become a business-as-usual risk across all industries. The Global Risks Report from the World Economic Forum shows that cyber-attacks are increasing in relevance and urgency with the potential to have far-reaching implications. May 2018 will see the introduction of the General Data Protection Regulations (GDPR) across Europe which will introduce a 21st century approach to data protection Disruptive innovation from non-traditional sources is having an impact on financial services, from challenger banks through to payment systems. Artificial Intelligence (AI) has the potential to be a significant disruptor across financial services; Lemonade (a USA-based start-up) uses AI-driven chatbots to perform full-cycle insurance transactions and settle its claims. Businesses need to consider how to respond to the challenges posed by disruptive innovation These developments in technology are also being applied by businesses to obtain deeper insights into their property portfolios and to allow a move into a more preventative mindset. Examples include installation of sensors to monitor and identify changes in environmental and physical conditions (such as water leakage) and the use of cameras to perform a thermal analysis of the building Ecclesiastical continues to address these changing dynamics in technology, data and analytics. Both thermal imaging and unmanned aerial vehicles are tools at the disposal of our Risk Management teams. As shown in Strategy in action (page 37), in 2017 Cyber products were launched in Canada and Australia after the successful launch of these products in the UK during the previous year

Trend	Our perspective
Low trust in financial services	Trust remains fragile in financial services. According to the Edelman Trust Barometer, just 54% trust the financial services sector, compared with the technology sector which is trusted by 74% While levels of trust in financial services have improved by 11% over the past five years, globally it remains the least trusted sector. While this upwards trend demonstrates progress, financial services businesses must focus on creating trust with their stakeholders. There is a clear opportunity for ethical and trusted businesses who can demonstrate a proven track record in upholding high standards Ecclesiastical has a distinct positioning reflected by 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 investment management business EdenTree has a market-leading reputation as both an ethical investment provider and as an ethical investor, winning Best Ethical Investment Provider for the ninth consecutive year (as shown in Strategy in action, (page 37)
Climate change	The world's climate has changed over the past decade, with average temperatures rising by just over one degree. Potentially, this will lead to less predictable and more extreme weather events. This is likely to result in a greater concentration of insurance losses and will require changes in the way risk is evaluated and managed The Global Risks Report from the World Economic Forum identifies the combination of climate change and extreme weather events as a significant global risk, with further challenges posed by natural disasters and lack of climate change mitigation. As a socially responsible investor, EdenTree has commissioned carbon risk footprints for our equity funds. As shown in Strategy in action (page 37), all our funds have portfolio carbon footprints below the required thresholds Despite the withdrawal of the USA from the Paris Climate Accord, political commitments continue from governments to combat climate change in order to limit global warming to under two degrees Celsius Primary fossil fuels such as coal are under considerable economic pressure as the cost of renewable energy is falling sharply. Progress has been made with increased adoption of renewables – in 2017 the UK achieved several days where more energy was derived from renewables than fossil fuels

Trend	Our perspective
Geopolitical landscape	The geopolitical landscape remains volatile and uncertain. There is significant political ambiguity as evidenced by the stalled outcome of the Italian elections, and the time it has taken to build a Grand Coalition in Germany. Growing resistance to Brussels from eastern Europe with challenges by some countries to the European Union's touchstone values remains febrile This ambiguity is compounded by continuing uncertainty over Britain's exit from the European Union led by a minority UK Government. Furthermore, policies from the US administration are creating ripples of uncertainty across the geopolitical landscape, including the prospect of a trade war This uncertainty has led to lower levels of investment, particularly in Europe and the United States due to uncertainty about political stability and potential changes in policy. All our businesses continue to monitor the global landscape to understand the potential impact of the uncertainty

EdenTree
Innovation in responsible investing

Sustainable and responsible investing continues to be a growth area and EdenTree has been at the forefront of the industry for over 30 years. Our experience and expertise in the field enables us to identify opportunities for growth and lead the way in innovation.

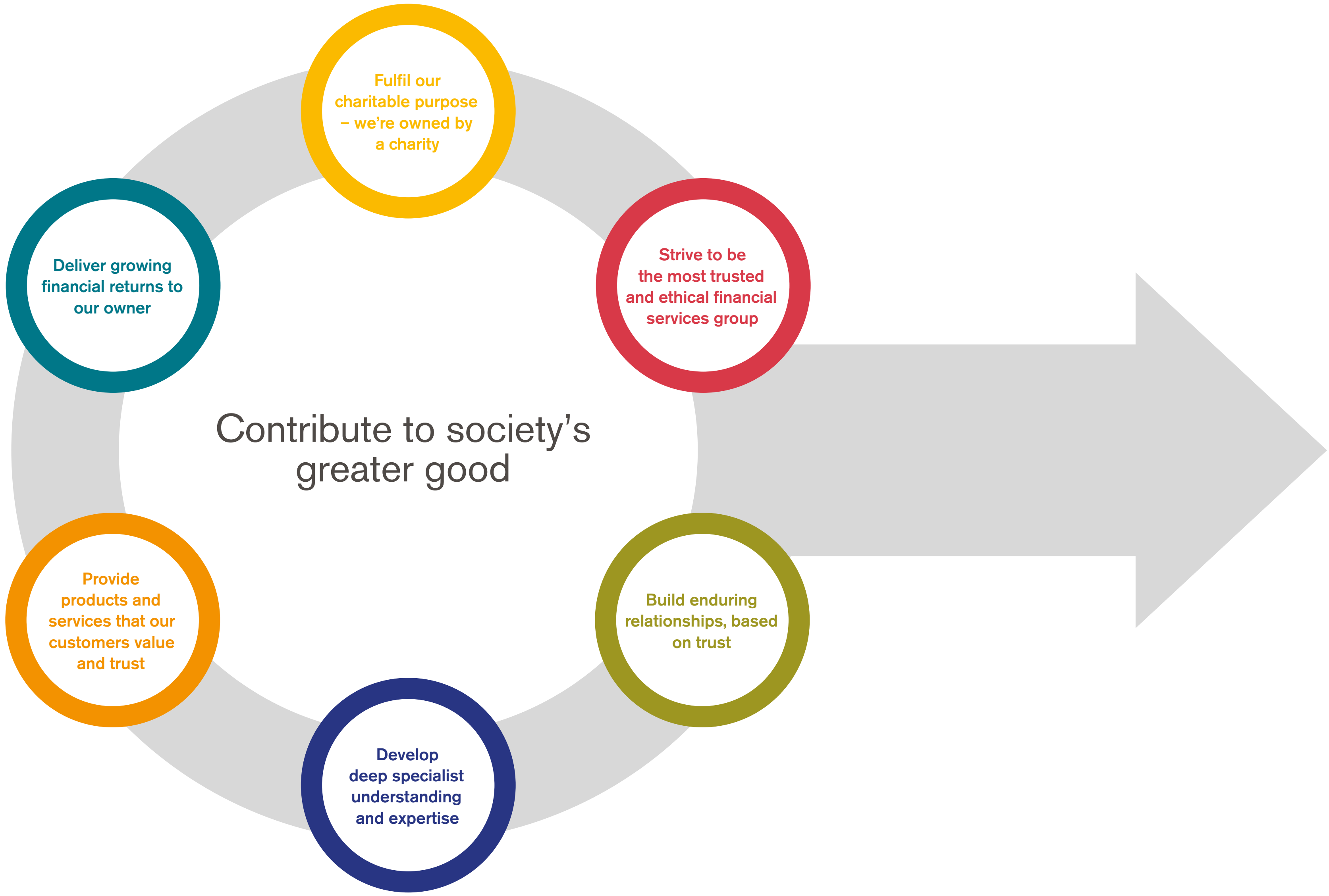
The fixed interest market in the UK remains a key area of many investors' portfolios and in 2017 EdenTree launched a new fund, the Amity Short Dated Bond Fund, to meet investors' ongoing and changing demands. This fund invests in high quality bonds with a short time frame, which reduces the fund's sensitivity to interest rate rises, helping to preserve capital. The fund is part of the Amity range and is subject to our positive and negative screening process. The launch of the fund was a great example of recognising our clients' needs, reacting quickly and delivering a solution. In its first three months, the fund has grown well and generated strong client interest.

2017 also saw EdenTree win a large institutional investment client who was looking for a pan-European sustainable fund to add to their portfolio. The fund was created for the client and is managed by Chris Hiorns, Senior Fund Manager, based on our successful Amity European Fund which is available to UK investors. The partnership was a reflection of all the things that make EdenTree a leader in its field – the long-term performance of the investment team, our experience in responsible investing and high levels of client service – as well as demonstrating our appetite to work with institutional investors.

Building a movement for good.

Our business model and strategy

We are a commercial business with a charitable owner and purpose, with a distinctive positioning that sets us apart from other businesses in the financial services 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 use 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 shapes the way we do business, particularly our focus on doing the right thing for our customers and business partners. It creates an environment where sustainable, long-term value generation is prized over short-term results.

Thanks to our long-term approach we have built longstanding relationships with our customers and brokers, as demonstrated by their high levels of trust, loyalty and engagement with our business. These enduring relationships have helped us build deep understanding and expertise within our sectors, allowing us to provide highly-valued products and services.

These factors combine to support our drive to deliver sustainable and growing returns over the long term, creating long-term value for our shareholder and demonstrating that a distinctly ethical, specialist financial services group can succeed in competitive markets.

Section Two

Strategic Report

Strategy in action

Strategy in action

Our strategic goal is:

To be the most trusted and ethical specialist financial services group, giving £100m to charity by the end of 2020.

Our business has made considerable progress towards this target: during 2017, £27.5m was donated to good causes and the total now stands at £45.2m. This has been made possible by the efforts of all the businesses across the Ecclesiastical Insurance Group and is achieved by meeting the needs of customers and business partners.

This charitable purpose underpins our business strategy. In 2017, Ecclesiastical continued to be recognised as the number one insurer for corporate giving and a leading UK corporate donor with the accolade of fourth place in the UK Guide to Company Giving 2017/18 (published by the Directory of Social Change).

We have continued to deliver the key elements of our strategy whilst investing in our businesses – as demonstrated by new products, propositions and upgrades to technology infrastructure.

Most trusted specialist insurer

We achieve this by being

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

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

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

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

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

Strategy in action

- Attracted and retained prestigious customers across all our segments in all our territories
- Launched new products to meet customers' evolving needs, including charity and heritage in the UK and Ireland and cyber in Canada and Australia
- Successfully entered new markets including farming in the UK, selected health professionals in Australia and property owners in Ireland and Australia
- Entered e-trading channel for some intermediated products, particularly in the charity segment
- Continued to demonstrate our expertise in risk management, developing further specialist offerings including online self-help tools, online guidance tutorials for our customers and dedicated social media
- Submitted evidence to HM Government to support a full review of current legislation on scrap metal, to help to address thefts of metal from our communities, places of worship and heritage buildings
- Submitted Internal Model application to the Prudential Regulation Authority (PRA) with final approval expected in April 2018
- Continued to have constructive engagement with the Independent Inquiry into Child Sexual Abuse (IICSA)
- Highlighted our specialist expertise through marketing with **When it feels irreplaceable, trust Ecclesiastical**
- Focused on relationships with our Select Broker partners including *Closer to You* campaign which enabled Brokers to choose a charity of their choice
- Launched *Fabric of the Community* campaign, demonstrating Ecclesiastical's understanding of, and support for, parishes and their mission
- Displayed the *Great Community Mural,* comprised of 400 entries from churches across the UK, in a tour of Great Britain that included landmark cathedrals such as St. Paul's, Ely, Wells and Brecon
- Provided support to local communities through our *Trust130* offering which enabled household policyholders to nominate their local church for a £130 donation in celebration of Ecclesiastical's 130th anniversary
- In partnership with English Heritage, launched the *Irreplaceable, A History of England in 100 Places* campaign to recognise places that inspired the country's **greatest moments in history**

Most trusted specialist insurer

Highlights

Recognised externally for our expertise and ethical approach
- Won **Insurance Company of the Year 2017** at the Better Society Awards for the second year running
- Awarded **1st place Gold Ribbon by Fairer Finance** as most trusted provider of UK Home Insurance

Became the **first insurer to register commitment to the Helping Great Britain Work Well strategy** from the Health and Safety Executive

Launched our **GI Academy offering specialist training programmes** across different areas of the business

UK customer satisfaction at 97-99% across every sector we measure

Retained our high levels of customer satisfaction with **98% of customers satisfied with our UK claims handling**

97% of our Top 250 brokers in the UK are satisfied with our service

Recognised by UK brokers as the **best insurer in the charity, commercial heritage and education sectors for the 11th consecutive year**, according to an independent survey by FWD

Recognised by UK brokers as the **best insurer in the faith sector** (measured for the first time) in an independent survey by FWD

Retained **Chartered Status across our UK and Ireland** insurance operations

A **Top 100 Employer for Young People in Canada** for the **fifth consecutive year**

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

- Retained our leadership position in ethical investment with our unrivalled track record
- Secured numerous plaudits based on its above-average long-term performance
- Commissioned carbon risk footprints to demonstrate that all our equity funds have portfolio carbon footprints below the required thresholds
- Reinforced our thought leadership position with our SRI expert briefings covering diverse topics from Farm Animal Welfare to Modern Slavery
- Published our acclaimed Amity Insights research on *The Energy Paradox, The Future of Work and Thirsty Planet Revisited*
- Prepared for MiFiD II regulations (effective from January 2018) including enhanced client reporting
- Invested in strengthening our capabilities, with a project underway to replace the back-office accounting system

Highlights

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

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

Achieved a **fifth accreditation** under the **European SRI Transparency Scheme**

Retained **Tier I rating** under the **UK Stewardship Code** disclosure

Launched the **Amity Short Dated Bond Fund** to offer capital preservation whilst working to generate steady income for investors

Established a **partnership with the London Community Foundation** to provide grants to charities that align to EdenTree's positive investment criteria

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

- Launched new products to meet customers' evolving needs, including equestrian trades (e.g. saddlery and tack shops), equestrian home and small pets
- Developed Motor Trade Scheme specifically for members of Broker Network
- Refreshed existing products with new covers including Vineyards and Funeral Directors
- Developed new propositions to be launched in 2018 for adjacent specialist market segments
- Appointed new expertise in schemes to build further capability across SEIB and its Lansdown brand
- Strengthened collaboration with other Group business, developing schemes and tailored propositions for launch in 2018
- Improved SEIB's social media presence during 2017 raising awareness
- EFAS continued to meet the key financial concerns of clergy and church-related people as shown by increased net inflows
- Provided financial education to the clergy through seminars run by EFAS across a variety of dioceses
- Continued to integrate Funeral Planning Services into Ecclesiastical Planning Services Limited (part of the Ecclesiastical Insurance Group)

Highlights

Secured an **exclusive product launch** with established rural and equestrian press for the new Equestrian Home product

Won **new Equestrian affinity group relationship** having created a proposition to meet their specialist requirements

Provided **technology expertise** to support the development and roll-out of OpenGI across Lycetts (an Ecclesiastical Insurance Group subsidiary)

Received **very strong feedback from clergy** for EFAS' financial education seminars

Updated our **partnership proposition to attract new partners** for funeral planning products and administration services

Section Two

Strategic Report

Key Performance Indicators – financial

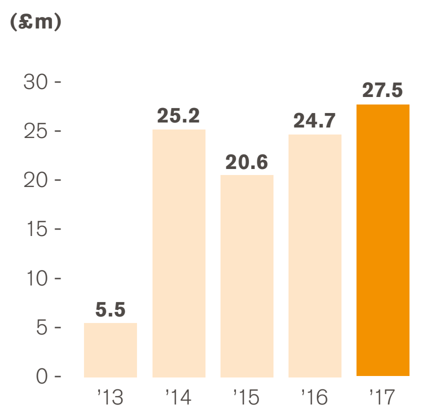
Measure | Performance

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 the end of 2020.

A third consecutive year of stable financial results has enabled us to continue our targeted level of charitable giving, with £27.5m of donations paid to good causes in 2017.

This includes grants of £26m to our charitable owner Allchurches Trust and takes the total amount of giving, towards our £100m target, up to £45.2m.



Regulatory capital[1]

The Group's regulatory capital requirements are defined under the Solvency II directive as issued by 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.

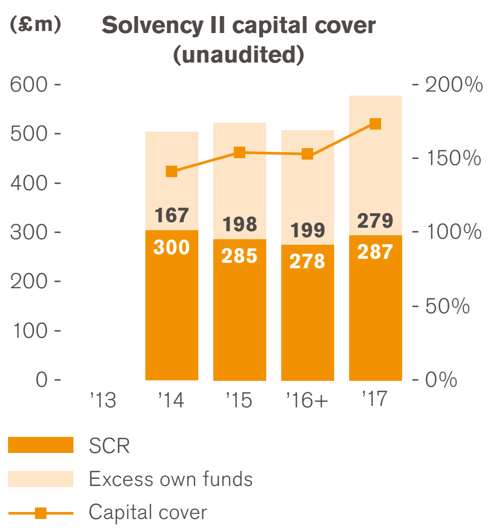
The Solvency Capital Requirement (SCR) is a risk-based statistical calculation that quantifies risks specific to our business. The Group sets a target level of capital that is in excess of the SCR to ensure ongoing compliance.

Ecclesiastical's capital position under Solvency II has remained strong throughout 2017. Our capital cover improved during the year in line with growth in own funds; risk exposure remained consistent with prior year.

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, for 2017, 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 are not available as at that time the Group was reporting on a Solvency I basis under the Individual Capital Assessment (ICA) regime.



+ 2016 figures are audited and reflect figures from the company's published Solvency and Financial Condition Report which is available via the company's website

[1] Alternative performance measure, refer to note 33 for further explanation.

Measure | Performance

Profit before tax*

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

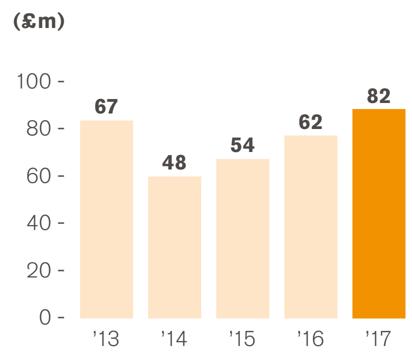
Each year, refreshed targets are set in relation to the Group's business plans for profit before tax. Details of the target that was set for 2017 can be found in the Group Remuneration Report on page 154. Our short-term target is to generate sufficient profit to enable us to meet our targets for charitable donations.

Total profit increased to £82.2m in 2017, with better-than-expected Group underwriting profit combining with strong total investment returns to deliver a fourth consecutive year of improvement.

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 49 for more details.



Combined operating ratio*[1] (COR)

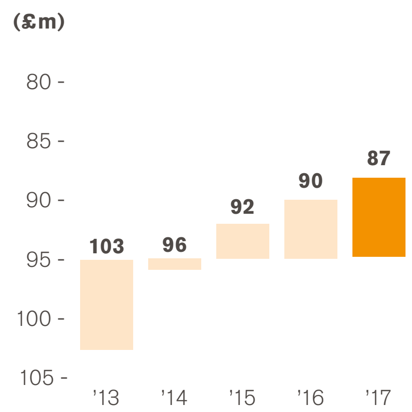
The sum of Ecclesiastical's general insurance incurred losses and expenses divided by earned premiums for each financial year.

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 2017 can be found in the Group Remuneration Report on page 154. Our target over the longer term is to achieve a 95% COR.

The COR has improved for a sixth 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 2017, the ratio continued to outperform our longer-term target, supported by higher than usual prior year releases as claims in respect of liability business we exited in 2012 and 2013 continue to settle and prudence is released. It has also been a favourable year for UK property with no major weather events in the year. While we expect to report underwriting profits in the future, we don't expect this exceptional level of underwriting performance to be sustained longer term.

For a breakdown of how COR is calculated, see note 33 on page 237.

See the Financial Performance Report on page 49 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 33 for further explanation.

Key Performance Indicators – financial

Measure | Performance

Net expense ratio*[1] (NER)

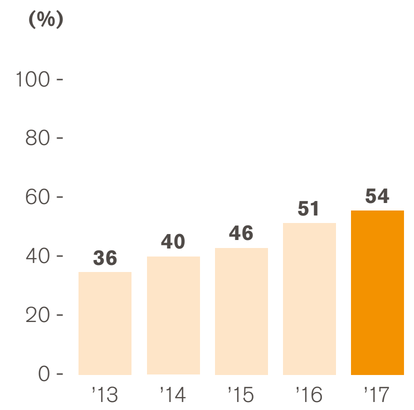
Total expenses as a proportion of the net premium earned in the year. These expenses include acquisition costs, administration costs, the movement in deferred acquisition costs and commission paid less commission received.

Our aim is to make year-on-year improvements in the NER. However, in the short term we expect NER to reflect a planned increase in strategic investment.

Our NER increased in 2017 to 54% with a 5% increase in net earned premium, offsetting a 9% increase in net expenses.

The continued low value of the pound since June 2016 has resulted in a further increase in expenses from our overseas businesses on translation into sterling, with the rest of the increase in net expenses coming from our planned programme of strategic investment in technology, innovation and in our people.

For a breakdown of how NER is calculated, see note 33 on page 237.



Net inflows[1] (investment management)

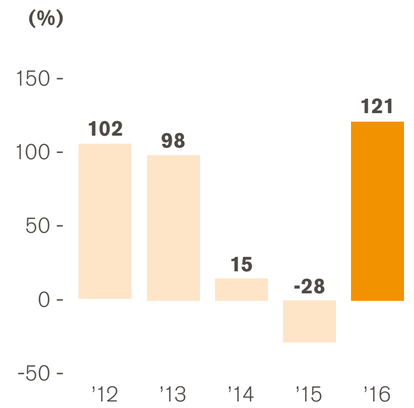
Net inflows are the difference between the gross sales and redemptions made during the period from third parties in the range of funds our Investment Management division offers.

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.

2017 was a year characterised by improving and increasingly synchronised global economic growth combined with the continuation of low interest rates and controlled levels of inflation.

In the year we saw record gross inflows from all sources in excess of £300m. Total net inflows were the second highest level in our history at over £121m, with a significant contribution from an institutional mandate win. This represents a return to our target level of net inflows, and was similar to those achieved in 2013 and 2014.



* 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 33 to the financial statements for further explanation.

Key Performance Indicators – non-financial

We are passionate about outstanding customer experience

We aspire to be a market leader in the way we conduct ourselves, delivering a customer experience that delights our customers. We provide expert advice and protection through products and services that meet customer needs supported by communications that are clear and easy to understand. We charge a fair price and are proud to be generating profits for good causes.

These words are taken from our 'customer promise' which sets out our commitment. In 2017 every part of our Group published its own promise and we also established strategic measures for customer service which are consistent across our Group.

We are a specialist insurance and financial services group so we aspire to be market leaders wherever we operate. We're proud that UK brokers ranked us as THE BEST specialist insurance provider for commercial heritage, education, charity and faith; and we've been voted the NUMBER 1 ethical investment provider for nine years running.

We're proud of external recognition of our passion for customer experience.

In our UK General Insurance business we were named 'Insurance Company of the Year' at the Better Society Awards and finalists in two categories including 'customer care' at the British Insurance Awards. Topping Fairer Finance's ranking of home insurance providers for the third year running was particularly encouraging because it is wholly based on how customers rate us on trust, transparency, complaints and overall happiness.

A commitment to unrivalled standards of customer care is a core part of our culture and behaviour models. In 2017 91% of our people were positive (+1% on 2016) that we are 'committed to customer satisfaction'. In the UK we celebrated National Customer Service Week in 2017 with activities at all of our insurance offices. We connected our charitable giving by committing to give £20 every time a customer shared some praise with us from May to September. We gathered over 500 items of praise which meant a donation of £10,000. We gave it to Insurance United Against Dementia an insurance industry collaboration aiming to raise £10m to fund vital dementia research and help businesses to become more dementia-friendly.

In our UK General Insurance business:

97%
broker satisfaction (+1% on 2016)

98%
household insurance satisfaction (-1% on 2016)

Chartered Insurer
One of only five composite UK insurers to hold this status

91%
employees positive that we are 'committed to customer satisfaction' (+1% on 2016: 'Mysay' employee survey)

Top of the Fairer Finance home insurance rankings
voted by customers for the third year running

£10,000
donated to Insurance United Against Dementia as part of our National Customer Service Week celebrations

'Insurance Company of the Year'
in the Better Society Awards

Ranked THE BEST for specialist insurance – commercial heritage, education, charity and faith

Finalists in the Customer Care and Major Loss Awards at the British Insurance Awards

Section Two

Strategic Report

Financial Performance Report

Financial Performance Report

2017 has been a very successful year for the group and we report a pre-tax profit of £82.2m (2016: £62.5m), our best financial result in over a decade.

We have delivered consistently strong financial results over the last few years together with successful delivery against strategic objectives; 2017 has continued that trend and our financial results were also supported by favourable investment market performance during the year. We continue to make significant investment across the Group to upgrade and build our capabilities to deliver even greater value and benefits to customers. This new programme of business change will support us in achieving our business strategy and ambitious charitable aim but, in the short term, will continue to impact our expense ratio. The success of these wide-reaching initiatives, however, will ensure our profitable growth can be maintained in the longer term.

General insurance

Our underwriting performance[1] for the year was a profit of £27.1m (2016: £20.1m profit), resulting in a Group COR[1] of 86.9% (2016: 89.8%). Another year of largely 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 higher than average claims experience in our Canadian business, we have delivered a fourth consecutive year of improvement in underwriting profits.

United Kingdom and Ireland

In the UK and Ireland underwriting profits increased to £32.7m (2016: £25.0m profit) giving a COR of 77.1% (2016: 82.5%). This is an exceptional underwriting result which has been driven by a number of favourable factors on both the property and liability accounts all occurring in the same year. It is not a level of underwriting performance we expect to be sustained into the future.

The underwriting result on the property account was ahead of last year. The weather in the UK and Ireland has again been very settled across most of the year, with Storm Doris and ex-tropical storm Ophelia being the only notable exceptions. The latter mainly affected geographical areas where we have limited exposure and, with the number of fire related losses also down on both 2015 and 2016, we have seen an increase in profits. The property result also benefited from a distribution from our pooled terrorism reinsurance arrangements reflecting a surplus in the pool.

The underwriting result from the liability account was very favourable, which was consistent with the prior year. Current year claims performance was again 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. The run-off of liability claims in respect of the unprofitable business we exited in 2012 and 2013 is now well progressed and we don't expect to see prior year releases continuing at the levels seen in the last two years.

We expect the UK and Ireland segment to continue to deliver underwriting profits in the future, but consider it very unlikely that claims will continue to be so low on an ongoing basis.

In 2017, GWP has grown by 5% to £231m, (2016: £220m). We have seen high retention levels across our UK and Ireland business which shows the trust our customers have in us to deliver both value and exceptional service. One of our largest markets, Real Estate, saw GWP growth of 8% as we continue to attract prestigious new customers. Our Art & Private Client business grew by more than 50% in 2017, with our recent investment in deepening our expertise, innovation and product development resonating with the market. Commercial insurance business in the UK and Ireland remains highly competitive and our growth of 9%, in that context, shows we are able to compete and succeed in the tough environment. GWP in respect of

[1] Alternative performance measure, refer to note 33 to the financial statements for further explanation.

household business fell by 13%, reflecting a continued focus on risk selection in what is a highly competitive market.

We expect the soft market conditions to continue, with excess capacity adding to the intense competition in the UK market. Our strategy over the medium term is unchanged and remains to leverage our deep underwriting expertise, focusing on adding good-quality business to deliver measured GWP growth, as we look to embed a step change improvement in our specialist capabilities through the use of technology and innovation. In doing so, we will continue to seek profit over growth, maintaining our strong underwriting discipline in accordance with our group-wide underwriting philosophy.

Ansvar Australia

Our Australian business reported an underwriting profit of AUD$1.2m giving a COR of 96.9% (2016: AUD$2.2m loss, COR of 106.7%). The 2017 performance was driven by the growing liability account which benefited from prior year releases, partly offset by losses on property business. The property result reflected the impact of Tropical Cyclone Debbie and the New South Wales hail storm, but losses on those events were in part offset by releases on catastrophe event claims from prior years. The reinsurance arrangements in place also helped reduce the impact of the property loss at the net level.

GWP grew by 26% in local currency to AUD$96.3m (2016: AUD$76.4m). Retention rates remained very strong, and new business was 73% ahead of the prior year with growth initiatives implemented in both 2016 and 2017 delivering as expected.

Canada

Our Canadian business continued its track record of delivering growth, reporting a 6% increase in the branch's contribution towards group GWP at CAD$86.9m (2016: CAD$81.8m).

The territory reported an overall underwriting loss of CAD$12.1m giving a COR of 118.5% (2016: CAD$6.2m loss, COR of 110.3%). Canada had another difficult year following on from the 2016 Fort McMurray wildfire in Alberta, with property business being impacted by a number of weather events and fire losses. This was compounded by a loss on liability business as reserves were strengthened during the year to take account of adverse claims development.

Other insurance operations

General insurance profits were improved slightly by development of prior accident years from our businesses in run-off, resulting in an overall profit of £0.9m (2016: £0.3m loss).

Investments

Investment returns for the year were £72.3m (2016: £54.4m) with UK stock markets concluding a strong year with solid gains in the fourth quarter, ending the year at another record high. Over the course of 2017 global equity markets trended higher on the back of continued optimism in the outlook for the global economy.
The return to volatility at the beginning of 2018 is a timely reminder that the stable market returns, seen over the last two years, cannot be taken for granted.

The small and mid-cap bias in our UK equity portfolio had a positive impact in 2017. The FTSE small-cap and FTSE 250 mid-cap indices delivered +18.2% and +17.8% respectively, significantly higher than the FTSE 100 large-cap return of +11.9%.

Our direct property investments also performed well in the year.

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. The fund's fixed interest portfolio benefited from a healthy allocation to corporate bonds, as well as solid performance from long-dated preference shares and permanent interest bearing shares, whilst investments in government bonds were broadly flat on the year.

A slight downward movement in yields 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 £1.4m loss being recognised within investment returns (2016: £7.7m loss).

The investment result includes a £3.2m return (2016: £12.2m) on assets backing our long-term insurance business, which is discussed later in this report, partly offset by a £0.4m loss (2016: £10.9m loss) from the impact of the change in discount rate on the long-term business liability. The net return of £2.8m (2016: £1.3m) was offset by a £2.4m increase (2016: £2.0m increase) in long-term insurance claims liabilities reflecting the close match of assets and liabilities as we would expect.

Investment management

The Group's investment management business, EdenTree, saw a rise in pre-tax profits to £1.7m (2016: £1.6m) and has made good progress on its strategy to develop its presence in the Charity and Institutional markets. Net inflows to funds of £121m (2016: £28m net outflow) were the second best in EdenTree's history, with institutional business boosted by a mandate win from a European global bank.
Total funds under management grew 8.8% to £2.7bn (2016: £2.5bn), further supported by global equity markets which concluded a strong year with solid gains in the fourth quarter. The business has continued to develop its capabilities throughout 2017, investing in technology and systems, to meet the needs of its customers and support the new MiFID II reporting requirements which become effective from 2018.

Long-term insurance

The life business insurance result for 2017 was a profit of £0.4m (2016: £0.7m loss). Ecclesiastical Life Limited (ELL) is closed to new business and the expected favourable run-off of the business during the year was partly offset by the long-term impact of increased audit costs. The increase has resulted from reclassification as a public interest entity (PIE), under the European Union audit legislation, which became effective during the year.

Broking and advisory

The broking and advisory business comprises our insurance broker and financial advisory businesses, South Essex Insurance Brokers Limited (SEIB) and Ecclesiastical Financial Advisory Services Limited (EFAS). SEIB reported a rise in profit before tax to £2.5m (2016: £2.4m). EFAS reported a small loss of £0.2m in the year (2016: £0.3m loss).

Overall, our broking and advisory business reported an increase in pre-tax profit to £2.3m (2016: £2.1m profit).

Ian Campbell
Group Chief Financial Officer

Ansvar UK
Changing the face of buying charity insurance

As the preferred insurer for the UK's small charities*, our Ansvar business is uniquely placed to meet the changing needs of our charity customers. In 2017, following feedback from brokers and to meet the growing demand for online services, Ansvar worked in partnership with systems provider Acturis to launch a web service that introduced the first specialist charity products to the platform.

Acturis works in a similar way to price comparison sites, so the broker puts in details of a risk and once completed the system will produce quotes from several different insurers. Brokers can then continue with the quote they're happy with and issue the documents to the client themselves.

We launched two charity products on the system – Charity Protect aimed at smaller charities with an annual income or turnover up to £100,000, and Charity Protect Plus aimed at charities with an annual income or turnover up to £1.5 million.

This new service has changed the way specialist charity insurance is bought, by saving brokers time and allowing them to be more responsive to customer needs by simplifying the process and keeping costs down.

A dedicated web team is available to support our brokers as well as to discuss any non-standard risks.

"The Ansvar online system is one of the easiest systems we use here at Unity. When a client calls into the office you have the confidence that the system will respond how you need it to in order to get a quotation."

"The products on the new system are competitive, and cover a wide range of activities with our specialism which means we are able to answer our clients' questions quickly and effectively."

Unity Insurance Services

Building a movement for good.

* Source FWD research 2017

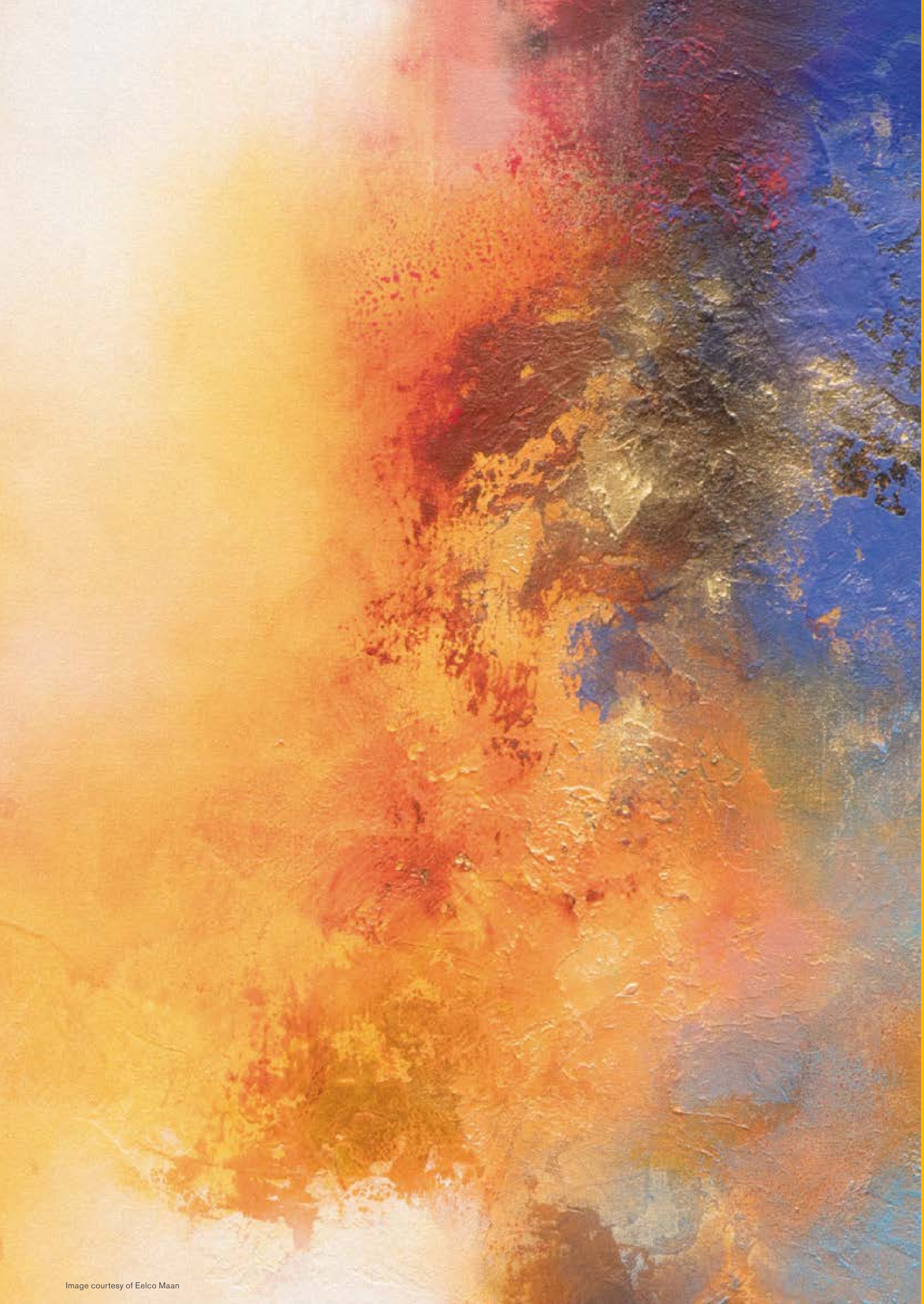


Image courtesy of Eelco Maan

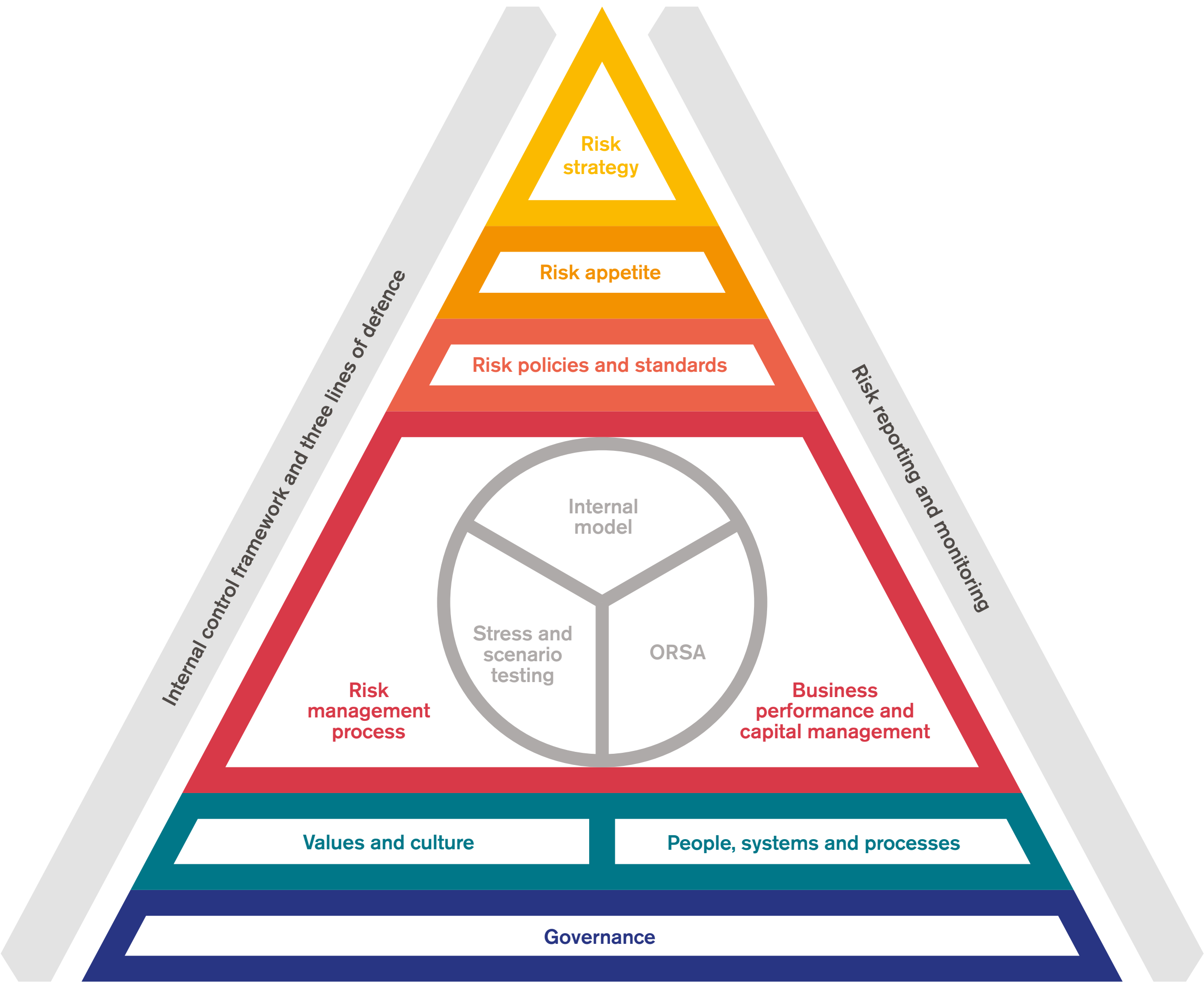
Section Two

Strategic Report

Risk Management Report

Introduction

The Group's business model is explained in detail on page 34. The operations of the Group present an ongoing 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;
- 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 of 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 key function holders.

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 seek to develop and improve our risk management framework and strategy on an ongoing basis to ensure it continues to enable us to achieve our strategy and objectives. Recent key improvements have included:

- continued embedding of the risk management framework within the 1st line of defence;
- greater focus on the key controls in place to manage the risks to the business plans;
- continued development of quantitative risk profiling capabilities to ensure all material risks are captured;
- enhancement and further embedding of our Internal Model validation framework;
- material enhancement of the Group's stress testing and scenario analysis which is undertaken both as a validation tool for the Group's Internal Model and as a method of assessing operational risk for the Group;
- improved reverse stress testing;
- strengthened approach to the Control Risk and Self-Assessment (CRSA) process; and
- continued embedding and enhancement of the Own Risk and Solvency Assessment (ORSA) process.

Risk appetite

The risk appetite defines the level of risk-taking that the Board feels 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 annually with approval and sign-off by the Board and there are ongoing assessments to ensure its 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- from Standard & Poor's (S&P).

Quantitative risk measures and stress testing framework

Since the introduction of Solvency II at the start of 2016 our regulatory capital requirement has been calculated using the standard formula approach. However, we have applied for regulatory approval to use our Internal Model as the basis for the calculation of our regulatory capital requirements.

Individual and aggregate risk exposures are calculated using our Internal Model, which has been calibrated to determine our internal view of the capital resources required to deliver our business plan and further evaluated within 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 Internal Model to better reflect our current risk profile and completed several cycles of independent model validation. Use of the model has also continued to embed within our strategic decision-making processes, for example its use as an input to the development of our reinsurance strategy, pricing decisions and setting of investment strategy.

The performance of stress testing and scenario analysis is a key component of our risk management framework, which further contributes to meeting the Solvency II requirements.

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 helps us to understand the risks faced under extreme conditions and provides assurance to the Board on the robustness of our risk mitigation and control improvement strategies. It is also used as a tool for the validation of our internal capital requirements within the ORSA process.

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

SEIB
A proud partner to the equestrian industry

SEIB's connection with the horse industry dates back more than 50 years. Our specialist broker has been meeting the specific needs of the equestrian sector ever since, from high value veterinary fee cover for horses and ponies to horsebox insurance.

As an expert in its field, SEIB has a deep understanding of its customers and seeks opportunities to help meet their insurance needs through innovative solutions.

SEIB insures several of the major equestrian charities as well as the British Equestrian Trade Association (BETA), and recently introduced professional indemnity insurance for its members, in response to the increasing number of claims made against retailers.

In addition, SEIB has also launched a new Equestrian Trade Product, providing bespoke equipment cover for businesses that reflects the unique risks associated with working in the equestrian industry. Launched in association with the British Equestrian Trade Association (BETA), it's the first scheme of its kind in the market, offering members a number of benefits, including a discount and more flexible payment options.

The new cover reflects the reality that as well as selling equipment, many equestrian retailers also fit, clean and repair equipment. They need to visit their clients with an array of expensive tack and saddlery then fit it to a sometimes uncooperative horse. The cover can be tailored to meet the varied needs of the sector, covering manufacturers, wholesalers, online sellers, mobile shops and saddle fitters.

Fittingly, the new policy was launched at the British Equestrian Trade Association (BETA) Trade Show, the business show for the equestrian trade, and once more showed that SEIB is ahead of the pack when it comes to horse-related insurance.

"I am delighted that SEIB has launched its new bespoke insurance policy for equestrian businesses. This policy will help many of my members find insurance to cover them when on the road fitting saddles or when out at shows when they have faced real struggles to find cover in the past. Judging by the reaction of those at BETA international where we introduced it, the new policy looks like offering a real solution for so many, just as the Professional Indemnity Insurance policy is proving so useful for others."

Claire Williams
Executive Director and Secretary, British Equestrian Trade Association

Building a movement for good.

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.

The impacts of Brexit for the Group are being assessed as more information becomes available, however, it has not been assessed as a principal risk. Impacts of Brexit are referred to under Market Risk and Pension Risk below.
The principal risks identified by the Board 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. Claims reserving risk primarily arises from long-tail liability business, and failure to interpret emerging experience or fully understand the risks written could result in insufficient reserves being held to meet our obligations. We are continuing to actively monitor the Independent Inquiry into Child Sexual Abuse (IICSA) in the UK to determine if this will have an impact on the frequency and severity of Physical and Sexual Abuse claims across the insurance industry.	Targeted training programmes are in place to ensure that we maintain and develop the appropriate skill sets. 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. 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. Further information on this risk is given in note 3 to the financial statements starting on page 191.	The level of this risk has not changed materially during the last year.
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. We would be severely impacted by an inability to obtain the relevant reinsurance programme. Despite significant catastrophe losses in the reinsurance market during 2017 the traditional reinsurers remain strongly capitalised and regulated alongside the continued availability of alternative capital.	We continue to maintain our commitment to developing a broad panel of well rated reinsurers across the main reinsurance programmes. We manage this risk by taking a long-term view of reinsurance relationships to deliver sustainable capacity rather than seeking to benefit from opportunistic purchases and this meant we were well positioned to respond to a more challenging renewal season. 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 increased exposures with one group exceeding our accepted limits. A Group Reinsurance Board is in place which approves all strategic reinsurance decisions. We purchase reinsurance to protect against property catastrophe events in line with our risk appetite and/or regulatory requirements.	The level of this risk has remained broadly similar since last year.

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 actively take 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, though we have limited appetite for stocks with credit ratings below investment grade. Market risk is also present in our holding of a significant equity portfolio. A proportion of our equity portfolio is invested in overseas markets to give us exposure to wider investment opportunities and diversified returns which also introduces currency risk. Further, we invest in property to obtain income, 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 to enable expected cash flows from assets to match the expected cash flows from liabilities. The relatively short average duration of our fixed interest portfolio gives us some protection from the impact of volatility of interest rates on asset values. 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 throughout 2017 whilst we implemented a small reduction in gross equity exposure as a proportion of our overall assets. 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. Throughout 2017 we have hedged the majority of our currency risk exposure, as we have limited appetite for retaining that risk. Our investment in property gives us a degree of diversification in our asset portfolio. We mitigate property investment 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 194.	Although our exposure to this risk has not changed materially since last year, there have been some changes in the asset mix, in particular an increase in exposure to property. The key drivers for this risk are those affecting the economic environment. Such indicators have been less volatile over the past year than in previous years, though uncertainty in issues, such as the outcome of the Brexit negotiations and the global political environment, are expected to influence levels of uncertainty. V

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*
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.
Credit risk			
The risk that a counterparty, for example 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. Changes to the reinsurance arrangements for our subsidiary, Ansvar Australia, removed the previous reliance on a single counterparty for 2017. 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 194.	As the changes to the Australia reinsurance programme mentioned above are only one element of this risk, at an overall level, this risk has remained broadly similar since last year.
Operational risks			
IT systems risk The risk of inadequate, ageing or unsupported systems and infrastructure and system failure preventing processing efficiency.	The successful delivery of our strategy is reliant on the availability of efficient and reliable systems to our strategic business units. These are critical to enable us to deliver excellent customer service and business processing.	Remedial work including a number of system upgrades has been undertaken in a number of key areas to mitigate this risk. A strategic systems programme is also underway which will deliver improved systems, processes and data. Significant progress has been made on this programme during 2017 which will continue through 2018 with phased releases from 2019.	The overall 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 and data privacy risk The risk of data privacy and information security breaches including 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. New data privacy regulations (General Data Protection Regulation) introduce enhanced standards of stewardship.	As the challenge with cyber security is constantly changing, we constantly 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. We have responded to GDPR by reviewing our management of personal data and have a programme of improvement to meet the May 2018 implementation date. The management of this risk is owned by the Board.	This continues to be a high risk as the inherent threat is ever increasing. We continue to invest in specialist resources to ensure that our controls keep pace with the evolving threats and these have remained effective in protecting us against any significant event.
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 is in place including Board reporting alongside specific risk appetite metrics. All strategic business units have Customer Promises in place with associated management information monitored on an ongoing basis by local Boards and a Group level Customer First Steering Committee.	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.
Pension risk These are risks associated with our defined benefit pension scheme. The risks are primarily market related, with interest rate and inflation risk the largest exposures, though there is also exposure to longevity and operational risks.	The Company sponsors a defined benefit pension scheme which remains open for accrual for some employees. Changes in expected future interest rates and inflation can increase or decrease the value of providing the benefit to employees. Changes in these assumptions used in the valuation of the scheme's liabilities, 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.	The Company works with the scheme's trustees to understand and manage the risks. There is close scrutiny on matching assets and liabilities to mitigate the risks of market movements. Over the course of the last year the scheme has enhanced its matching position by increasing its holdings of liability driven investments. This has been accompanied by a reduction in exposure to equities. The financial position of the scheme improved over the year, due mainly to positive investment performance. The scheme remains exposed to potential volatility in economic conditions, particularly as Brexit negotiations progress, and we are working with the scheme's trustees to further reduce the scheme's exposure to market risk.	The main changes to the risk profile of the scheme are noted in the details of the mitigations.

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 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 2020 and is underpinned by management's 2018-2020 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 64 to 71. The stresses are designed to be severe but plausible and assess the impact of certain events on the Group's profitability and capital strength. They include:

Scenario	Principal risks
Increase in attritional claims	Insurance risk – underwriting and pricing risks
1 in 50 year deterioration in PSA reserves	Insurance risk – reserving risk
10% reduction in GWP year on year	Insurance risk – underwriting and pricing risks
CAT windstorm combined with reinsurer default	Insurance risk and credit risk
1 in 10 and 1 in 20 investment market events	Market risk
10% increase in annual operating expenses	Operational risk

Scenario testing found that a 1 in 20 investment market event combined with either reduced GWP or a catastrophe event 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 been projected as part of the Own Risk and Solvency Assessment (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

Ecclesiastical Ireland
Supporting charity

Owned by a charity and with a purpose to contribute to the greater good of society, Ecclesiastical understands the charity sector better than most – a fact that resonates with many of our customers. In 2017, our Irish business had great success in growing its charity book, thanks to its key relationships in the sector.

One of the cases that we won was the Dublin Simon Community, which works to prevent and address homelessness in Dublin and its surrounding areas. The charity provides services at all stages of homelessness – from advice and work support to hostels and soup kitchens – to enable people to move to a place they can call home.

The charity moved its business to Ecclesiastical on a long-term basis late last year when the risk became due. The management team were impressed with the fact that we met them to discuss their needs and put forward a compelling proposition – even before we talked about price. The case was also a great example of early engagement and working closely with the broker to provide the best solution for the customer.

Other key wins in the charity sector last year include Glasnevin Trust, The Iveagh Trust and the National Council for the Blind in Ireland.

Building a movement for good.

Corporate Responsibility Report 2017 highlights

Our community

£27.5m
total charitable giving

33%
of pre-tax profit given to charity

61%
of employees took up volunteering time

£300,000
funding for heritage skills partnerships

Gold Standard for Payroll Giving

£100,000
in Closer to You broker grants distributed

Our environment

76%
electricity from renewable sources

73%
recycling rate

Carbon footprint
of all EdenTree funds better than benchmark

Average fleet CO_2 emissions reduced to
104g/km

Our people

85% +ve
overall employee engagement score (+3% on Financial Services benchmark)

88% +ve
of staff say 'I am proud to work for this company' (+8% on Financial Services benchmark)

Over 800 attendees to 88 bitesize training sessions including more than 300 business partners

Free wellbeing support
250 flu jabs, 200 health checks, new resilience training

Living Wage
status extended across our Group

45%
is the target for women in senior management and management group

Our marketplace

Insurance Company of the Year
Winner at the Better Society Awards

Best Ethical Investment Provider
for the 9th year running

Responsible business review of
all material claims suppliers

Fairer Finance Gold Standard
for the 3rd year running

Corporate Responsibility Report
Introduction and governance

Thank you for taking the time to look at our CR Report 2017. Many companies have commendable CR programmes as part of their operations but Ecclesiastical is different because our entire purpose is to do good. For us, corporate responsibility isn't an added value activity, it's core to who we are. It supports and challenges how we do what we do.

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 workplace 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 37, 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:

Each year world leaders gather at the Swiss resort of Davos to reflect on the risks and opportunities facing the global economy. The World Economic Forum (WEF) which hosts the event, at the same time publishes its insightful Global Risks Report. Now in its 13th edition this is a comprehensive survey of the most significant risks facing the world in terms of likelihood and impact. The 2018 Report is published at a time when global markets are booming, greater numbers of people are being lifted out of poverty, and living conditions show the greatest progress and improvement in human history. Despite these positives, we also face enormous challenges where 'acceleration and interconnectedness in every field of human activity are pushing the absorptive capacities of institutions, communities and individuals to their limits' (WEF 2018). The global risk landscape shows the growing pervasiveness of climate change and extreme weather events as a major challenge – now ranked the global number one risk in terms of likelihood, and number two in terms of impact. In all of the areas Ecclesiastical operates either through its insurance business, or via investment management, we see the challenge of responding to major risks as outlined by the WEF: natural disasters (third greatest risk), failure of climate change mitigation (fourth), water and food crises (fifth and seventh respectively). Environmental risks now account for 40% of the most globally pervasive risks in terms of their impact, and other areas such as cyber-attacks are increasing in relevance and urgency (rising from number six in 2017 to number three in 2018 in terms of likelihood). Cyber-attacks did not feature at all in terms of impact in 2017, but have now been elevated to the sixth major risk in terms of their impact. At a time of such immense challenge and change Ecclesiastical's commitment to being 'the most trusted and ethical specialist financial services group' stands us in good stead, and has never been more important in retaining customer confidence across our businesses.

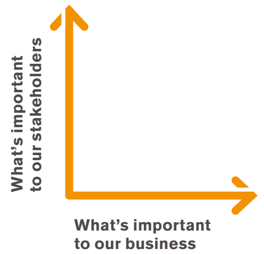
Neville White
Head of SRI Policy and Research at EdenTree

Monitoring and auditing

We believe independent assessment is an important aspect of maintaining and raising standards. In 2017 we continued to hold standards including Living Wage, Business In The Community's CommunityMark and the Fairer Finance Gold Ribbon. We progressed our commitment to the Women In Finance Charter, completing our first annual report, and we were recognised as one of Canada's top employers for young people once again. Our ethical investment business EdenTree maintains a number of memberships including the UK Sustainable Investment and Finance Association, UN Principles for Responsible Investment and the Institutional Investors Group on Climate Change.

Materiality

To guide our responsible business agenda we take a materiality approach to issues. We balance importance to our stakeholders with importance to our business to judge the relative risk and impact. We presented and discussed our materiality review at our Board in 2017 and continue to use it to shape our focus. Key issues it has helped us to prioritise include employee conduct, diversity, heritage preservation and environmental management.



We use a range of measures to monitor and manage our performance across all areas of responsible business – including our community, our people, our environment and our marketplace. The following pages summarise our position and include previous performance if available.

Our community

We champion being a good corporate citizen.

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

Employee-led giving

	2017 performance	2016 performance
of UK employees took up a volunteering day	61%	60%
of employees took up personal grants	87%	92%
Payroll Giving	12%	10%
Fundraising matching	£37,000	£33,000
of employees in our externally benchmarked employee survey say: **My company is a socially responsible employer**	90%	85%

Corporate giving and partnerships

	2017 performance	2016 performance
of pre-tax profit given to charity	33%	40%
Total Group charitable giving	£27.5m	£24.7m

Overseas grants programmes

	2017 performance	2016 performance
Australia	AUS$250,000	AUS$258,000
Canada	CAN$250,000	

Corporate charitable funding for specific social causes

£135,000
Mental health and wellbeing of young people

£300,000
Heritage skills

'Closer to You' broker grants programme

42
charities benefiting

£100,000
distributed

Our community

As a unique commercial business owned by a charity, our community investment commitment continues to be core to who we are.

In 2017 we increased our total charitable giving to £27.5m and giving direct from the Ecclesiastical Group to £1.5m, representing 33% and 2% of pre-tax profit respectively. We ranked 4th in the Directory of Social Change's UK Guide to Company Giving and we are the number one insurer.

We make a difference in three key ways. By:
– being a different kind of business – delivering profits to charity
– focusing on key social issues important to our customers and partners
– enabling our people and partners to give to causes close to them

Our charitable owner, Allchurches Trust, continued to deliver grants to projects in line with its mission and charitable objectives and in 2016 distributed a record £15.6m to 1,324 churches, charities and communities across the UK and Ireland. Under the auspices of Allchurches Trust our Australian and Canadian businesses also gave to their communities. Our Australian business's Community Education Programme distributed another AUS$250,000 supporting a range of sustainable programmes for young Australians promoting education and skills. Our Canadian business also launched a giving programme donating CAN$250,000 to causes that benefit youth, vulnerable and under-represented people and the preservation of Canadian heritage.

Ecclesiastical in the UK focused its attention on two key social issues – heritage skills and the mental health and wellbeing of young people. Our partnerships include the Landmark Trust to restore Cobham Dairy, Cathedrals' Workshop Fellowship to train stonemasons and University College London to support Sustainable Heritage Master's students. We partnered with Historic England to launch a campaign to create a list of 100 irreplaceable places which tell the remarkable story of England and its impact on the world. We continued a partnership with children's charity Coram, established by our UK Ansvar business, to develop their Life Education programme which promotes positive behaviour, mental and physical health, wellbeing, resilience and achievement in UK primary schools. We specifically funded development of relationships education resources which will reach 200,000 school children.

Our employees sustained their high level of engagement in our giving programme, MyGiving, with 61% giving their time to volunteer and 87% giving a 'personal grant' to a charity of their choice. We also increased matching for fundraising and Payroll Giving.

In 2017 we launched several new charitable giving initiatives. The first was designed to bring our select broker partners closer to our charitable giving through £2,500 donations to a charity of their choice. We distributed over £100,000 to 42 charities. Our broker SEIB launched a campaign to give £50,000 to a good cause, asking SEIB clients to vote for their favourite charity. At Christmas we offered £1,000 to 130 charities in our 12 Days of Giving Campaign. We asked employees, partners, customers and supporters to nominate a cause and we received over 20,000 nominations.

Our people

We foster an open and responsible culture.

In 2017 we made progress in a number of areas to support our employees, develop talent at all levels, encourage diversity and provide a positive and engaging working environment.

	2017 performance	2016 performance
Learning and development	17,000	11,000
Hours of learning logged on our Learning Management System		
	813	580
Bitesize training session attendees		
Employee engagement	**Annual results from our externally benchmarked employee survey, MySay (including difference from previous year's results)**	
	85%+ve	82%+ve
Overall engagement score		
	88%+ve	87%+ve
I am proud to work for my company		
	91%+ve	90%+ve
In my opinion my company is committed to customer satisfaction		
Living Wage Standard	✓*	✓

* Extended across the Group

	2017 performance	2016 performance
Wellbeing	**250** Free flu jabs	**250**
	200 Free health checks	**150**

Diversity

Women in Finance
By 2020 % of women in senior management and management group

Target 45%

MySay questions
I am treated with fairness and respect at my company

2017	2016
84%+ve	**83%+ve**

I think Ecclesiastical respects individual differences

2017	2016
80%+ve	**75%+ve**

Gender Pay Gap
Fixed pay gap mean/median

30.7%/25.0%

Bonus pay gap mean/median

53.5%/33.1%

BME representation in our business

2017	2016
4.9%	**4.9%**

Our people

We developed and articulated our target culture model at the start of 2017 and have started a structured roll-out including embedding in behavioural models, introducing it to everyone at induction and reinforcing through a new group-wide employee recognition scheme 'Shout Out'.

We launched a new leadership development programme which welcomed leaders from all parts of our Group, including Canada, Australia, EdenTree and our brokers. The programme includes a variety of development activities such as a strategic project working alongside one of our charity partners. Other development activity included a programme of over 80 'bitesize' training courses which welcomed over 800 attendees including more than 300 people from brokers – our own brokers SEIB and our broker partners too. We also introduced a 'resilience' module to enhance our wellbeing approach.

To support our established Diversity Policy Ian Campbell, Group CFO and Director, is our senior executive responsible for diversity. We produced the first report as part of our commitment to the Women in Finance Charter. Our activity included online training for all employees on unconscious bias and specific training for recruiting managers; a 'leadership masterclass' led by Denise Wilson, one of our Directors and Chair of the Hampton-Alexander Review; and improved data gathering, reporting and communication. Our reporting now includes our Gender Pay Gap, which we published ahead of the required deadline.

We consider human rights risks to our business. This led us to reaffirm our Living Wage employer status and extend it across our Group. We also retained our Chartered Insurer status in the UK and Ireland, launched a new General Insurance Academy to develop our talent and retained our title as one of the 'Top Employers for Young People' in Canada.

Gender by level*

	Male	Female	TOTAL	MALE %	FEMALE %
Group Management Board	6	3	9	67	33
Senior Leader	73	25	98	74	26
Manager	228	151	379	60	40
Team Member	342	587	929	37	63
TOTAL	649	766	1,415	46	54

Ethnicity*

White	%	Prefer not to say	%	BME	%	TOTAL
1,169	82.6	177	12.5	69	4.9	1,415

* Data for Ecclesiastical Insurance Group

Our environment

We run our business in a responsible and sustainable way.

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.

Environmental management*

	2017 performance	2016 performance
Scope 1 total emissions (tonnes CO_2e)	421	457
Scope 2 total emissions (tonnes CO_2e)	177	590
Scope 3 total emissions (tonnes CO_2e)	477	359
Total carbon emissions (Scopes 1-3) (tonnes CO_2e)	1,075	1,406
Business travel		
Total air travel (km)	1,079,274	741,926
Rail (km)	1,075,241	880,437
Business (km)	201,067	262,313
Car rental (km)	126,887	135,272
Average fleet CO_2 emissions in g/km reduced to (our target 120g/km)	104	108
Water usage (scope – head office only, c40% of employees) cubic metres	3,892	4,019

* Environmental reporting includes management activities led by the UK Facilities Management team who have control and responsibility for premises occupied by circa two thirds of the Ecclesiastical Group by headcount, except where stated.

Our environment

We believe managing and mitigating the direct impact of our business is an important consideration. In 2017 we approved an environmental management plan for premises managed by our UK facilities team.

We completed an audit of our carbon footprint including our electricity usage which is now sourced from 76% renewable energy and our fleet which achieved an average CO_2 emission of 104g/km and continues to improve. We also made plans to improve our waste management approach at our head office to increase recycling and reduce landfill waste. Due to extra investment in recycling coffee grounds and glass in our London office the building was recognised with a Gold Award with special commendation as part of the Clean City Awards Scheme.

Our ethical investment business EdenTree was among the fund managers that have formalised our commitment to conduct carbon footprints for our funds by signing the Montreal pledge. All but one of our funds have reduced their carbon footprint from 2016 to 2017 and all of the funds are below the benchmark for their sector. This approach continues to be an effective way to demonstrate our commitment to investment including below benchmark weighting in fossil fuels and 'no oil sands or Arctic drilling' stance.

	2017 performance	2016 performance
Environmental management	**Waste** (scope – head office only, c40% of employees)	
	28 tonnes of landfill	28
	74 tonnes of recycling	106
	76%* electricity from renewable sources	19%
	Fund carbon footprints tonnes of CO_2 per £1m invested (% vs benchmark)	
	81 Amity UK (-57%)	96
	311 Amity European (-2%)	288
	166 Amity International (-22%)	256
	158 Amity Global Equity Income (-26%)	178
	49 UK Equity Growth (-74%)	88
Ethical investment	**Signatory to Montreal Pledge**	
	Principles of Responsible Investment signatory	

* 2017's reporting has benefited from a full year of renewable energy tariff (we were only on this tariff for three months of 2016).

Our marketplace

We put customers at the centre of everything we do.

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.

Satisfaction rates

	2017 performance	2016 performance
UK direct customer claims satisfaction	98%	98%
Broker satisfaction	97%	96%
SEIB broker satisfaction	96%	96%
Risk management survey – Direct	98%	99%

Customer service and support

Fairer Finance Gold Ribbon Award

Supplier ethics

Modern Slavery Act

Compliance

Better Society Award

Supply chain

Claims suppliers compliance with standards

Our marketplace

Our Group companies embraced our Customer Promise throughout 2017 and published their own interpretations publically on their websites. We have rolled out consistent strategic customer metrics across our Group, including, for example, satisfaction, retention and complaints. Our performance is detailed on page 47 of the Strategic Report.

Our passion and commitment for our customers was underlined by various awards and standards – for example winning the 'Best Ethical Investment Provider' Award at the Moneyfacts Investment Life and Pensions Awards for the ninth year running; and topping the Fairer Finance customer experience ratings for the third year. We believe it's important to really understand the challenges our customers face so we attended and presented at key industry events including the National Disability Services and Faith-based Governance and Dispute Resolution Conferences in Australia and the Independent Bursars Association, Heritage Alliance and Historic Houses Association events in the UK. We have established relationships with charity sector bodies including CO3 in Ireland, a body for third sector leaders, the Charity Finance Group and Honorary Treasurers Forum in the UK and we work with think tank New Philanthropy Capital in the UK including supporting research into the state of the sector.

We use technology to develop our service and support. In Australia we are the only insurer licensed to fly drones for surveys and we are pioneering the use of a 'vegecam' in the insurance industry which will help us survey and understand the health of trees to assess their risk to people and property.

We consider human rights, anti-corruption and anti-bribery risks to our business. Tackling financial crime continues to be a key component of our Code of Conduct for employees. To comply with the Modern Slavery Act and continue to challenge our most material supply chain partners we conducted an in-depth responsible business survey with our claims suppliers. We received responses from our key claims suppliers and confirmed their compliance with the Modern Slavery Act if appropriate. In advance of the Payment Practices and Performance legislation we also completed an audit of the payment practices and terms for all of our UK suppliers.

Ansvar Australia
Protecting faith properties

Protecting places of worship has been at the heart of our business since it was launched 130 years ago. And while we continue to be synonymous with protecting churches, we're also a leading insurer of faith buildings, including synagogues, mosques and Sikh, Hindu and Buddhist temples, across all our territories.

Reflecting its diverse and multi-cultural society, our Australian business insures many faith buildings.

An example of this is Ansvar Insurance's synagogue scheme, which has been running for more than 15 years. Starting with only a handful of buildings, it has now grown to over 100 policies, covering 95% of synagogues in Australia. The portfolio features a diverse range of buildings across every Australian territory, including the Central Synagogue of Bondi Junction, Sydney, which is the largest synagogue in the southern hemisphere and has the largest Jewish congregation in Australasia. We also insure the heritage-listed Melbourne Hebrew Congregation building which is often referred to as the 'Cathedral Synagogue' of Melbourne.

Ansvar has worked closely with its broker partner to understand our customer needs and grow and develop the scheme. Our specialist knowledge and expertise in risk management has allowed us to tailor the product to meet the specific needs of the Jewish community. The scheme has expanded to include wider Jewish community organisations demonstrating our support for them and supporting society's needs.

"We've had a productive partnership with Ansvar Insurance for over 12 years and we've found them to be professional, reliable and experts in their field, which has enabled the synagogue scheme to thrive and contributed to its continued growth."

Judy Makowski, Account Manager, SME Division,
Scott Winton Insurance Brokers

Building a movement for good.

Strategic Report approval

The Strategic Report, outlined on pages 20 to 99, 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
14 March 2018

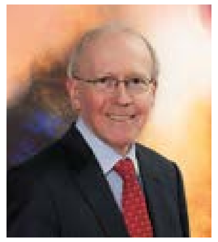
Section Three

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



John Hylands (b)

Independent Non-Executive Chairman

John Hylands was appointed to the Board in September 2007. He was Deputy Chairman from March 2016 until March 2017 when he was appointed Chairman. He is also a Director of the Insurance Board of Lloyds Banking Group. He is currently Chairman of the BOC Pension Schemes, a Governor of the Royal Conservatoire of Scotland and a school governor. Until March 2007, he was an Executive Director of Standard Life plc.

The Very Reverend Christine Wilson (b)

Senior Independent Non-Executive Director

Christine Wilson was appointed to the Board in June 2012 and has served for 20 years in ordained ministry. She was appointed as a Senior Independent Director in November 2017. She 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 from 2010 to 2015. From December 2013 to 2016 she was participant observer on the House of Bishops. She has also been chair of a number of charities.

Ian Campbell (a)

Group Chief Financial Officer

Ian Campbell was 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.

Tim Carroll (a) (b) (c) (d)

Independent Non-Executive Director

Tim Carroll was appointed to the Board in March 2013. He is an international business leader with significant London Market and Lloyd's experience, including roles as CEO of Swiss Re's UK holding company, President and CEO of GE Reinsurance Inc. in the USA and an active underwriter of Canopius Syndicate 4444 at Lloyd's. He has held a number of industry positions including Chairman of the International Underwriting Association, President of the Insurance Institute of London and Master of the Insurers' Livery Company. He holds several Non-Executive Directorships in the insurance industry.

David Henderson (a) (b) (e)

Independent Non-Executive Director

David Henderson was appointed to the Board in April 2016. David began his career specialising in personal tax and UK trusts. He spent ten 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.

Mark Hews

Group Chief Executive

Mark Hews was appointed Group Chief Executive in May 2013 and was previously the Group Chief Financial Officer. He was appointed to the Board in June 2009, appointed to the Board of MAPFRE RE in December 2013 and became a Trustee of The Windsor Leadership Trust in November 2017. 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.

Anthony Latham (c) (d)

Independent Non-Executive Director

Anthony Latham was 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.

Andrew McIntyre (c) (d)

Independent Non-Executive Director

Andrew McIntyre was appointed to the Board in April 2017. Andrew is the Senior Independent Director of C. Hoare & Co and an independent Non-Executive Director of Lloyds Bank Corporate Markets plc, where he also chairs the Audit Committee. Andrew was for 28 years a partner at EY, and was for nine years Chairman of the Board of Southern Housing Group, one of the largest Housing associations in the U.K.

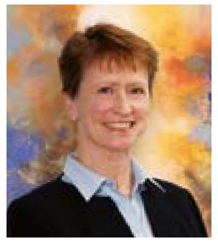
Key to membership
of Group Board Committees
(a) Group Finance and Investment
(b) Group Nominations
(c) Group Risk
(d) Group Audit
(e) Group Remuneration

Board of Directors

Chris Moulder (c) (d)

Independent Non-Executive Director

Chris Moulder was appointed to the Board in September 2017. For the last five years he has been the Director of General Insurance at the Prudential Regulation Authority, having previously spent 26 years as a partner at KPMG, specialising in Financial Services. He is also a Director of the Insurance Board of Lloyds Banking Group.



Caroline Taylor (a) (d) (e)

Independent Non-Executive Director

Caroline Taylor was appointed to the Board in September 2014. Until May 2012 she was a Director of 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.

S. Jacinta Whyte (c)

Deputy Group Chief Executive

Jacinta Whyte was appointed Deputy Group Chief Executive and joined the Board in July 2013 with responsibility for the Group's General Insurance business globally. She was appointed to the Ansvar Australia Board during 2013. Jacinta 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 for 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.

Denise Wilson OBE (d) (e)

Independent Non-Executive Director

Denise Wilson was appointed to the Board in December 2010. She is currently CEO of the Hampton-Alexander Review, and is former Chairperson 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.

Board diversity

Balance of Non-Executive Directors and Executive Directors

Non-Executive Directors: Executive Directors	9:3

Gender Balance

Male : Female	8:4

Length of Tenure

(Chairman and Non-Executive Directors)

0 – 3 years	3
3 – 6 years	3
6 – 9 years	2
10 years+	1

Geographical Mix

United Kingdom	10
Rest of Europe	1
North America	1
Rest of World	0

Age

35 – 45	0
45 – 55	2
55 – 65	7
65+	3

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 2017. 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 4 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 31 to the financial statements on page 235 and details of international branches are shown on page 245.

Ownership

At the date of this report, the entire issued Ordinary share capital of the Company and 2.5% (2016: 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 104 to 106.

Andrew McIntrye and Chris Moulder were appointed as Non-Executive Directors (NEDs) of the Company on 4 April 2017 and 27 September 2017 respectively. Edward Creasy resigned as a director and Chairman on 31 March 2017 and John Hylands was appointed Chairman on the same date. The Very Revd Christine Wilson was appointed as Senior Independent Director on 1 November 2017, succeeding Mr Hylands.

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. With the exception of Anthony Latham who will retire at the annual general meeting (AGM), all directors who have served since the last AGM will be proposed for re-election at the forthcoming AGM. Andrew McIntyre and Chris Moulder 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 2017. 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 2017:

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 (2016: £9,181,000).

The directors do not recommend a final dividend on the Ordinary shares (2016: £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 £27.5 million (2016: £24.7 million).

During the last 10 years, a total of £154.0 million (2016: £139.8 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 building engagement to involve and inform employees. We use a range of communications channels to achieve this including briefings, conferences and publishing of financial reports and we welcome feedback and discussion. We respect diversity and are committed to providing a positive and engaging working environment. This includes giving full consideration to people with disabilities – making adjustments and providing training and support where necessary.

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 57.

Events after the reporting period

There were no events after the reporting period that require disclosure in the Financial Statements.

Going concern

The Financial Performance section on page 49 and Risk Management section of the Strategic Report starting on page 57 provide a review of the Group's business activities and describe the principal risks and uncertainties, including exposures to insurance financial risk, operational and strategic risk.

The Group has considerable financial resources: financial investments of £859.7m, 93% of which are liquid (2016: financial investments of £866.5m, 94% liquid), cash and cash equivalents of £93.8m and no borrowings (2016: cash and cash equivalents of £89.5m 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 12 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, 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 128.

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

John Hylands
Chairman
14 March 2018

Mark Hews
Group Chief Executive
14 March 2018

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, although the Company is eligible for exemption from the Financial Conduct Authority's requirements related to corporate governance disclosures, the Company has chosen to voluntarily comply with the UK Corporate Governance Code 2016's Main Principles and Code Provisions throughout the year ended 31 December 2017, where relevant to the Company. The Code is available from the FRC's website. The Company does not have any shares with a Premium Listing on the London Stock Exchange and is therefore not legally required to comply with the Code or other legislation relating solely to quoted companies. The Corporate Governance disclosures include the Board Governance section, Group Nominations Committee Report, Group Risk Committee Report, Group Audit Committee Report and Group Remuneration Report.

Board Governance

The Board

The Chairman and Group Chief Executive

The roles of the Chairman and the Group Chief Executive are undertaken by separate individuals. The Chairman, John Hylands, 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

Christine Wilson 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.

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

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 Chairman 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 118; the Group Nominations Committee Report on page 120; the Group Risk Committee Report on page 126; the Group Audit Committee Report on page 128; and the Group Remuneration Report on page 136.

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 2017, the Board held five scheduled meetings, two ad hoc meetings and two strategy days. In addition, the Board participated in regular training sessions.

John Hylands 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 2017, no director had any such concerns.

Below is a record of the directors' attendance for the Board meetings (including the strategy days) during 2017:

Board attendance table

Executive Directors:	Director since	Meetings eligible to attend	Meetings attended
Mark Hews	June 2009	8	8
S. Jacinta Whyte	July 2013	8	8
Ian Campbell	April 2014	8	8

Non-Executive Directors	Director since	Meetings eligible to attend	Meetings attended
John Hylands (Chairman)	September 2007	8	8
Tim Carroll	April 2013	8	8
David Henderson	April 2016	8	7
Anthony Latham	March 2008	8	8
Andrew McIntyre	April 2017	6	6
Chris Moulder	September 2017	3	3
Caroline Taylor	September 2014	8	8
Christine Wilson	June 2012	8	7
Denise Wilson	December 2010	8	8
Edward Creasy	February 2016	2	2

During 2017, 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
Strategic Reviews of Ireland, Canada and Edentree Investment Management Limited
Equity Hedging

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
Health and Safety
Employee Engagement
Underwriting and pricing
Group Technical Provisions
Claims experience and management

Projects and other matters
Change Programme
GI Systems and IT Project
Property Review

Governance and regulatory matters
Board composition
Board Evaluation results and action plan
Governance Framework and Board Charter
Capital requirements, solvency position and ORSA
Corporate Responsibility
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 57.

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

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

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

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

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

Relationship with shareholder
Ecclesiastical Insurance Group 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.

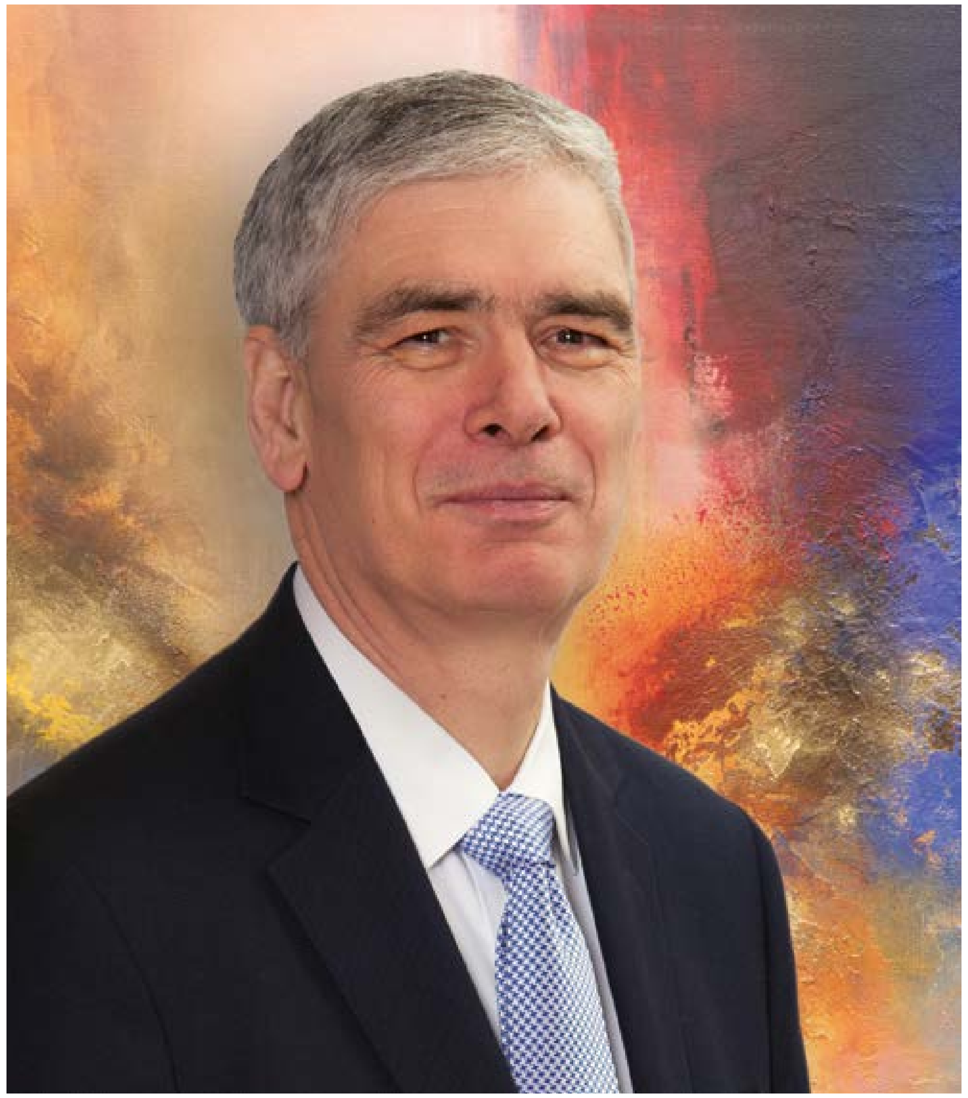
By order of the Board

Mrs. R. J. Hall
Group Company Secretary
14 March 2018

Group Finance and Investment Committee Report

Chairman's introduction

I am pleased to present the Group Finance and Investment Committee Report describing the work undertaken by the Committee during the past year.



Membership

The members of the Group Finance and Investment Committee and their attendance during the year are shown below:

Committee member	Member since	Meetings eligible to attend	Meetings attended
Tim Carroll (Chairman)	August 2013	4	4
Ian Campbell	March 2016	4	4
Caroline Taylor	March 2016	4	4
David Henderson	June 2016	4	4

Committee meetings

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

The Committee held four scheduled meetings during the year. The Committee's key responsibility is to ensure that, within designated financial limits, 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.

In addition to its remit above, the Committee also undertook a review of the Group's investment strategy which encompassed consideration of asset liability matching, liquidity, risk versus return, capital and business outlook, considered the tax strategy and capital and treasury management, reviewed the early warning indicators for market risk and a capital replenishment plan. In addition, following the Board Evaluation undertaken in the year, the Committee also reviewed the role and remit of the Committee. The outcome of the review will be considered at its meeting in March 2018 and recommendations will be made to the Board.

By order of the Board

Tim Carroll
Chairman of the Group Finance and Investment Committee
14 March 2018

Group Nominations Committee Report

Chairman's introduction

I am pleased to present the Group Nominations Committee's Report which includes the Temporary Nominations Committee established during the year. This report gives detailed information on the reason for establishing a Temporary Nominations Committee and how both Committees performed during the year.

Membership

The members of the Group Nominations Committee and their attendance at meetings during the year until it was disbanded on 15 June 2017 are shown below:

Committee member	Member since	Meetings eligible to attend	Meetings attended
Edward Creasy (Chairman)	March 2016	1	1
John Hylands	May 2013	1	1
Christine Wilson	March 2016	1	1
Denise Wilson	June 2016	1	1

The members of the Temporary Nominations Committee and their attendance at meetings during the year, following its formation on 15 June 2017, are shown below:

Committee member	Member since	Meetings eligible to attend	Meetings attended
John Hylands (Chairman)	June 2017	4	4
Mark Hews	June 2017	4	4
Sir Philip Mawer	June 2017	4	4

In March 2017, Edward Creasy resigned as Chairman. John Hylands, Deputy Chairman and Senior Independent Director, agreed to act as Chairman while a Chairman for the longer term was recruited. This resulted in the role of Senior Independent Director becoming vacant.

In the first half of 2017, the Board also undertook a Board Evaluation. The Board Evaluator recommended to the Board that the current Group Nominations Committee be disbanded and a Temporary Nominations Committee be established to lead a refresh of the Board. The Temporary Nominations Committee comprised the Chairman (John Hylands), the Group Chief Executive (Mark Hews) and the Chairman of the Parent Company, Allchurches Trust (Sir Philip Mawer). The Temporary Nominations Committee was constituted by the Board on 15 June 2017 and was disbanded on 11 December 2017.

Group Nominations Committee meetings

The Group Nominations Committee comprised the directors shown in the table above who were appointed by the Board.

The Committee held one scheduled meeting during the year which was attended by the Group Chief Executive. 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. At its meeting held in February 2017, the Committee considered the Board's performance against the objectives for 2016, set Board objectives for 2017, considered succession planning for the Board and oversaw the appointment of Andrew McIntyre as the new Chairman of the Group Audit Committee.

Temporary Nominations Committee

The Temporary Nominations Committee comprised the members shown in the table above who were appointed by the Board.

The Committee held four meetings during the year.

The remit of the Committee, agreed by the Board, was to implement the actions arising from the External Board Evaluation relating to Board succession planning being:

- a 'refresh' of the Board;
- the appointment of a Senior Independent Director;
- the appointment of a new Group Risk Committee Chairman;
- reviewing the composition of all Committees; and
- the appointment of a new EIO Board Chairman

The Board Evaluator recommended that a refresh of the Board was undertaken to obtain potential chairmen for the future. The refresh would also include the appointment of a new Senior Independent Director and focus on a successor for the Chairman of the Group Risk Committee who would retire during 2018. It was agreed that the title of Deputy Chairman would be discarded.

Refresh of the Board
The Temporary Nominations Committee agreed that the refresh should be undertaken without increasing the size of the Board. The Committee undertook a comprehensive review of the existing skills on the Board identifying gaps and reviewed the length of tenure of each director on the Board. The Committee consulted with each director to, inter alia, canvas views on candidates for the Senior Independent Director, and to consider each director's own expectation of future service. Following the consultation exercise, the letter of appointment for each director was revised and the succession plans were updated. In addition, the Committee consulted widely on potential names of candidates who could join the Board as part of the refresh. This included possible candidates to become a common director with Allchurches Trust Limited.

It was agreed that Ms Denise Wilson would stand down from the Board in August 2018 having served almost eight years. In addition, Anthony Latham was due to retire at the AGM in 2018 having served for longer than nine years and John Hylands, who had also served for longer than nine years, would resign once a Chairman for the longer term was recruited.

Appointment of the Senior Independent Director
After consultation with the Board and consideration of a number of candidates, the Committee recommended that The Very Revd Christine Wilson be appointed as the Senior Independent Director. The Board considered the recommendation at its meeting in August 2017 and unanimously supported the proposal subject to regulatory approval. Regulatory approval was received on 1 November 2017 (which became the date of appointment).

Appointment of a new Group Risk Committee Chairman
During the latter part of 2016, the Group Nominations Committee had identified that a successor needed to be sought for Anthony Latham who was due to retire from the Board at the AGM in 2018.

In early 2017, an external search consultants, 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 Risk Committee. The initial candidate list was reduced to a shortlist for consideration by the Temporary Nominations Committee. After a series of interviews and further due diligence, a preferred candidate emerged. All members of the Group Risk Committee and other members of the Board met with the preferred candidate and provided feedback. In addition, discussions were held with Allchurches Trust Limited. The Board unanimously approved the appointment of Chris Moulder as a Non-Executive Director on 27 September 2017. Subject to regulatory approval, Chris Moulder will succeed Anthony Latham as Chairman of the Group Risk Committee when he retires from the Board.

Reviewing the composition of all Committees
The Temporary Nominations Committee considered the size and composition of the Board Committees. A number of proposals were made to the Board at its meetings in November 2017 and February 2018 which were agreed. At the November Board meeting it was noted that the Temporary Nominations Committee would complete its remit in December and disband, and that the Group Nominations Committee would be reformed in 2018. It was agreed that the members of the newly formed Group Nominations Committee would be The Very Revd Christine Wilson (in the Chair), Tim Carroll, David Henderson and John Hylands.

Subject to regulatory approval, David Henderson will succeed Denise Wilson as Chairman of the Group Remuneration Committee when she relinquished her chairmanship of that Committee in March 2018. In addition, it was agreed at the Board meeting in February 2018 to appoint Caroline Taylor as a member of the Group Audit Committee and The Very Revd Christine Wilson to the Group Remuneration Committee.

Appointment of a new EIO Board Chairman
Following the recommendation of the external Board Evaluator, the Temporary Nominations Committee agreed that the process to appoint a successor to John Hylands as Chairman should be led by the Senior Independent Director once settled in her new role. The Board Evaluator recommended that a new Chairman should be appointed from within the existing Board and that the Board member had served on the Board for at least a year to enable them to absorb the culture, the history and the workings of the Board. This recommendation was considered by the Committee and, although accepted in principle, it was agreed that an external benchmarking exercise would be undertaken in parallel to considering internal candidates. The appointment will be progressed during the Spring of 2018. All newly appointed directors have to receive regulatory approval in accordance with the Senior Insurance Managers Regime (SIMR).

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. The letters of appointment were reviewed in light of the recommendations made by the Board Evaluation and 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 33% with four female members in a current membership of 12. This meets the Hampton-Alexander 2020 target (FTSE 350) for female Board representation. The Board, via the Group Nominations Committee, will 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.

As demonstrated in the Board Diversity table, the Company has a balanced and diverse Board. All Board appointments are made on merit, in the context of the diversity of skills, experience, background and gender required to be effective. The Board will take opportunity, as and when appropriate, to further improve diversity in the wider sense and from all backgrounds as part of its Board recruitment practice. Apart from the commitment to maintain a 33% female representation on the Board, the Board has not set any further targets.

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 and has appointed an executive director, Ian Campbell, as a senior executive responsible for diversity. During the year, the Company reported publicly on progress made against the initiative. Further information is provided in the Corporate Responsibility Report.

The Board Diversity Policy will be reviewed during 2018 following the publication of the revised UK Corporate Governance Code.

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 Company Secretariat.

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 UK Corporate Governance Code; Board minutes for the current and past year; the Governance Framework (including Expectations of SBUs and Board Charter), Board dates and contact details.

After appointment, a two-day induction programme is provided where presentations are given by Company Secretariat, 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 meet individually with the Chairman of Allchurches Trust Limited, the Group Chairman, the Senior Independent Director, 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 2017, a number of training sessions took place which covered Internal Model, Cyber Security and regulatory matters.

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 was considered by the Board in May 2017. The main recommendations arising from the Board Evaluation related to the Board Succession planning as described in detail in this report. In addition, the Board Evaluation recommended that the purpose of the Group Finance and Investment Committee be reviewed (see the Group Finance and Investment Committee report for further detail) and the format, timeliness and presentation of information presented to the Board be revised with better use of executive summaries. All recommendations were completed by the date of this report.

It is the Board's policy for its evaluations to be facilitated every two years. The Board have agreed that the next external evaluation would be postponed until 2019 once the new Chairman has been in role for a year.

All directors receive an annual appraisal from the Chairman. The Chairman is appraised by the Board, in his absence, led by the Senior Independent Director.

Re-election of directors

In line with the UK Corporate Governance 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 Group Nominations 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 2017. Independence is reviewed as part of each director's annual appraisal, considered by the Committee, and agreed by the Board annually. In 2017, two NEDs, John Hylands and Anthony Latham have served for more than nine years on the Board, and Denise Wilson has 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 2017, the NEDs continued to be effective and fulfilled their time commitment as stated in their letters of appointment. Anthony Latham will retire at the AGM. Chris Moulder and Andrew McIntyre will be recommended for election at the forthcoming AGM. All other NEDs at the date of this report are recommended for re-election at the AGM.

By order of the Board

Christine Wilson
Chairman of Group Nominations Committee
14 March 2018

Group Risk Committee Report

Chairman's introduction

I am pleased to present the Group Risk Committee's 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 57.

Membership

The members of the Group Risk Committee 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	10	10
S. Jacinta Whyte	February 2014	10	10
Tim Carroll	August 2013	10	10
John Hylands*	September 2010	9	8
Andrew McIntyre**	August 2017	3	2
Chris Moulder***	September 2017	2	1

* John Hylands stepped down from the Committee on 3 October 2017.
** Andrew McIntyre was appointed to the Committee with effect from 22 August 2017.
*** Chris Moulder was appointed to the Committee with effect from 27 September 2017.

Committee meetings

The Group Risk Committee comprised the directors shown in the table above who were appointed by the Board.

The Committee held ten meetings during the year which were attended by the Group Chief Risk Officer. The number of meetings had increased significantly compared with 2016 due to the preparations for the Internal Model application. The Committee's key responsibility is to assist the Board in monitoring the appropriateness and effectiveness of the Group's risk strategy, appetite and profile, risk management culture, own risk self-assessment, and Enterprise Risk Management Framework. In addition, the Committee oversees compliance monitoring across the Group, including prudential risk, business continuity, customer and conduct risk, financial crime, cyber risk and reputational risk.

A key focus of the Committee's work this year has been to oversee preparations for the Internal Model application submitted to the PRA in October 2017. This has included monitoring the development, governance, methodology and integration of the internal model, the validation cycle, the internal model application itself and post submission feedback. The Committee has also reviewed capital requirements across the Group and material outsourcing risks.

During the year, the Committee also received regular reports from Group Compliance including compliance breaches, financial crime, business continuity, information security, the regulatory outlook and the Money Laundering Reporting Officer's Report. In addition to its duties the Committee also considered reports on the output of an internet resilience review of EdenTree Investment Management Limited, a Social Engineering (Phishing) Test, considered the implementation of General Data Protection Regulations and undertook a review of the Group's Policy framework.

The Group Chief Risk Officer reports to the Committee and has direct access to the Committee Chairman and the NEDs. The Committee ensures that it meets with the Group Chief Risk Officer at least once a year without the Executive Directors present. The Director of Group Compliance also reports to the Committee regularly.

By order of the Board

Anthony Latham
Chairman of the Group Risk Committee
14 March 2018

Group Audit Committee Report

Chairman's overview

This is my first report as Chair of the Group Audit Committee and I am pleased to report that during 2017 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. This year Chris Moulder and I joined the Committee. John Hylands, who had chaired this Committee since 2009, stepped down from the Committee in April 2017 following his appointment as the Group's Chairman.

Accurate and informative financial reporting and an effective control environment are of critical importance to the Board and the Group's stakeholders and the Committee has continued to play a key role within the governance framework to support the Board in these areas. We have had another busy year carrying out our principal responsibilities which are set out in this report. One of the year's highlights included our work in respect of the first full annual submissions under the Solvency II regime.

Once again the Committee has considered the processes underpinning the production and approval of this year's Annual Report. From an accounting and reporting perspective, the significant issues considered in detail by the Committee are set out on pages 132 to 133.

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 64 to 71. 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.

Looking ahead, we will be overseeing the preparations for and the implementation of some significant accounting standards, particularly IFRS 17 "Insurance Contracts", together with IFRS 9 "Financial Instruments", IFRS 15 "Revenue from contracts with customers" and IFRS 16 "Leases". These are described further in note 1 to the financial statements on pages 181 to 182.

Andrew McIntyre
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 Andrew McIntyre 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
Andrew McIntyre (Chairman)*	April 2017	5	5
John Hylands**	March 2008	2	2
Tim Carroll	April 2013	7	6
Anthony Latham	December 2008	7	5
Chris Moulder***	September 2017	1	1
Denise Wilson	August 2011	7	7

* Andrew McIntyre was appointed to the Committee as Chairman with effect from 4 April 2017.
** John Hylands was Chairman and a member of the Committee until 4 April 2017.
*** Chris Moulder was appointed to the Committee with effect from 27 September 2017.

Committee meetings

During the year, the Committee had seven 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, the Group's external auditor, is invited to attend meetings, and during 2017 they attended six of the seven 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 is set out below:

Auditor appointment, independence and non-audit services

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 agreeing the audit fee.

Deloitte was initially appointed as the Group's external auditor in 1998 and was re-appointed in 2015 following a formal tender process. The external audit is led by the Deloitte audit partner Paul Stephenson who has held the role for the Group for three years. The Company confirms that it complied with the provisions of the Competition and Markets Authority's Order for the financial year under review.

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.

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 2017 audit and presented it for review by the Committee at its November meeting. The plan described the proposed scope of the work and the approach to be taken, and also proposed 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.

For the year ended 31 December 2017, the Group was charged £487,000 (ex VAT) by Deloitte LLP and its associates for audit services. The fees for other assurance services required by legislation and/or regulation amounted to £212,000, making total fees from Deloitte of £699,000. 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 209.

External audit effectiveness

An annual review of the Auditor was undertaken through the completion of questionnaires by senior management, business unit leaders and those members of staff most involved in the external audit process. Following review of the questionnaires and the Committee's own assessment of external audit process the Committee concluded that Deloitte continued to perform effectively and 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 2018.

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 and annual regulatory reporting under Solvency II 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 and regulatory 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.

In respect of these annual financial statements the Committee paid particular attention to the significant judgements set out below, the going concern and viability statements, review of the corporate governance disclosures and monitoring of the external audit process. The Committee also reviewed the disclosures regarding the Group's alternative performance measures (APMs).

The Committee reviewed and challenged the Group's annual regulatory submissions under Solvency II in the second quarter of the year. We managed a co-ordinated approach across our Board committees, with the Group Risk Committee monitoring the construction of the partial internal model which was submitted for regulatory approval in October 2017. The Group Audit Committee focused on the new reporting requirements of the publicly filed SFCR and QRTs and privately filed RSR.

The significant areas of focus considered by the Committee in relation to the 2017 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 57, and also note 2 to the financial statements on page 188.

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 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 and key judgements. 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 years' reserves recommended by management, taking into account the Group Reserving Actuary's assessment of the sufficiency of these reserves. The Committee challenged management on whether the proposed releases were reasonable including areas where events not in data could affect the future outcome of the reserves to ensure the reserves remained appropriately prudent. The Committee continues to maintain a focus on the longer term reserves relating to asbestos and PSA claims and reviewed actual claims experience against expectations throughout the year. The Committee noted and supported Management's decision to hold an additional margin in respect of future PSA claims as the IICSA review continues and additional reserves for Public Liability Asbestos as an emerging risk area. Following all of our reviews and discussions, the Committee was satisfied that the reserving process and outcomes were robust and well managed and that the overall reserves set were reasonable.
Life insurance reserves The calculation of the Group's life insurance reserves requires management to make significant judgements about bond yields, discount rates, credit risk, mortality rates and current expectations of future expense levels.	The Committee considered a report from the Chief Actuary of Ecclesiastical Life Limited ("ELL") which set out his recommendations for the basis and methodology to apply for: • the valuation of policy liabilities for inclusion in the report and accounts for ELL at 31 December 2017, and • the calculation of technical provisions in accordance with Solvency II regulations at 31 December 2017. The Committee noted that no material changes in methodology were proposed, for either the accounts or Solvency II reporting basis, from those used for the valuations at 31 December 2016. The Committee reviewed the work done by the Chief Actuary to assess whether the methodology remained appropriate, with a particular focus on mortality assumptions, interest and inflation rate assumptions and the assumptions used for valuing future expense cash-flows. 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.

Matter considered	Action
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 2017) 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 business plans 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. The Committee paid particular attention to management's proposal to reduce both the discount rate and long-term growth assumption used in the calculation. The drivers behind the change in discount rate and evidence to support the revised assumptions were provided by Management for the Committee to consider. After its reviews, the Committee agreed with management's revised assumptions and the conclusion that no impairment was required for any of the businesses under review.
Valuation of defined benefit pension scheme liability Although the Group's main defined benefit scheme is in surplus, the liabilities of the schemes are material in comparison to the Group's net assets and the valuation requires many actuarial assumptions, including judgements in relation to long-term interest rates, inflation, longevity and investment returns. Judgement is applied in determining the extent to which a surplus in the Group's main defined benefit scheme can be recognised as an asset.	During 2017, 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. A Triennial valuation of the Group's main defined benefit pension scheme was due as at 31 December 2016 which progressed during the year and concluded in February 2018. The Trustees made some changes to assumptions compared with the previous valuation and Management has considered whether this had any impact on the IAS 19 valuation. Following this review, management concluded no change in approach was required, apart from updating assumptions to reflect economic market conditions at 31 December 2017. Following consideration, particularly on the proposal to adopt the 2016 CMI projection model prepared by the Continuous Mortality Investigation Bureau to allow for future improvements in mortality as the Trustees had done in their latest valuation, the Committee concluded that the assumptions proposed were appropriate and in line with normal market practice. After careful consideration of the requirements of International Financial Reporting Interpretations Committee 14 (IFRIC 14), the Committee concluded that recognition of the full surplus in the Group's main defined benefit scheme was appropriate. The impact of updating assumptions to reflect those in force at the balance sheet date on the valuation at 31 December 2017 are explained in note 17 to the financial statements on page 214.

Fair, balanced and understandable

The Board requested that the Committee confirm whether the annual report and accounts taken as a whole were fair, balanced and understandable and whether it provided the necessary information for shareholders and other stakeholders to assess the Group's performance, business model and strategy. The Committee recommended that the Board make this statement which is on page 112.

In making this recommendation the Committee 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. 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.

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 114.

In reviewing the effectiveness of the system of internal control and risk management during 2017, the Committee has:

- reviewed the findings and agreed management actions arising from both external and internal audit reports issued during the year;
- monitored management's responsiveness to the findings and recommendations of the Director of GIA;
- met with the Director of GIA once during the year without management being present to discuss any issues arising from internal audits carried out; and
- considered a report prepared by the Director of GIA giving his assessment of the strength of the Group's internal controls based on internal audits performed during the year.

Internal control over financial reporting

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

- through clearly defined role profiles and financial mandates, there is effective delegation of authority;
- there is adequate segregation of duties in respect of all financial transactions;
- commitments and expenditure are appropriately authorised by management;
- records are maintained which accurately and fairly reflect transactions;
- any unauthorised acquisition, use or disposal of the Group's assets that could have a material effect on the financial statements should be detected on a timely basis;
- transactions are recorded as required to permit the preparation of financial statements; and
- the Group is able to report its financial statements in compliance with IFRS.

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

Group Internal Audit (GIA)

GIA is monitored by the Committee and provides independent, objective assurance to the Board that the governance processes, management of risk and systems of internal control are adequate and effective to mitigate the most significant risks to the Group. GIA operate a co-sourcing arrangement in the UK and Ireland where specialist resource is required to supplement existing resources. In addition, GIA oversees and monitors the outsourced internal audit arrangements in Australia and Canada.

The Committee has oversight responsibility for GIA and is satisfied that GIA has the appropriate resources. 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. In accordance with the International Professional Practice Framework for Internal Audit an independent and objective external assessment of the internal audit function will be performed in 2019. The Chair of the Audit Committee will oversee and approve the appointment process for the independent assessor.

Whistleblowing

The Committee is responsible for reviewing the Group's whistleblowing procedures and receives regular updates. One issue was raised during the year and was resolved satisfactorily.

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 is 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

Andrew McIntyre
Chairman of the Group Audit Committee
14 March 2018

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 2017 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 2017; major decisions taken by the Committee during the year; and changes made to directors' remuneration. The Directors' Remuneration Policy on pages 139 to 152 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 152 to 161 describes how the Group's remuneration policies have been implemented in 2017, providing retrospective disclosures on directors' remuneration for 2017 and setting out how the Policy will be implemented in 2018.

Review of performance and incentive outcomes
As described in the Strategic Report starting on page 15, the Group has delivered increased profits for the third successive year at £82.2m, (2016: £62.5m), underpinned by strong investment returns, GWP growth of 11% to £343m and good underwriting profit. Underwriting profit increased to £27.1m (2016: £20.1m), resulting in a Group combined operating ratio of 86.9% (2016: 89.8%).

Given the Group's strong performance over the year, the Committee is satisfied that (i) the annual bonus awards of 99% (Group Chief Executive), 94% (Deputy Group Chief Executive) and 88% (Group Chief Financial Officer) of the maximum potential value and (ii) the 75% vesting of the long-term incentive plan (LTIP) granted in 2015, are reflective of performance and 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 2017, no adjustments were considered necessary to the 2017 annual bonus or the 2015-2017 LTIP.

Key Committee activities during the year
During the year, the Committee undertook a 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 Committee determined that the remuneration packages of the three executive directors were appropriately aligned with the Group's strategic objectives, reflective of the experience and track record of the executive directors and comparative benchmarking.

The Committee reviewed the remuneration packages of one new, and one existing, head of its 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) (part of the EIG Group) and Ecclesiastical Canada.

During 2017 the Group published its gender pay gap, underlining the Group's commitment to diversity and gender balance at every level in the business and to ensure that all employees, both men and women, have a fair and equal pay opportunity. The Group's 2017 mean gender pay gap was 30.7% and is largely driven by the higher proportion of men in senior roles, and the higher proportion of women in more junior roles. The Group aims to achieve greater gender balance at all levels, including enabling the appointment of more women to senior roles in the Group. As described in the Corporate Responsibility Report starting on page 73, the Group is pursuing a range of initiatives to encourage diversity as part of its commitment to the Women in Finance Charter.

The regulatory and corporate governance environment in which the Group operates continued to evolve. During 2017, the Committee considered the implications of the Markets in Financial Instruments Directive and the SYSC 19F Remuneration Code on remuneration policy.

The Board also reviewed fees for Non-Executive Directors (NEDs), including the Chairman and Deputy Chairman/SID, during 2017, in line with its two-year review cycle. The increases (set out on page 161) reflect the continuing increases in workloads in recent years and are designed to bring fees in line with those paid at similar-sized companies, ensuring that the Group will continue to be able to attract NEDs with the range of experience and skills to oversee the implementation of our strategy.

Finally, I value the continued support from our charitable owner and shareholder Allchurches Trust Limited, 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
14 March 2018

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	5	5

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 (GMB), Material Risk Takers 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 2017, 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 above. All members are independent NEDs and have the necessary experience and expertise to meet the Committee's responsibilities. The Very Revd Christine Wilson was appointed to the Committee on 6 February 2018.

Advisers to the Committee
During the year, the Committee received external advice from Aon Hewitt, New Bridge Street (NBS) in relation to the review of the Group's Remuneration Policy; the determination of appropriate remuneration packages for executive directors, members of the GMB and heads of strategic business units; and remuneration market trends and regulation. 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 2017 for professional advice to the Committee were £68,000 (2016: £112,000). The Committee is satisfied that the advice received during 2017 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, Chairman Group Risk Committee, Chairman Group Audit Committee, Group Chief Executive, Group HR Director, Director of Group Finance, CRO, Director of Group Internal Audit and Group Reward Manager. Such input, however, never relates to their own remuneration.

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 2018. 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)
The following table provides a summary of the key components of the remuneration package for the 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 2017
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 is 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 2018, these are: • Ecclesiastical Insurance Group (EIG) PBT (including fair value investment gains/losses) • Group COR • Strategic targets • Customers and conduct targets • 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 2017
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 2016-2018 and 2017-2019 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 2018 awards relating to the performance period 2018-2020, the following performance conditions will apply: • Group EIG PBT (excluding fair value investment gains/losses) • Group EIG PBT (including fair value investment gains/losses) • Group COR • Strategic targets and • Customers and conduct targets. There is a 36-month performance period from the date of grant.	Weighting of Strategic Targets reduced to 15% (from 20%) weighting of Customer and Conduct reduced to 10% (from 20%). Weighting of all financial measures increased to 25% (from 20%).

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 may be detrimental to its interests. The Committee will keep this under review, meanwhile targets will 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) if 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 in respect of clawback from the date of bonus payment and LTIP vesting.

Changes to the Policy from that operating in 2017

The weighting of financial and non-financial performance conditions within the LTIP will be revised in the 2018 LTIP award relating to performance period 2018-2020, in order to increase the overall weighting on financial performance conditions relative to non-financial performance conditions. The weighting of Strategic Targets is reduced to 15% (from 20%) and that of Customer and Conduct reduced to 10% (from 20%). The weighting of Group EIG PBT (excluding fair value investment gains and losses); Group EIG PBT (including fair value investment gains and losses) and Group COR is increased to 25% in each case (from 20%). This change to the Group's Remuneration Policy will be made in 2018 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 147. 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

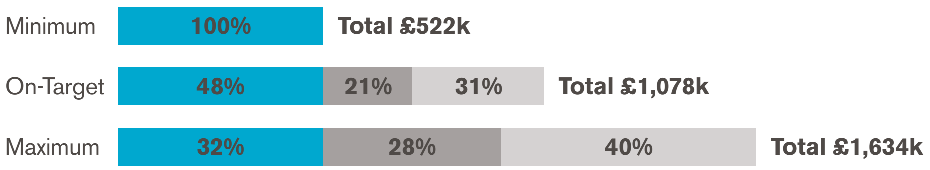
The remuneration scenario charts below illustrate what each executive director could earn in respect of the policy for 2018, under different performance scenarios:

- 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.

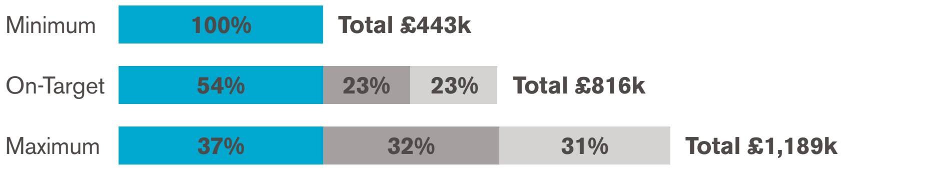
Notes to the charts:

- Fixed pay is base salary for 2018 plus the value of pension and benefits.
- Base salary is the aggregate of the salary applicable at 1 January 2018 for January to March 2018 and the salary applicable at 1 April 2018 for April to December 2018.
- 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 2018 pension contributions to the UK Defined Contribution Scheme and, to the extent applicable in 2018, the pension cash allowance applicable where contributions would be above the Annual or Lifetime Allowance.
- The value of benefits in-kind is taken from the single figure table for 2017, which can be found on page 153.

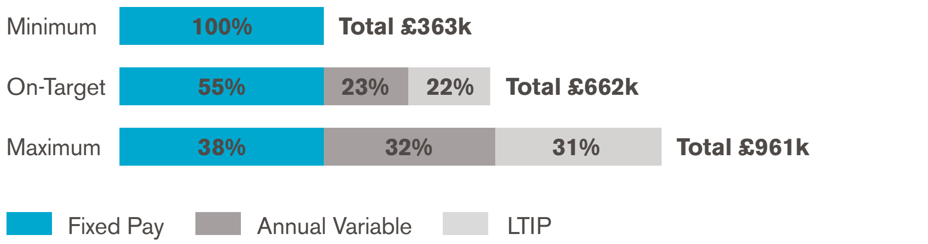
Mark Hews: Effect of the application of this policy in financial year 2018



S. Jacinta Whyte: Effect of the application of this policy in financial year 2018



Ian Campbell: Effect of the application of this policy in financial year 2018



Approach to recruitment remuneration

Ecclesiastical is a specialist financial services group competing for talent across a variety of markets.

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 the Deputy Group Chief Executive and Group Chief Financial Officer.	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 £516k 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 £152k.

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 144.	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 the 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 the shareholder's views.

Annual Report on Remuneration

This section of the Directors' Remuneration Report sets out how the above Remuneration Policy was implemented in 2017 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 2017 financial year for each executive director, together with comparative figures for 2016. Aggregate executive directors' emoluments are shown on page 160. Details of NEDs' fees are set out in a separate table on page 159.

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	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Mark Hews	429	393	15	14	437	385	276	527[4]	55	51	1,212	1,370
S. Jacinta Whyte[6]	363	347	22	23	345	344[7]	244	117	55[8]	52[8]	1,029	883
Ian Campbell	289	267	23	27	260	236	188	64	38	36	798	630
Total	**1,081**	**1,007**	**60**	**64**	**1,042**	**965**	**708**	**708**	**148**	**139**	**3,039**	**2,883**

[1] Benefits include items such as a car allowance and private medical insurance which are valued at their taxable value. They also include travel and accommodation benefits, valued at their grossed up tax and NI value. Provision of benefits during 2017 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 2017 the value of executive directors' annual bonuses that were deferred is: £107k (Group Chief Executive); £69k (Deputy Group Chief Executive) and £38k (Group Chief Financial Officer).

[3] LTIP represents the amount payable in respect of the three-year LTIP performance period 2015-2017 for 2017 and 2014-2016 for 2016, together, in 2016 only, with the amounts payable in respect of the Group Chief Executive's three-year incentive plan (2016: £198k) and the Deputy Group Chief Executive's 3-year incentive plan (2016: £38k). 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] The Group Chief Executive and Group Chief Financial Officer received a cash allowance in lieu of pension during 2017, 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] An average 2017 exchange rate of 1.6850 Canadian dollars to 1 GBP have been used in respect of both 2017 and 2016.

[7] The Deputy Group Chief Executive received an award of £29k 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] Contributions to the Canadian pension plan that are above the Canadian Revenue Agency's prescribed limit are paid into a SERP. These contributions for the Deputy Group Chief Executive are included in the figures shown.

Mark Hews is a NED for MAPFRE RE and was appointed to their Board in December 2013. The fee of £31k 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 2017 (audited)
The annual bonuses payable to executive directors in respect of 2017 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 2017, 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%); and 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 2017 were:

Performance condition	Threshold (0.5x)	Target (1.0x)	Maximum (1.5x)	Weighting
Group EIG PBT	£13.9m	£34.1m	£62.0m	30%
Group COR	97.9%	92.9%	89.9%	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 2017, and the resultant aggregate Group performance multiplier, are shown below.

Performance condition	Result	Multiplier	Weighting	Weighted multiplier
Group EIG PBT[1]	£84.5m	1.5	30%	0.6
Group COR	86.9%	1.5	40%	0.5
Strategic Targets	92.5%	1.4	15%	0.2
Customer and Conduct	92%	1.1	15%	0.2
Aggregate Group performance multiplier				1.42

The Strategic Targets performance condition measures delivery of the Group's change programme. The agreed priorities for 2017 continued the strategic programme of change launched in 2016, in support of the Group's strategic goal to be the most trusted and ethical specialist financial services group, giving £100m to charity by the end of 2020.

[1] Audited to EIO Group level

As set out in more detail in the Strategy in action report on pages 37 to 42, the Group has continued to deliver the key elements of its strategy whilst investing in its businesses, including through new products, propositions and upgrades to technology infrastructure.

In line with the Group's commitment to delivering exceptional customer service and the highest standards of conduct, the Customer and Conduct performance condition measures delivery against the high standards set across a range of customer and conduct metrics and across all Group businesses. The Group delivered an out-turn of 92% against the customer and conduct metrics for 2017.

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 144.

LTIP outcomes in 2017 (audited)
The LTIP amount included in the single total figure of remuneration is the cash award resulting from the Group LTIP grant in 2015 for the period 2015-2017. Vesting was dependent on performance over the three financial years ending on 31 December 2017 and continued service until March 2018.

The 2015-2017 Group LTIP is subject to the five performance conditions: Group COR (20%); Group EIG PBT (excluding fair value investment gains and losses) (20%); Group EIG PBT (including fair value investment gains and losses) (20%); delivery of Group strategic initiatives in line with the Group's strategic plan (20%); and Customer and Conduct performance (20%). 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	99.5%	94.5%	92.0%	89.9%	100%
Group PBT (excluding fair value investment gains and losses)[1]	£109m	£146m	£167m	£137m	42%
Group PBT (including fair value investment gains and losses)[1]	£99m	£179m	£207m	£203m	93%
Strategic Targets	50%	75%	100%	87.8%	76%
Customer and Conduct	80%	90%	100%	93.0%	65%
Total					75.2%

[1] Audited to EIO Group level

The Group LTIP outcome that vests in respect of each executive director in respect of 2015-2017 is shown below.

	LTIP grant	Total LTIP vesting	
	% of salary	£000	% of maximum
Mark Hews	100%	276	75%
S. Jacinta Whyte[1]	100%	244	75%
Ian Campbell	100%	188	75%

[1] An average 2017 exchange rate of 1.6850 Canadian dollars to 1 GBP has been used in respect of 2017.

Scheme interests awarded during 2017 (audited)

During 2017, awards comprising of a cash sum were granted under the 2017-2019 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 2020, to the extent that the applicable performance targets are met. The vesting date for these awards is the date on which the Group's 2019 results are announced, anticipated to be during March 2020.

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]
2017-2019 Group LTIP						
Mark Hews	14 Jun 2017	150%	593	20%	31 December 2019	• Group COR 20% • Group EIG PBT (excluding fair value investment gains/losses) 20% • Group EIG PBT (including fair value investment gains/losses) 20% • Strategic targets 20% • Customers and conduct targets 20%
S. Jacinta Whyte[1]	14 Jun 2017	100%	349	20%	31 December 2019	
Ian Campbell	14 Jun 2017	100%	269	20%	31 December 2019	

[1] An average 2017 exchange rate of 1.6850 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 2016 to 2017) 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[2]	9.1%	3.9%
Taxable benefits[3]	0%	0%
Annual bonus[2]	13.6%	3.1%

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

[2] The Group Chief Executive's three-year incentive plan ceased at the end of 2016. The remuneration package, including the salary, for the Group Chief Executive was re-shaped for 2017 to reflect progress and to incentivise the Group's longer-term strategic requirements. The adjustment made to the Group Chief Executive's salary in 2017 underlies both the year-on-year percentage change in salary and annual bonus shown.

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

Relative importance of spend on pay

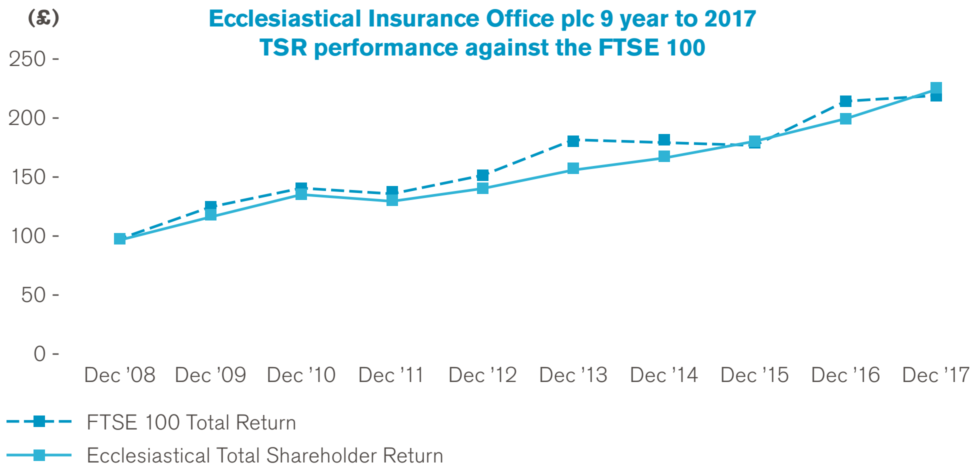
The table below sets out for 2017 and 2016, the actual costs of employee remuneration; grants paid to Allchurches Trust Limited; and dividends paid to Preference shareholders. PBT in each year is provided for context.

	2017	2016	% change
	£000	£000	
Remuneration paid to all Group employees	77,778	70,780	9.9%[1]
Gross charitable grants to the ultimate parent company, Allchurches Trust Limited	26,000	24,000	8.3%
Non-Cumulative Irredeemable Preference share dividend	9,181	9,181	Nil
PBT	82,196	62,452	31.6%

[1] The increase in staff remuneration costs in 2017 reflects the higher number of employees, salary inflation and the exchange impact of translating remuneration costs from overseas entities into sterling. See note 12 to the financial statements on page 210.

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, Mark Hews, and prior Group Chief Executive, Michael Tripp, for the nine years to 31 December 2017.

		Financial year ending 31 December								
Financial year	Group Chief Executive[1]	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Total remuneration (single figure) £000	Mark Hews	N/A	N/A	N/A	N/A	569	907	1,089	1,370	1,212
	Michael Tripp	516	430	416	390	330	162	N/A	N/A	N/A
Annual bonus received (% of maximum)	Mark Hews	N/A	N/A	N/A	N/A	45%	78%	88%	97%	99%
	Michael Tripp[2]	88%	23%	0%	0%	N/A	N/A	N/A	N/A	N/A
Long-term incentive vesting (% of maximum)	Mark Hews[3]	N/A	N/A	N/A	N/A	4%	60%	70%	88%	75%
	Michael Tripp[4]	27%	27%	34%	0%	4%	47%	N/A	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] The LTIP vesting relevant to Mark Hews represents the amount vesting in respect of the three-year LTIP performance period 2012-2014 for 2014; 2013-2015 for 2015 and 2014-2016 for 2016, together with the amounts vesting in respect of the Group Chief Executive's three-year incentive plan in 2014, 2015 and 2016 respectively. The Group Chief Executive's three-year incentive plan concluded at the end of 2016. LTIP vesting in 2017 represents the amount vesting in respect of the three-year LTIP performance period 2015-2017 (only), under the revised LTIP structure introduced at the 2015-2017 LTIP grant.

[4] 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 110.

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 2017.

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 Board 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 November 2017 with increased fees becoming effective from 1 January 2018. 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) 2017**	**Fees (£000) 2016**
John Hylands[1]	110	64
The Very Revd Christine Wilson[2]	-	-
Anthony Latham[3]	80	80
David Henderson[4]	65	49
Denise Wilson	60	60
Tim Carroll	58	58
Caroline Taylor	50	50
Andrew McIntyre[5]	44	-
Edward Creasy[6]	71	116
Chris Moulder[7]	13	-
Will Samuel[8]	-	14
David Christie[9]	-	14
Total	**552**	**505**

[1] John Hylands was appointed as Chairman on 31 March 2017.

[2] The Very Revd Christine Wilson was appointed as Senior Independent Director on 1 November 2017. No fee has been paid in 2017 to Christine Wilson as she waived her right to a fee. The Group chose to donate £27.5k to charity in 2017 (£50k in 2016).

[3] Anthony Latham received an additional fee of £20k during 2016 and 2017 for significant additional work as Chairman of the Group Risk Committee in relation to Solvency II and IMAP.

[4] David Henderson received an additional fee of £10k in 2016 and an additional fee of £15k in 2017 for services as a NED to EdenTree Investment Management Limited.

[5] Andrew McIntyre was appointed as a NED on 4 April 2017.

[6] Edward Creasy retired as Chairman of the Group and from the Board on 31 March 2017. His single total figure of remuneration for 2017 included £31k of fees and an ex-gratia fee of £40k in respect of his service to the Company, initially as Chairman of Lycetts and then the wider Ecclesiastical Group.

[7] Chris Moulder was appointed as a NED on 27 September 2017.

[8] Will Samuel retired as Chairman of the Group and from the Board on 16 March 2016.

[9] 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 2017 was £2,695k (2016: £2,541k). After inclusion of amounts receivable under long-term incentive schemes and pension benefits, the total aggregate emoluments of the directors was £3,551k (2016: £3,388k).

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 2018

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 2018 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 2018.

Name	Salary (£000)	Salary (£000)	Percentage increase
	1 April 2018	1 April 2017	
Mark Hews	452	440	2.75%
S. Jacinta Whyte[1]	378	368	2.75%
Ian Campbell	303	295	2.75%

[1] An average 2017 exchange rate of 1.6850 Canadian dollars to 1 GBP has been used.

Annual bonus for 2018

The annual bonus performance conditions and targets have been set in accordance with the Directors' Remuneration Policy above, on the same basis as 2017.

As in 2017, the annual bonuses payable to executive directors in respect of 2018 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 2018, 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 2018 is unchanged at 100% of salary.

Annual bonuses in respect of 2018 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 2018-2020

The 2018-2020 LTIP performance conditions and targets have been set in accordance with the Directors' Remuneration Policy above.

The 2018-2020 Group LTIP will be subject to the following performance conditions (which are unchanged from 2017 except in relation to the weighting of performance conditions): Group EIG PBT (excluding fair value investment gains and losses) (25%); Group EIG PBT (including fair value investment gains and losses) (25%); Group COR (25%); delivery of Group strategic initiatives in line with the Group's strategic plan (15%); and Customer and Conduct performance (10%). Awards under the 2018-2020 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 2018.

	Fees (£000)
All-inclusive fee for the Group Chairman	132.5
All-inclusive fee for the Deputy Chairman/SID	65
Basic fee for a NED (including Committee Membership)	52.5
Fee for NED of separate regulated or legal entity	15
Fee for chairing the Group Audit Committee	12
Fee for chairing the Group Remuneration Committee	12
Fee for chairing the Group Risk Committee	12
Fee for chairing the Group Finance and Investment Committee	10
Fee for chairing the Group Nominations Committee[1]	10

[1] The fee for chairing the Group Nominations Committee is included within the all-inclusive fee for the Deputy Chairman/SID for 2018.

Independent Auditor's Report

Report on the audit of the financial statements

Opinion
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 2017 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.

We have audited the financial statements of Ecclesiastical Insurance Office plc (the 'parent company') and its subsidiaries (together the 'group') which comprise:

- the Consolidated Statement of Profit or Loss;
- the Consolidated and Parent Statement of Comprehensive Income;
- the Consolidated and Parent Statements of Changes in Equity
- the Consolidated and Parent Statement of Financial Position;
- the Consolidated and Parent Statement of Cash Flows; and
- the Notes to the Financial Statements 1 to 33.

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.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	Materiality	Scoping	Significant changes in our approach
The key audit matters that we identified in the current year were: • General insurance reserves • Life insurance reserves • Carrying value of goodwill • Valuation of the defined benefit pension obligation and recognition of a net surplus Within this report, any new key audit matters are identified with ↑ and any key audit matters which are the same as the prior year identified with →.	The materiality that we used for the group financial statements was £5.7m which was determined on the basis of 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 parent company's 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 company audits for trading companies were executed at levels of materiality applicable to each individual entity, in the range from £0.03k to £5m.	• In the current year, the recognition of the defined benefit pension surplus under IAS 19 and IFRIC 14 is included in our key audit matter related to pensions. In the prior year the group's defined benefit scheme was in a net deficit position, therefore this aspect of the key audit matter was not applicable in 2016. • The medical expense inflation assumption used in the valuation of the private medical insurance ('PMI') scheme which we commented on in our 2016 auditor's report is no longer considered to be a key audit matter. • During 2017, we reassessed the key audit matter identified in the prior year in relation to revenue recognition. As a result, we concluded that this was no longer considered a key audit matter in the current year and have consequently not included this in our auditor's report.

Conclusions relating to going concern
We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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.

In the current year, the recognition of the defined benefit pension surplus under IAS 19 and IFRIC 14 is part of the key audit matter identified in relation to the pension valuation due to the impact on the group's financial position, the judgements involved in the recognition of the net surplus and the complexity of the accounting standards.

In the prior year the group's defined benefit scheme was in a net deficit position, therefore this aspect of the key audit matter was not applicable in 2016.

The medical expense inflation assumption used in the valuation of the PMI scheme is no longer considered to be a key audit matter as the group and parent company financial statements are not materially sensitive to this estimate and management follows independent third party expert's advice in this matter.

During 2017, we reassessed the key audit matter identified in the prior year in relation to revenue recognition. As a result, we concluded that due to the predictability of the balance, the high volume / low value nature of the transactions, the largely automated processing of insurance premiums and the low complexity of accounting for gross written and earned premiums, this was no longer considered a key audit matter in the current year. Consequently we have not included a revenue recognition key audit matter in our auditor's report.

General insurance reserves →

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
The general insurance reserves remain the largest single area of judgement within the group's financial statements. Gross provisions for outstanding claims and incurred but not reported claims amount to £509m (2016: £541m), as set out in note 26 to the financial statements. The accounting policy and critical accounting estimates and judgements are set out in notes 1 and 2 respectively, with insurance risk being discussed in note 3. Due to the high level of judgements and estimates involved, we have identified this key audit matter as a fraud risk to our financial statement audit. We have pinpointed our key audit matter to certain assumptions used in the valuation models of UK liability reserves for physical and sexual abuse ('PSA') and asbestos claims, as referred to by the Group Audit Committee in their report on page 128. Management judgement and estimates, including in respect of actuarial assumptions, are required when setting these technical reserves. The value of these long-tailed technical reserves is sensitive to the movement in discount rates which can be volatile as a result of uncertain market conditions. Future inflation, claims frequency and claims severity have a material impact on the valuation of these portfolios. In particular claims frequency is difficult to predict for both PSA and asbestos cases.	We critically reviewed management's general insurance reserving papers as presented to the Group Audit Committee in February 2018. We challenged the key estimates within the calculation of the UK PSA and asbestos reserves by working with our general insurance actuarial experts, to specifically assess the movements from prior year reserves, material changes in model, methodology and assumptions used as well as the impact of claims experience in the year. Key assumptions such as claims frequency, severity, inflation and discounting, as well as methodologies applied in projecting claim amounts were challenged with the assistance of our general insurance experts, taking into account market trends and claims development patterns. We also applied our wider industry knowledge, taking into account factors specific to the group's PSA and asbestos portfolio. Management implemented some refinements to the asbestos model in 2017. Our general insurance experts critically assessed whether those changes were reasonable, based on their experience and considering the specific circumstances of the group's exposure. We also evaluated the design and implementation of key internal controls governing the actuarial assumption setting process. Accuracy and completeness of data used in reserving was tested adopting a controls reliance approach by testing design and implementation as well as operating effectiveness of key controls over the reserving data reconciliation process and data flow, supported by direct testing of key claims data extracted from the policy administration systems. We reconciled the output of the actuarial reserving process to the general ledger.	Overall we consider that the methodology applied and significant assumptions used by management in the 2017 general insurance reserving process are reasonable and consistent with the prior year.

Life insurance reserves →

Key audit matter description	How the scope of our audit responded to the key audit matter	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 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, these are subject to significant management estimates, and due to the size of the balance (2017: £88.1m, 2016: £91.9m), as set out in note 26 to the financial statements, could materially affect the financial statements if incorrectly or inconsistently determined or applied. The accounting policy and critical accounting estimates and judgements are set out in notes 1 and 2 respectively, with insurance risk being discussed in note 3. Due to the high level of judgements and estimates involved, we have identified this key audit matter as a fraud risk to our financial statement audit. The Group Audit Committee refer to this key audit risk in their report on page 128.	We critically reviewed management's life reserving papers as presented to the Group Audit Committee in February 2018. 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 assumptions were assessed for consistency and 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 performed direct testing of the completeness and accuracy of key underlying data used in the reserving process, in particular policy holder data, fixed and variable expense data as well as data in relation to the assets backing the life insurance reserves. We reconciled the output of the actuarial reserving process to the general ledger.	Overall we are satisfied that the assumptions used in the 2017 valuation are reasonable and have been set consistently with prior years' models and methodologies.

Carrying value of goodwill →

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
The assessment of impairment of goodwill resulting from business acquisitions requires significant management estimate to be applied in determining the estimated future cash flows, short- and long-term growth rates and the associated discount rate. These future cash flows and growth rates are based on estimates and therefore inherently uncertain. Additional judgement is required in determining the appropriate rate at which to discount the projected future cash flows in order to arrive at their net present value. We pinpointed the key area of audit focus to the discount rate and short-term growth rate applied. The group's goodwill assets amount to £23.5m (2016: £23.5m). The only material goodwill is held in respect of the group's broker business, South Essex Insurance Holdings Limited ('SEIH'), as set out in note 15 to the financial statements. The accounting policy and critical accounting estimates and judgements are set out in notes 1 and 2 respectively. Due to the high level of judgements and estimates involved, we have identified this key audit matter as a fraud risk to our financial statement audit.	We critically reviewed management's goodwill impairment review paper as presented to the Group Audit Committee in February 2018. We assessed SEIH's cash flow forecast against actual results and challenged short-term growth rates based on historical and current year performance. We benchmarked the perpetual growth rate applied to the long-term cash flows against market predictions for the UK economy. In assessing the reasonableness of the discount rate, we have challenged the inputs that management uses in its model, working with our internal valuation experts. With their input, we independently calculated a discount rate range which we would consider appropriate and we compared this with 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 SEIH 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 SEIH goodwill balance.

Valuation of the defined benefit pension obligation → and recognition of a net surplus ↑

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
The group's Staff Retirement Benefit Fund (SRBF) is a defined benefit pension scheme for which the valuation of the scheme obligations requires significant assumptions and judgements to be made. We identified the discount rate and inflation rate assumptions as our key areas of audit focus for the valuation of the pension scheme. At the end of 2017, the SRBF scheme is in a net surplus. The judgements involved in applying the asset ceiling (the limit on the amount that can be recognised as a net surplus) under IAS 19 and IFRIC 14 require significant management judgement in the interpretation of the scheme's Trust Deed and Rules. Therefore the recognition and valuation of the net surplus is a key audit matter. The valuation of the group's defined benefit pension scheme obligation and recognition of the net surplus is discussed by the Group Audit Committee in their report on page 128. The group recognises a net pension surplus of £20m (2016: net pension deficit of £20m) for the SRBF defined benefit pension scheme, as set out in note 17 to the financial statements. The accounting policy and critical accounting estimates and judgements are set out in notes 1 and 2 respectively.	We critically reviewed management's defined benefit pension valuation paper as presented to the Group Audit Committee in February 2018. We assessed the key assumptions used by the group, working with our pension actuarial experts, against those adopted by other companies observed in the market at 31 December 2017 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 tested the completeness and accuracy of key underlying data used by the group's pension actuaries, including benefits and contributions paid in the year. 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. To test the recognition of the net surplus, we have reviewed relevant sections of the Trust Deed and Rules as well as legal advice obtained by management. We have engaged our pension actuarial experts to assess the recognised surplus against the asset ceiling resulting from IAS 19 and IFRIC 14.	Overall we consider the net pension surplus to be appropriately valued. The discount rate and inflation rate assumptions used in the valuation of the defined benefit pension scheme liability are within the acceptable ranges at 31 December 2017 and have been derived consistently with the prior year. The net surplus is below the IAS 19 and IFRIC 14 asset ceiling at 31 December 2017 and therefore recognised appropriately.

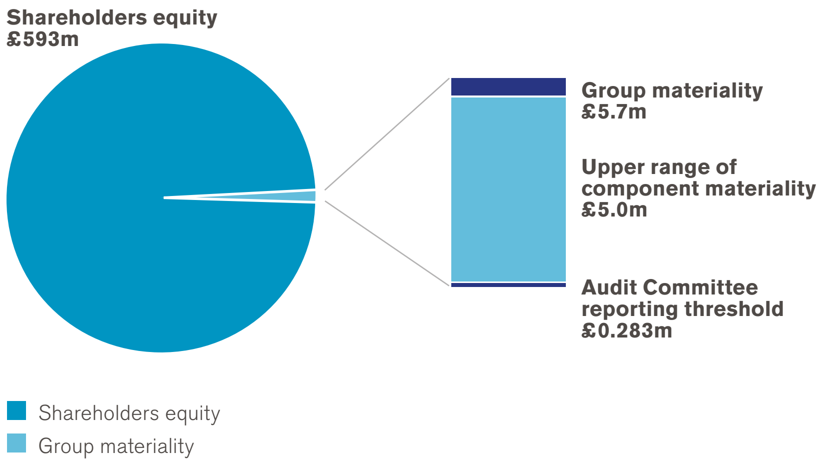
Our application of materiality

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:

	Group financial statements	Parent company financial statements
Materiality	£5.7m (2016: £5.1m)	£5.0m (2016: £4.3m)
Basis for determining materiality	1% of EIO group total shareholders' equity (2016: 1% total shareholders' equity), capped in relation to the parent's (EIG Group) materiality.	1% of EIO plc's total shareholders' equity (2016: 1% total shareholders' equity).
Rationale for the benchmark applied	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 both, the group and parent company.	

We agreed with the Group Audit Committee that we would report to the committee all audit differences in excess of £283k (2016: £254k) for the group, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Group Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.



An overview of the scope of our audit

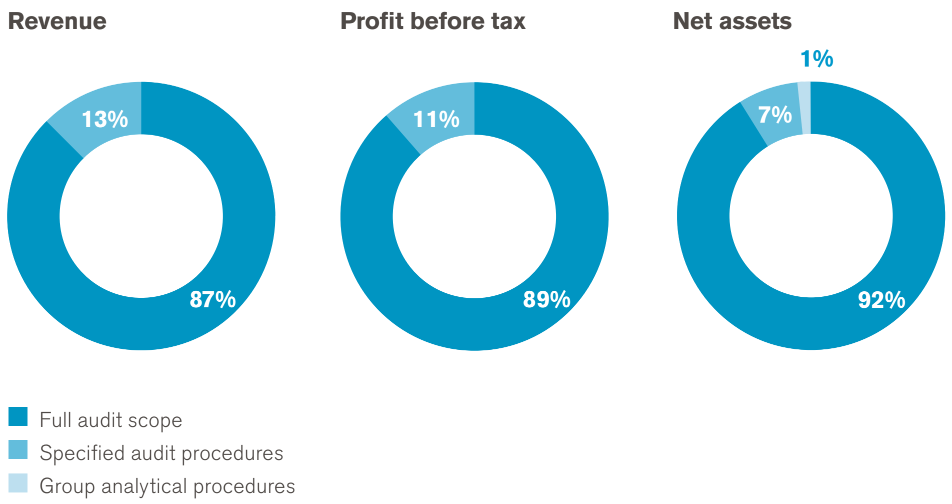
Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

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 as well as the UK insurance broker and investment manager subsidiaries. All significant 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 £0.03k to £5m.

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 is focused at least once every three years. We included the component audit teams in our team briefings, discussed their risk assessments, and reviewed key documentation of the findings from their work.

This year, the Group Senior Manager visited the component audit team of the parent company's Canadian branch, whilst last year the Group Engagement Partner visited the Australian subsidiary, Ansvar Insurance Limited. The Group Engagement Partner is also the Audit Partner for the group's significant UK-based components and subsidiaries.

At 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.



Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with 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 group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or 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 or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the Group Audit Committee, we were appointed by the group's Board of Directors on 01 November 1998 to audit the financial statements for the year ended 31 December 1998 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 20 years, covering the years ending 31 December 1998 to 31 December 2017.

Consistency of the audit report with the additional report to the Group Audit Committee

Our audit opinion is consistent with the additional report to the Group Audit Committee we are required to provide in accordance with ISAs (UK).

Paul Stephenson BA FCA
(Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
14 March 2018

Section Four

Financial Statements

Consolidated statement of profit or loss
for the year ended 31 December 2017

	Notes	2017 £000	2016 £000
Revenue			
Gross written premiums	5, 6	**342,917**	310,138
Outward reinsurance premiums	6	**(129,387)**	(114,041)
Net change in provision for unearned premiums	6	**(6,318)**	1,103
Net earned premiums		**207,212**	197,200
Fee and commission income		**60,864**	53,730
Other operating income		**1,935**	843
Net investment return	7	**72,294**	54,410
Total revenue		**342,305**	306,183
Expenses			
Claims and change in insurance liabilities	8	**(119,913)**	(139,383)
Reinsurance recoveries	8	**32,196**	51,164
Fees, commissions and other acquisition costs	9	**(65,153)**	(61,318)
Other operating and administrative expenses		**(107,143)**	(94,097)
Total operating expenses		**(260,013)**	(243,634)
Operating profit		**82,292**	62,549
Finance costs		**(96)**	(97)
Profit before tax	5	**82,196**	62,452
Tax expense	13	**(14,054)**	(8,740)
Profit for the year (attributable to equity holders of the Parent)	10	**68,142**	53,712

Consolidated and parent statement of comprehensive income
for the year ended 31 December 2017

	Notes	2017 Group £000	2017 Parent £000	2016 Group £000	2016 Parent £000
Profit for the year		**68,142**	**59,073**	53,712	54,178
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Actuarial gains/(losses) on retirement benefit plans	17	**44,608**	**44,608**	(32,745)	(32,745)
Attributable tax		**(7,553)**	**(7,553)**	5,466	5,466
		37,055	**37,055**	(27,279)	(27,279)
Items that may be reclassified subsequently to profit or loss:					
(Losses)/gains on currency translation differences	25	**(1,642)**	**(1,034)**	13,482	6,332
Gains on net investment hedges	25	**855**	**606**	2,067	113
Attributable tax		**(73)**	**(103)**	(223)	(19)
		(860)	**(531)**	15,326	6,426
Net other comprehensive income		**36,195**	**36,524**	(11,953)	(20,853)
Total comprehensive income attributable to equity holders of the Parent		**104,337**	**95,597**	41,759	33,325

Consolidated and parent statement of changes in equity
for the year ended 31 December 2017

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 2017	120,477	4,632	-	501	21,508	371,194	518,312
Profit for the year	-	-	-	-	-	68,142	68,142
Other net income/(expense)	-	-	-	6	(860)	37,049	36,195
Total comprehensive income	-	-	-	6	(860)	105,191	104,337
Dividends	-	-	-	-	-	(9,181)	(9,181)
Gross charitable grant	-	-	-	-	-	(26,000)	(26,000)
Tax relief on charitable grant	-	-	-	-	-	5,005	5,005
Reserve transfers	-	-	-	(29)	-	29	-
At 31 December 2017	120,477	4,632	-	478	20,648	446,238	592,473
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
Parent							
At 1 January 2017	120,477	4,632	-	501	8,566	299,673	433,849
Profit for the year	-	-	-	-	-	59,073	59,073
Other net income/(expense)	-	-	-	6	(531)	37,049	36,524
Total comprehensive income	-	-	-	6	(531)	96,122	95,597
Dividends	-	-	-	-	-	(9,181)	(9,181)
Gross charitable grant	-	-	-	-	-	(26,000)	(26,000)
Tax relief on charitable grant	-	-	-	-	-	5,005	5,005
Group tax relief in excess of standard rate	-	-	-	-	-	(174)	(174)
Reserve transfers	-	-	-	(29)	-	29	-
At 31 December 2017	120,477	4,632	-	478	8,035	365,474	499,096
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

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 replaced 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 25.

Consolidated and parent statement of financial position
at 31 December 2017

	Notes	2017 Group £000	2017 Parent £000	2016 Group £000	2016 Parent £000
Assets					
Goodwill and other intangible assets	15	28,430	3,568	28,659	4,053
Deferred acquisition costs	16	31,267	25,628	30,705	25,672
Deferred tax assets	28	1,721	-	2,185	-
Pension assets	17	20,036	20,036	144	144
Property, plant and equipment	18	8,772	7,821	8,698	7,735
Investment property	19	152,238	152,238	125,284	125,284
Financial investments	20	859,686	686,499	866,517	694,696
Reinsurers' share of contract liabilities	26	159,208	110,125	165,932	119,960
Current tax recoverable		89	65	1,400	794
Other assets	22	150,082	115,107	141,011	103,711
Cash and cash equivalents	23	93,767	51,399	89,494	59,743
Total assets		1,505,296	1,172,486	1,460,029	1,141,792
Equity					
Share capital	24	120,477	120,477	120,477	120,477
Share premium account		4,632	4,632	4,632	4,632
Retained earnings and other reserves		467,364	373,987	393,203	308,740
Total shareholders' equity		592,473	499,096	518,312	433,849
Liabilities					
Insurance contract liabilities	26	769,248	563,104	793,052	585,845
Finance lease obligations		1,611	1,611	1,417	1,417
Provisions for other liabilities	27	5,599	5,512	5,401	5,324
Pension liabilities	17	-	-	20,464	20,464
Retirement benefit obligations	17	10,932	10,932	11,913	11,913
Deferred tax liabilities	28	38,375	37,164	28,848	27,801
Current tax liabilities		2,491	1,666	4,000	3,817
Deferred income		17,704	14,090	15,726	12,873
Other liabilities	29	66,863	39,311	60,896	38,489
Total liabilities		912,823	673,390	941,717	707,943
Total shareholders' equity and liabilities		1,505,296	1,172,486	1,460,029	1,141,792

The financial statements of Ecclesiastical Insurance Office plc, registered number 24869, on pages 176 to 238 were approved and authorised for issue by the Board of Directors on 14 March 2018 and signed on its behalf by:

John Hylands
Chairman

Mark Hews
Group Chief Executive

Consolidated and parent statement of cash flows
for the year ended 31 December 2017

	Notes	2017 Group £000	2017 Parent £000	2016 Group £000	2016 Parent £000
Profit before tax		**82,196**	**70,649**	62,452	61,659
Adjustments for:					
Depreciation of property, plant and equipment		**2,177**	**1,970**	1,773	1,594
Revaluation of property, plant and equipment		**-**	**-**	(25)	-
(Profit)/loss on disposal of property, plant and equipment		**(18)**	**(15)**	26	18
Amortisation and impairment of intangible assets		**1,159**	**918**	1,329	1,036
Net fair value gains on financial instruments and investment property		**(37,664)**	**(32,436)**	(34,229)	(23,520)
Dividend and interest income		**(28,230)**	**(23,242)**	(31,488)	(29,690)
Finance costs		**96**	**96**	97	93
Adjustment for pension funding		**3,069**	**3,069**	792	792
Changes in operating assets and liabilities:					
Net decrease in insurance contract liabilities		**(21,363)**	**(21,923)**	(33,430)	(37,331)
Net decrease in reinsurers' share of contract liabilities		**5,776**	**9,578**	15,218	13,423
Net (increase)/decrease in deferred acquisition costs		**(762)**	**(75)**	(124)	351
Net increase in other assets		**(11,992)**	**(14,040)**	(10,987)	(5,403)
Net increase/(decrease) in operating liabilities		**8,834**	**2,665**	(2,036)	(3,340)
Net increase in other liabilities		**438**	**393**	1,443	1,586
Cash generated/(used) by operations		**3,716**	**(2,393)**	(29,189)	(18,732)
Purchases of financial instruments and investment property		**(153,522)**	**(128,068)**	(203,932)	(166,815)
Sale of financial instruments and investment property		**169,426**	**141,054**	219,445	177,200
Dividends received		**11,754**	**13,179**	8,175	12,691
Interest received		**18,809**	**12,430**	20,834	14,232
Interest paid		**(96)**	**(96)**	(97)	(93)
Tax paid		**(6,832)**	**(6,247)**	(4,722)	(1,921)
Net cash from operating activities		**43,255**	**29,859**	10,514	16,562
Cash flows from investing activities					
Purchases of property, plant and equipment		**(2,095)**	**(1,872)**	(2,314)	(2,007)
Proceeds from the sale of property, plant and equipment		**376**	**346**	45	45
Purchases of intangible assets		**(1,002)**	**(505)**	(237)	(237)
Net cash used by investing activities		**(2,721)**	**(2,031)**	(2,506)	(2,199)
Cash flows from financing activities					
Payment of finance lease liabilities		**(314)**	**(314)**	(368)	(368)
Payment of group tax relief in excess of standard rate		**-**	**(218)**	(6)	(246)
Dividends paid to Company's shareholders		**(9,181)**	**(9,181)**	(9,181)	(9,181)
Charitable grant paid to ultimate parent undertaking		**(26,000)**	**(26,000)**	(24,000)	(24,000)
Net cash used by financing activities		**(35,495)**	**(35,713)**	(33,555)	(33,795)
Net increase/(decrease) in cash and cash equivalents		**5,039**	**(7,885)**	(25,547)	(19,432)
Cash and cash equivalents at beginning of year		**89,494**	**59,743**	108,720	75,058
Exchange (losses)/gains on cash and cash equivalents		**(766)**	**(459)**	6,321	4,117
Cash and cash equivalents at end of year	23	**93,767**	**51,399**	89,494	59,743

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 International Financial Reporting Standards (IFRS) financial statements of the Group and Parent are set out below.

Basis of preparation

The Group's consolidated and Parent's financial statements have been prepared using the following accounting policies, which are in accordance with IFRS applicable at 31 December 2017 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 £859.7m, 93% of which are liquid (2016: financial investments of £866.5m, 94% liquid), cash and cash equivalents of £93.8m and no borrowings (2016: cash and cash equivalents of £89.5m 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. No changes are expected from the more principles-based hedge accounting requirements. The group is elible for, and expects to apply the deferral approach, which gives a temporary exemption from applying IFRS 9 until the effective date of 'IFRS 17, Insurance contracts'. The company is currently assessing the impact of the additional disclosures required under the deferral approach.	Annual periods beginning on or after 1 January 2018. Although can be deferred until 2021 for insurers.
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.	The Standard is not expected to have a material impact on the amount and timing of revenue recognised. Revenue from insurance contacts, which consist of insurance premiums and fee and commission income on reinsurance contracts, are not within the scope of the standard. Investment management fees are based on the value of funds under management and under IFRS 15 will continue to be recognised over time, matching the pattern of benefit received by customers. Within our broking business, commission and fees generated from insurance placements will continue to be recognised on policy inception date, in line with existing accounting policies.	Annual periods beginning on or after 1 January 2018.

Notes to the financial statements
1 Accounting policies (continued)

Standard	Key requirements	Expected impact on financial statements	Effective date
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.	Operating leases are in place for the majority of the Group's offices, and the Group is currently assessing the full impact of IFRS 16. The changes will result in a lease obligation, similar in magnitude to that disclosed in note 30, being recognised on the group and parent balance sheet along with a corresponding 'right-to-use' asset. There is not expected to be a significant impact on profit or loss. Though, it is expected that profile of operating lease costs in the profit and loss will change with higher charges in earlier years, reducing over the expected term of the lease, reflecting the financing component of the lease obligation.	Annual periods beginning on or after 1 January 2019.
IFRS 17, Insurance Contracts	Requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts.	IFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. The standard was issued in May 2017 as replacement for IFRS 4 Insurance Contracts and the impact of the standard on the financial statements is still being assessed. The group's long-term business is expected to be the most affected by the new standard. The company expects to be able to use the simplified premium allocation approach to the majority of its general business insurance contracts, which applies mainly to short-duration contracts.	Applicable to annual reporting periods beginning on or after 1 January 2021 (subject to EU endorsement).

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

Use of estimates
The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. Those estimates which have the most material impact on the financial statements are disclosed in note 2.

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.

Notes to the financial statements
1 Accounting policies (continued)

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.

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 ("pipeline premiums") 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 and reinsurance profit commissions. It also includes 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. As with general insurance premiums, reinsurance commissions are accounted for in the period in which the risk commences. Those proportions of reinsurance commissions written in a year which relate to periods of risk extending beyond the end of the year, are carried forward as deferred income. Reinsurance profit commissions are recognised at the point in time when the amount of commission can be accurately estimated. 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 surplus reserves from a government-backed reinsurance scheme and, in the prior year only, 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 investments and investment properties. Dividends on equity securities are recorded as revenue on the ex-dividend date. Interest and rental income is recognised as it accrues.

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

Notes to the financial statements
1 Accounting policies (continued)

The impact of discount rate changes on insurance contract liabilities is also presented within net investment return in order to match with the corresponding movements of assets backing the liabilities.

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.

(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.

Notes to the financial statements
1 Accounting policies (continued)

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 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

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 fair value through profit or loss, those held for trading, and hedge accounted derivatives under IFRIC 16 are subsequently carried at fair value. To the extent to which they are effective, changes to the fair value of hedging instruments 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.

Notes to the financial statements

1 Accounting policies (continued)

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

(a) 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.

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.

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.

(b) Financial assets at fair value through 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.

(c) 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.

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.

Notes to the financial statements

1 Accounting policies (continued)

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

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

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

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

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

Provisions and contingent liabilities
Provisions are recognised when the Group has a present legal or constructive obligation, as a result of past events, and it is probable that an outflow of resources, embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when it is virtually certain that the reimbursement will be received.

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

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

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

For defined benefit plans, the pension costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to profit or loss so as to spread the regular cost over the service lives of employees. 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. Independent actuarial valuations are carried out at the end of each reporting period.

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.

Notes to the financial statements

1 Accounting policies (continued)

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.

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.

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 33 provides details of how these key performance indicators reconcile to the results reported under IFRS.

Notes to the financial statements

2 Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. 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) Critical judgements in applying the Group's accounting policies
The following are the critical judgements, apart from those involving estimations which are dealt with separately below, that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Pension and other post-employment benefits
The Group's pension and other post employement benefit obligations are discounted at a rate set by reference to market yields at the end of the reporting period on 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. Judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds includes the nature and quality of the corporate bonds and the identification of outliers which are excluded. Further details are disclosed in note 17.

The Group also applies judgement in determining the extent to which a surplus in a defined benefit plan can be recognised in the statement of financial position. Judgement is required in determining the maximum future economic benefit available in the form of a refund or as a reduction in future contributions in accordance with International Financial Interpretations Committee Interpretation 14 (IFRIC 14).

Unlisted equity securities
The value of unlisted equity securities, where there is no active market and therefore no observable market price, are classified as level 3 financial assets. This requires the Group to make judgements in respect of the most appropriate valuation technique to apply. Further details, including the amounts recognised within the financial statements which are impacted by these judgements are shown in note 4(b).

(b) Key sources of estimation uncertainty
In applying the Group's accounting policies various transactions and balances are valued using estimates or assumptions. All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions. The following items are considered key estimates and assumptions which, if actual results differ from those predicted, may have significant impact on the following year's financial statements:

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 business class, the amounts that such claims will be settled for and the timing of any such payments. There are various sources of estimation 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 26(a). General business insurance liabilities include a margin for risk and uncertainty in addition to the best estimates for future claims. The sensitivity of profit or loss to changes in the ultimate settlement cost of claims reserves is presented in note 26(a).

Notes to the financial statements

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

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 assumptions is presented in note 26(b)(iii).

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, including discount rate, mortality, inflation, salary and medical expense inflation assumptions, on the pension and other post-employment liabilities are recognised in other comprehensive income. An explanation of the actuarial gains recognised in the current year is included in note 17. 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.

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 17.

Unlisted equity securities

The valuation of unlisted equity securities requires estimates to be made for the price-to-book ratio, illiquidity discount and credit rating discount. Further details, including the sensitivity of the valuation to these inputs, are shown in note 4(b).

Carrying value of Goodwill

Goodwill is tested annually for impairment as detailed in the Group's accounting policies. In order to calculate the value in use under this policy, the Group is required to make an estimation of the future cash flows expected to arise from the business unit, an appropriate long-term growth rate to apply to the cash flows and a suitable discount rate to calculate the present value. Further details on these estimates and sensitivities of the carrying value of goodwill to these estimates are provided in note 15.

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 investments 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. The amounts recognised in the financial statements that are affected by these estimates are disclosed in note 28.

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 to obtain the appropriate 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 purchased in line with the Group's risk appetite.

(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, income and licence. The other class of business includes cover of legal expenses and also a small portfolio of motor policies, but this has been in run off in the United Kingdom since November 2012. The Group's whole-of-life insurance policies support funeral planning products.

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

2017		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	163,907	52,352	15,691	2,494	28	234,472
	Net	88,269	50,111	9,826	473	28	148,707
Australia	Gross	33,225	21,411	1,286	943	-	56,865
	Net	4,356	18,429	1,240	934	-	24,959
Canada	Gross	35,399	16,181	-	-	-	51,580
	Net	24,801	15,063	-	-	-	39,864
Total	Gross	232,531	89,944	16,977	3,437	28	342,917
	Net	117,426	83,603	11,066	1,407	28	213,530
Parent							
Territory							
United Kingdom and Ireland	Gross	164,024	52,352	15,691	2,494	-	234,561
	Net	88,270	50,111	9,826	473	-	148,680
Canada	Gross	35,399	16,181	-	-	-	51,580
	Net	24,801	15,063	-	-	-	39,864
Total	Gross	199,423	68,533	15,691	2,494	-	286,141
	Net	113,071	65,174	9,826	473	-	188,544

Notes to the financial statements

3 Insurance risk (continued)

2016

Group		General insurance Property £000	Liability £000	Miscellaneous financial loss £000	Other £000	Life insurance 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

(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 in particular 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 particularly 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. 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 may make 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 evolve, 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 26 presents the development of the estimate of ultimate claim cost for public and employers' liability claims occurring in a given year. This gives an indication of the accuracy of the estimation technique for incurred claims.

(d) Life insurance risks

The Group provides whole-of-life insurance policies to support funeral planning products, for most of which the future benefits are linked to inflation and backed by index-linked assets. Although assets are well matched to liabilities, there is a risk that returns on assets held to back liabilities are insufficient to meet future claims payments, 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. Brexit has continued to result in greater uncertainty in relation to the economic risks to which the Group is exposed, including equity price volatility, 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 2017								
Financial investments	**845,811**	**2,611**	**9,876**	**1,388**	**-**	**-**	**-**	**859,686**
Other assets	**-**	**-**	**146,415**	**-**	**-**	**-**	**3,667**	**150,082**
Cash and cash equivalents	**-**	**-**	**93,767**	**-**	**-**	**-**	**-**	**93,767**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**(58,633)**	**(8,230)**	**(66,863)**
Net other	**-**	**-**	**-**	**-**	**-**	**-**	**(444,199)**	**(444,199)**
Total	**845,811**	**2,611**	**250,058**	**1,388**	**-**	**(58,633)**	**(448,762)**	**592,473**
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
Parent								
At 31 December 2017								
Financial investments	**622,560**	**3,425**	**9,875**	**574**	**-**	**-**	**50,065**	**686,499**
Other assets	**-**	**-**	**112,148**	**-**	**-**	**-**	**2,959**	**115,107**
Cash and cash equivalents	**-**	**-**	**51,399**	**-**	**-**	**-**	**-**	**51,399**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**(32,828)**	**(6,483)**	**(39,311)**
Net other	**-**	**-**	**-**	**-**	**-**	**-**	**(314,598)**	**(314,598)**
Total	**622,560**	**3,425**	**173,422**	**574**	**-**	**(32,828)**	**(268,057)**	**499,096**
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

* 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.

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	Fair value measurement at the end of the reporting period based on			
Group	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
At 31 December 2017				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	**286,552**	**238**	**42,279**	**329,069**
Debt securities	**515,277**	**1,340**	**125**	**516,742**
Derivatives	**-**	**2,611**	**-**	**2,611**
	801,829	**4,189**	**42,404**	**848,422**
Financial assets at fair value through other comprehensive income				
Financial investments				
Derivatives	**-**	**1,388**	**-**	**1,388**
Total financial assets at fair value	**801,829**	**5,577**	**42,404**	**849,810**
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
	813,999	5,117	35,515	854,631
Financial assets at fair value through other comprehensive income				
Financial investments				
Derivatives	-	2,067	-	2,067
Total financial assets at fair value	813,999	7,184	35,515	856,698

Notes to the financial statements

4 Financial risk and capital management (continued)

Parent	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 2017				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	**249,879**	**238**	**42,277**	**292,394**
Debt securities	**329,116**	**925**	**125**	**330,166**
Derivatives	**-**	**3,425**	**-**	**3,425**
	578,995	**4,588**	**42,402**	**625,985**
Financial assets at fair value through other comprehensive income				
Financial investments				
Derivatives	**-**	**574**	**-**	**574**
Total financial assets at fair value	**578,995**	**5,162**	**42,402**	**626,559**
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
	592,554	6,634	35,514	634,702
Financial assets at fair value through other comprehensive income				
Financial investments				
Derivatives	-	113	-	113
Total financial assets at fair value	592,554	6,747	35,514	634,815

The derivative liabilities of the Group and Parent in the prior year were measured at fair value through profit or loss and categorised as level 2 (see note 21).

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 2017			
Opening balance	**35,376**	**139**	**35,515**
Total gains recognised in profit or loss	**8,003**	**1**	**8,004**
Disposal proceeds	**(1,100)**	**(15)**	**(1,115)**
Closing balance	**42,279**	**125**	**42,404**
Total gains for the period included in profit or loss for assets held at the end of the reporting period	**6,897**	**1**	**6,898**
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

Notes to the financial statements

4 Financial risk and capital management (continued)

Parent	Financial assets at fair value through profit and loss: Equity securities £000	Debt securities £000	Total £000
At 31 December 2017			
Opening balance	**35,375**	**139**	**35,514**
Total gains recognised in profit or loss	**8,002**	**1**	**8,003**
Disposal proceeds	**(1,100)**	**(15)**	**(1,115)**
Closing balance	**42,277**	**125**	**42,402**
Total gains for the period included in profit or loss for assets held at the end of the reporting period	**6,897**	**1**	**6,898**
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

All the above gains or losses included in profit or loss for the period (for both the Group and Parent) are presented in net investment return within the statement of profit or loss.

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

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

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

Non-exchange-traded derivative contracts (level 2)

The Group's derivative contracts are not traded in active markets. Foreign currency forward contracts are valued using observable forward exchange rates 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 +/-£5m (2016: +/-£4m).

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

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 (2016: 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 26(a)(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.

Group life business	Maturity Within 1 year £000	Between 1 & 5 years £000	After 5 years £000	Total £000
At 31 December 2017				
Assets				
Debt securities	**5,266**	**21,638**	**73,231**	**100,135**
Cash and cash equivalents	**5,192**	**-**	**-**	**5,192**
	10,458	**21,638**	**73,231**	**105,327**
Liabilities (discounted)				
Life business provision	**6,031**	**21,147**	**60,963**	**88,141**
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

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:

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

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. The Group also manages its exposure to credit risk in relation to credit risk ratings. Investment grade financial assets are classified within the range of AAA to BBB ratings, where AAA is the highest possible rating. Financial assets which fall outside this range are classified as sub-investment grade. 'Not rated' assets capture assets not rated by external ratings agencies.

A detailed breakdown of the Group's current debt securities and cash credit exposure by credit quality is shown below.

Group

	At 31 December 2017 **Debt securities** **£000**	 **Cash*** **£000**	At 31 December 2016 Debt securities £000	 Cash* £000
AAA	**122,829**	**-**	115,138	-
AA	**144,613**	**26,926**	189,324	13,231
A	**141,312**	**36,551**	142,251	47,239
BBB	**88,483**	**40,053**	83,113	38,818
Below BBB	**10,354**	**90**	13,569	-
Not rated	**9,151**	**7**	10,159	8
	516,742	**103,627**	553,554	99,296

Parent

	At 31 December 2017 **Debt securities** **£000**	 **Cash*** **£000**	At 31 December 2016 Debt securities £000	 Cash* £000
AAA	**89,479**	**-**	81,170	-
AA	**74,098**	**9,557**	105,625	6,938
A	**98,388**	**31,392**	101,653	38,589
BBB	**53,587**	**20,213**	57,202	24,011
Below BBB	**6,396**	**90**	9,784	-
Not rated	**8,218**	**7**	6,642	7
	330,166	**61,259**	362,076	69,545

*Cash includes amounts held on deposit classified within financial investments and disclosed in note 20. Cash balances which are not rated relate to cash amounts in hand.

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

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.

Notes to the financial statements

4 Financial risk and capital management (continued)

The Group's exposure to counterparty default on debt securities is spread across a variety of geographical and economic territories, as follows:

	2017 Group £000	2017 Parent £000	2016 Group £000	2016 Parent £000
UK	**331,787**	**231,651**	373,984	266,467
Australia	**86,440**	**-**	83,961	-
Canada	**74,143**	**74,143**	72,353	72,353
Europe	**24,372**	**24,372**	23,256	23,256
Total	**516,742**	**330,166**	553,554	362,076

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 2017 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.

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.

(e) Equity price risk

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

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

	2017 Group £000	2017 Parent £000	2016 Group £000	2016 Parent £000
UK	**286,715**	**250,040**	257,856	227,451
Europe	**42,168**	**42,168**	35,372	35,372
Hong Kong	**186**	**186**	3,085	3,085
US	**-**	**-**	1,585	1,585
Other	**-**	**-**	205	205
Total	**329,069**	**292,394**	298,103	267,698

Note: 2016 row labels in the printed table are UK, Europe, Canada, US, Other, Total.

(f) Liquidity risk

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

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

(g) Currency risk

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

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

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

- the operating results of the Group's foreign branches and subsidiaries in the Group financial statements are translated at the average exchange rates prevailing during the period; and

- the equity investment in foreign branches and subsidiaries is translated into sterling using the exchange rate at the year-end date.

The 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 21.

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

2017	Group £000	Parent £000	2016	Group £000	Parent £000
Aus $	**48,745**	**2,122**	Aus $	48,665	3,519
Euro	**38,100**	**38,100**	Can $	38,592	38,592
Can $	**31,584**	**31,584**	Euro	32,770	32,770
USD $	**1,247**	**1,247**	Japanese Yen	603	603
NZ $	**285**	**285**	USD $	329	329

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. The Group and Parent enter 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 21.

Notes to the financial statements

4 Financial risk and capital management (continued)

(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 17.

Group		Potential increase/ (decrease) in profit		Potential increase/ (decrease) in other equity reserves	
Variable	Change in variable	2017 £000	2016 £000	2017 £000	2016 £000
Interest rate risk	-100 basis points	(6,391)	(8,335)	(6)	122
	+100 basis points	3,202	4,464	2	(139)
Currency risk	-10%	4,021	3,915	8,017	8,453
	+10%	(3,290)	(3,203)	(6,559)	(6,916)
Equity price risk	+/-10%	26,572	23,848	-	-

Parent		Potential increase/ (decrease) in profit		Potential increase/ (decrease) in other equity reserves	
Variable	Change in variable	2017 £000	2016 £000	2017 £000	2016 £000
Interest rate risk	-100 basis points	(5,710)	(7,706)	(2)	98
	+100 basis points	3,311	4,696	(3)	(107)
Currency risk	-10%	4,021	3,915	2,836	3,437
	+10%	(3,290)	(3,203)	(2,321)	(2,812)
Equity price risk	+/-10%	23,611	21,416	-	-

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).

Capital is 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 is also published on the company website. A further report, the Regular Supervisory Report (RSR) is periodically submitted to the PRA.

The current year 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 4 May 2018 and their respective SFCRs will be made available on the Group's website shortly thereafter.

	2017 (unaudited)		2016 (audited)	
	Ecclesiastical Insurance Office plc Parent £000	Ecclesiastical Life Limited £000	Ecclesiastical Insurance Office plc Parent £000	Ecclesiastical Life Limited £000
Solvency II Own Funds	566,355	51,946	476,945	44,374
Solvency Capital Requirement	(286,915)	(18,657)	(278,154)	(15,805)
Own Funds in excess of Solvency Capital Requirement	279,440	33,289	198,791	28,569
Solvency II Capital Cover	197%	278%	171%	281%

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.

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.

	2017 Gross written premiums £000	**2017** Non-insurance services £000	**2017** Total £000	2016 Gross written premiums £000	2016 Non-insurance services £000	2016 Total £000
General business						
United Kingdom and Ireland	**231,257**	**-**	**231,257**	220,342	-	220,342
Australia	**56,865**	**-**	**56,865**	41,810	-	41,810
Canada	**51,580**	**-**	**51,580**	45,470	-	45,470
Other insurance operations	**3,187**	**-**	**3,187**	2,439	-	2,439
Total	**342,889**	**-**	**342,889**	310,061	-	310,061
Life business	**28**	**-**	**28**	77	-	77
Investment management	**-**	**11,685**	**11,685**	-	10,227	10,227
Broking and Advisory	**-**	**8,628**	**8,628**	-	8,542	8,542
Group revenue	**342,917**	**20,313**	**363,230**	310,138	18,769	328,907

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 33.

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.

2017	***Combined operating ratio***	**Insurance £000**	**Investments £000**	**Other £000**	**Total £000**
General business					
United Kingdom and Ireland	**77.1%**	**32,692**	**55,454**	**(23)**	**88,123**
Australia	**96.9%**	**685**	**3,932**	**(77)**	**4,540**
Canada	**118.5%**	**(7,165)**	**1,122**	**4**	**(6,039)**
Other insurance operations		**854**	**-**	**-**	**854**
	86.9%	**27,066**	**60,508**	**(96)**	**87,478**
Life business		**374**	**5,127**	**-**	**5,501**
Investment management		**-**	**-**	**1,717**	**1,717**
Broking and Advisory		**-**	**-**	**2,283**	**2,283**
Corporate costs		**-**	**-**	**(14,783)**	**(14,783)**
Profit/(loss) before tax		**27,440**	**65,635**	**(10,879)**	**82,196**

Notes to the financial statements

5 Segment information (continued)

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/(loss) before tax		19,423	49,549	(6,520)	62,452

(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:

	2017		2016	
	Gross written premiums £000	**Non-current assets £000**	Gross written premiums £000	Non-current assets £000
United Kingdom and Ireland	**234,472**	**217,143**	222,858	184,103
Australia	**56,865**	**1,351**	41,810	1,445
Canada	**51,580**	**3,650**	45,470	3,789
	342,917	**222,144**	310,138	189,337

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 2017			
Gross written premiums	**342,889**	**28**	**342,917**
Outward reinsurance premiums	**(129,387)**	**-**	**(129,387)**
Net written premiums	**213,502**	**28**	**213,530**
Change in the gross provision for unearned premiums	**(12,369)**	**-**	**(12,369)**
Change in the provision for unearned premiums, reinsurers' share	**6,051**	**-**	**6,051**
Change in the net provision for unearned premiums	**(6,318)**	**-**	**(6,318)**
Earned premiums, net of reinsurance	**207,184**	**28**	**207,212**
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

7 Net investment return

	2017 £000	2016 £000
Income from financial assets at fair value through profit or loss		
- equity income	**10,276**	9,667
- debt income	**16,410**	17,682
Income from financial assets not at fair value through profit or loss		
- cash and cash equivalents income, net of exchange movements	**1,040**	3,819
- other income received	**1,251**	1,257
Other income		
- rental income	**7,492**	6,368
Investment income	**36,469**	38,793
Fair value movements on financial instruments at fair value through profit or loss	**30,250**	35,345
Fair value movements on investment property	**7,414**	(1,116)
Impact of discount rate change on insurance contract liabilities	**(1,839)**	(18,612)
Net investment return	**72,294**	54,410

Included within cash and cash equivalents income are exchange gains of £338,000 (2016: £2,913,000).

Included within fair value movements on financial instruments at fair value through profit or loss are £7,778,000 (2016: £681,000) losses in respect of derivative instruments.

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 2017			
Gross claims paid	**148,717**	**6,158**	**154,875**
Gross change in the provision for claims	**(30,807)**	**-**	**(30,807)**
Gross change in life business provision	**-**	**(4,155)**	**(4,155)**
Claims and change in insurance liabilities	**117,910**	**2,003**	**119,913**
Reinsurers' share of claims paid	**(43,676)**	**-**	**(43,676)**
Reinsurers' share of change in the provision for claims	**11,480**	**-**	**11,480**
Reinsurance recoveries	**(32,196)**	**-**	**(32,196)**
Claims and change in insurance liabilities, net of reinsurance	**85,714**	**2,003**	**87,717**
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

9 Fees, commissions and other acquisition costs

	2017 £000	2016 £000
Fees paid	**16**	109
Commission paid	**52,510**	46,333
Change in deferred acquisition costs	**(762)**	(124)
Other acquisition costs	**13,389**	15,000
Fees, commissions and other acquisition costs	**65,153**	61,318

Notes to the financial statements

10 Profit for the year

	2017 £000	2016 £000
Profit for the year has been arrived at after (crediting)/charging		
Net foreign exchange gains	**(338)**	(2,913)
Depreciation of property, plant and equipment	**2,177**	1,773
(Profit)/loss on disposal of property, plant and equipment	**(18)**	26
Amortisation of intangible assets	**1,133**	1,252
(Increase)/decrease in fair value of investment property	**(7,414)**	1,116
Employee benefits expense including termination benefits, net of recharges	**76,730**	70,745
Operating lease rentals	**3,440**	3,528

11 Auditor's remuneration

	2017 £000	2016 £000
Fees payable to the Company's auditor and its associates for the audit of the Company's annual accounts	**329**	313
Fees payable to the Company's auditor and its associates for other services:		
- The audit of the Company's subsidiaries	**140**	121
Total audit fees	**469**	434
- Audit-related assurance services	**212**	226
- Other assurance services	**-**	7
Total non-audit fees	**212**	233
Fees payable to the Company's auditor in respect of associated pension schemes		
- The audit of associated pension schemes	**18**	17
Total auditor's remuneration	**699**	684

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 and Parent, including executive directors, during the year by geographical location was:

Group	2017 General business No.	2017 Life business No.	2017 Other No.	Restated 2016 General business No.	Restated 2016 Life business No.	Restated 2016 Other No.
United Kingdom and Ireland	**750**	**1**	**157**	727	1	142
Australia	**85**	**-**	**-**	87	-	-
Canada	**73**	**-**	**-**	71	-	-
	908	**1**	**157**	885	1	142

Parent	2017 General business No.	2017 Life business No.	2017 Other No.	2016 General business No.	2016 Life business No.	2016 Other No.
United Kingdom and Ireland	**750**	**1**	**64**	727	1	54
Canada	**73**	**-**	**-**	71	-	-
	823	**1**	**64**	798	1	54

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.

	2017 Group £000	2017 Parent £000	Restated 2016 Group £000	Restated 2016 Parent £000
Wages and salaries	**63,525**	**52,899**	59,016	49,561
Social security costs	**5,954**	**5,531**	5,627	5,244
Pension costs - defined contribution plans	**3,384**	**2,750**	3,063	2,432
Pension costs - defined benefit plans	**4,608**	**4,608**	2,726	2,726
Other post-employment benefits	**307**	**307**	346	346
	77,778	**66,095**	70,780	60,309

The Group and Parent amounts above include £1,182,000 (2016: £708,000) in relation to employee benefits recharged to related undertakings of the Group.

The above Group figures do not include termination benefits of £198,000 (2016: £729,000), and the above Parent figures do not include termination benefits of £198,0000 (2016: £681,000), of which £65,000 (2016: £56,000) was recharged to related undertakings of the Group.

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.

The prior year has been restated to include employee benefits of full time equivalent employees whose employement contracts are with companies within the Group but whose costs are charged to other related undertakings as defined in note 32.

Notes to the financial statements

13 Tax expense

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

		2017 £000	2016 £000
Current tax	- current year	**11,165**	8,814
	- prior year adjustments	**557**	73
Deferred tax	- temporary differences	**2,376**	1,223
	- prior year adjustments	**(44)**	-
	- reduction in tax rate	**-**	(1,370)
Total tax expense		**14,054**	8,740

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:

	2017 £000	2016 £000
Profit before tax	**82,196**	62,452
Tax calculated at the UK blended standard rate of tax of 19.25% (2016: 20.00%)	**15,823**	12,490
Factors affecting charge for the year:		
Expenses not deductible for tax purposes	**217**	504
Non-taxable income	**(2,479)**	(2,642)
Life insurance and other tax paid at non-standard rates	**316**	(377)
(Utilisation)/generation of tax losses for which no deferred tax asset has been recognised	**(336)**	62
Impact of reduction in deferred tax rate	**-**	(1,370)
Adjustments to tax charge in respect of prior periods	**513**	73
Total tax expense	**14,054**	8,740

A change in the UK standard rate of corporation tax from 20% to 19% became effective from 1 April 2017. Where appropriate, current tax has been provided at a blended rate of 19.25% for the current year and at a rate of 20.00% for the prior year. A further reduction in the rate of corporation tax to 17% will become effective from April 2020. Deferred tax has been provided at an average rate of 18.0% (2016: 17.9%).

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

	2017 £000	2016 £000
Current tax charged on:		
Fair value movements on hedge derivatives	**(30)**	**204**
Deferred tax (credited)/charged on:		
Fair value movements on property	**(6)**	(5)
Actuarial movements on retirement benefit plans	**7,559**	(5,461)
Fair value movements on hedge derivatives	**103**	19
Total tax charged/(credited) to other comprehensive income	**7,626**	(5,243)

Tax relief on charitable grants of £5,005,000 (2016: £4,800,000) has been taken directly to equity.

Notes to the financial statements

14 Appropriations

	2017 £000	2016 £000
Amounts recognised as distributions to equity holders in the period:		
Dividends		
Non-Cumulative Irredeemable Preference share dividend (8.625 pence per share)	9,181	9,181
Charitable grants		
Gross charitable grants to the ultimate parent company, Allchurches Trust Limited	26,000	24,000
Tax relief	(5,005)	(4,800)
Net appropriation for the year	20,995	19,200

15 Goodwill and other intangible assets

Group

	Goodwill £000	Computer software £000	Other intangible assets £000	Total £000
Cost				
At 1 January 2017	23,779	20,310	5,084	49,173
Additions	-	1,002	-	1,002
Disposals	-	-	-	-
Exchange differences	-	(98)	-	(98)
At 31 December 2017	23,779	21,214	5,084	50,077
Accumulated impairment losses and amortisation				
At 1 January 2017	280	15,964	4,270	20,514
Amortisation charge for the year	-	1,003	130	1,133
Impairment losses for the year	26	-	-	26
Disposals	-	-	-	-
Exchange differences	-	(26)	-	(26)
At 31 December 2017	306	16,941	4,400	21,647
Net book value at 31 December 2017	23,473	4,273	684	28,430
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

£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 current and prior period balance relates to the acquisition of Lansdown Insurance Brokers Limited during 2014.

Notes to the financial statements

15 Goodwill and other intangible assets (continued)

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). The Group selected a rate of 1.6% (2016: 1.9%) as being appropriate, based on medium-term rates published in the OBR's November report. The pre-tax discount rate of 10.3% (2016: 11.3%) 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 £4.4m. If the cumulative growth rate between 2018 and 2020 was 5.8% lower than assumed in management-approved business plans, or the discount rate increased by 1.3%, 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 (2016: one year).

Parent

	Computer software 2017 £000	Computer software 2016 £000
Cost		
At 1 January	19,160	19,141
Additions	505	237
Disposals	-	(1,012)
Exchange differences	(98)	794
At 31 December	19,567	19,160
Amortisation		
At 1 January	15,107	14,935
Charge for the year	918	1,036
Disposals	-	(1,012)
Exchange differences	(26)	148
At 31 December	15,999	15,107
Net book value at 31 December	3,568	4,053

16 Deferred acquisition costs

	2017 Group £000	2017 Parent £000	2016 Group £000	2016 Parent £000
At 1 January	30,705	25,672	28,394	24,582
Increase in the period	31,414	25,654	29,756	25,056
Release in the period	(30,652)	(25,579)	(29,632)	(25,407)
Exchange differences	(200)	(119)	2,187	1,441
At 31 December	31,267	25,628	30,705	25,672

All balances are current.

Notes to the financial statements

17 Retirement benefit schemes

Defined contribution pension plans

The Group operates a number of defined contribution pension plans, for which contributions by the Group are disclosed in note 12.

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 plan is now closed to new entrants but remains open to future accrual. The terms of the plan for future service changed in August 2011 from a non-contributory final salary scheme to a contributory scheme in which benefits are based on career average revalued earnings.

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 2016. Following the triennial valuation, and in accordance with the plan's Statement of Funding Principles, a new schedule of contributions was agreed between the Trustee and the Parent, which will be in place until 31 March 2021. The contribution expected to be paid by the Group during the next financial year is £2.8m (2016: £2.5m).

Actuarial valuations were reviewed and updated by an actuary at 31 December 2017 for IAS 19 purposes. In the current year, the IAS 19 surplus in the scheme has been recognised in full in accordance with International Financial Reporting Interpretations Committee 14 (IFRIC 14) on the basis of the maximum economic benefit available through a reduction in future contributions.

In the current year, actuarial losses arising from changes in financial assumptions of £21.0m (2016: actuarial losses of £68.2m) have been recognised in the statement of other comprehensive income. These losses resulted from a 0.2% decrease in the discount rate and a 0.9% increase in the discretionary pension increase assumption, partially offset by a 0.1% decrease in inflation.

Actuarial gains arising from changes in demographic assumptions and actual experience have offset the actuarial losses arising from changes in financial assumptions in the current year. In setting the demographic assumptions in the IAS 19 valuation reference is made to the assumptions used in the triennial valuation. In the current year the mortality assumptions in the IAS 19 valuation have been set using the Self-Administered Pension Schemes (SAPS) S2 all pensioners standard tables and the Continuous Mortality Investigation Bureau CMI 2016 table, reflecting the latest experience in trends in mortality. Changes in mortality and other demographic assumptions have resulted in a £23.0m actuarial gain during the year (2016: £nil).

In line with common market practice, the defined benefit obligation at the end of the year is projected based on a roll forward of the liabilities in the previous triennial valuation. When membership experience differs to that expected based on a roll forward of liabilities, an actuarial gain or loss arises. The £8.6m experience gain recognised in the year includes membership and other experience adjustments (2016: £2.7m gain arising from other experience adjustments).

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. The Group's main plan holds 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. The Group's main plan holds 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.

- Currency risk: The Fund holds some of its investments in foreign denominated assets. As scheme liabilities are denominated in sterling, short-term fluctuations in exchange rates could cause additional funding to be required if a deficit emerges. Currency derivative contracts are used from time to time, which would limit losses in the event of adverse movements in exchange rates.

Notes to the financial statements

17 Retirement benefit schemes (continued)

The Trustees set the investment objectives and strategy for the Fund based on independent advice and in consultation with the employer. A blend of diversified growth assets (equities and property) and protection assets (bonds and gilts) are deployed to balance the level of risk to that required to provide, with confidence, a sufficient return to continue to meet member's obligations as they fall due. The Trustees have identified the key risks to this objective to be falls in interest rates and rising inflation.

In December 2016 the Trustees commenced incrementally building an LDI portfolio, structured to increase in value with decreases in interest rates and grow in line with inflation expectations. Gradually increasing the exposure of the Fund's assets to interest rates and inflation counter-balances exposure of the Fund's liabilities to these factors and has reduced volatility in the funding position. Monthly cash transfers have enabled the LDI portfolio to grow incrementally during 2017 to a point where 60% of the Fund's exposure to changes in interest rates and inflation had been hedged shortly after the year end.

The Parent was also the sponsoring employer of the Ecclesiastical Insurance Office plc Pension & Life Assurance Scheme (EIOPLA). The defined benefit obligations of the scheme were discharged in December 2015. During the current year the formal wind-up of the EIOPLA scheme was completed with the remaining surplus in the scheme of £288,000 refunded. The surplus was distributed equally between the existing and previous sponsoring employers. The Parent, as existing sponsoring employer, received £144,000 on wind-up.

In the prior year, the surplus in the EIOPLA scheme recognised in the statement of financial position was restricted to £144,000 in line with the amount of surplus expected to be refunded to the Parent in accordance with IFRIC 14. In the current year, the £144,000 restriction in the asset ceiling has been released through the statement of other comprehensive income, and a loss of £144,000 has been recognised in expenses representing the surplus not refunded to the Parent.

Group and Parent	**2017 £000**	2016 £000
The amounts recognised in the statement of financial position are determined as follows:		
Present value of funded obligations	**(343,143)**	(349,570)
Fair value of plan assets	**363,179**	329,394
	20,036	(20,176)
Restrictions on asset recognised	**-**	(144)
Net defined benefit pension scheme asset/(liability) in the statement of financial position	**20,036**	(20,320)
Movements in the net defined benefit pension scheme asset/(liability) recognised in the statement of financial position are as follows:		
At 1 January	**(20,320)**	10,653
Expense charged to profit or loss*	**(5,199)**	(3,361)
Amounts recognised in other comprehensive income	**43,424**	(30,180)
Contributions paid	**2,419**	2,568
Distribution of surplus	**(288)**	-
At 31 December	**20,036**	(20,320)
The amounts recognised through profit or loss are as follows:		
Current service cost	**4,142**	3,376
Administration cost	**556**	435
Interest expense on liabilities	**8,966**	10,655
Interest income on plan assets	**(8,465)**	(11,105)
Total, included in employee benefits expense	**5,199**	3,361
The amounts recognised in the statement of other comprehensive income are as follows:		
Return on plan assets, excluding interest income	**32,671**	27,826
Experience gains on liabilities	**8,647**	2,739
Gains from changes in demographic assumptions	**22,971**	-
Losses from changes in financial assumptions	**(21,009)**	(68,153)
Change in asset ceiling	**144**	7,408
Total included in other comprehensive income	**43,424**	(30,180)

* Charge to profit or loss includes £591,000 (2016: £635,000) in respect of member salary sacrifice contributions.

Notes to the financial statements

17 Retirement benefit schemes (continued)

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

Group and Parent	2017 £000	2016 £000
Pension assets	20,036	144
Pension liabilities	-	(20,464)
	20,036	(20,320)

The principal actuarial assumptions (expressed as weighted averages) were as follows:	2017 %	2016 %
Discount rate	2.40	2.60
Inflation (RPI)	3.20	3.30
Inflation (CPI)	2.20	2.30
Future salary increases	4.45	4.55
Future increase in pensions in deferment	2.20	2.30
Future average pension increases (linked to RPI)	3.00	3.00
Future average pension increases (linked to CPI)	1.75	1.15

Mortality rate	2017	2016
The average life expectancy in years of a pensioner retiring at age 65, at the year end date, is as follows:		
Male	23.0	24.1
Female	24.5	25.7
The average life expectancy in years of a pensioner retiring at age 65, 20 years after the year end date, is as follows:		
Male	24.8	26.4
Female	26.3	28.0

Plan assets are weighted as follows:	2017 £000	2016 £000
Cash and other*	17,925	16,871
Equity instruments		
UK quoted	80,666	82,591
UK unquoted	233	179
Overseas quoted	70,283	75,633
	151,182	158,403
Liability driven investments	47,958	4,004
Debt instruments		
UK public sector quoted - fixed interest	256	263
UK non-public sector quoted - fixed interest	74,540	66,777
UK quoted - index-linked	25,626	38,812
	100,422	105,852
Derivative financial instruments	790	2,143
Property	44,902	42,121
	363,179	329,394

*Cash and other includes accrued income, prepayments and other debtors and creditors.

The actual return on plan assets was a gain of £41,136,000 (2016: gain of £38,931,000).

The underlying assets of the liability driven investments are primarily UK government bonds and interest rate repurchase agreements at various rates and terms.

The fair value of unquoted securities is measured using inputs for the asset that are not based on observable market data. The fair value is estimated and approved by the Trustee based on the advice of investment managers. Property is valued annually by independent qualified surveyors using standard industry methodology to determine a fair market value. All other investments either have a quoted price in active markets or are valued based on observable market data.

Notes to the financial statements

17 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:

	2017 £000	2016 £000
Plan assets		
At 1 January	329,394	294,498
Interest income	8,465	11,105
Return on plan assets, excluding interest income	32,671	27,826
Pension benefits paid and payable	(9,482)	(6,452)
Contributions paid	2,419	2,568
Assets distributed	(288)	-
Administration cost	-	(151)
At 31 December	363,179	329,394
Defined benefit obligation		
At 1 January	349,570	276,562
Current service cost	4,142	3,376
Administration cost	556	284
Interest cost	8,966	10,386
Pension benefits paid and payable	(9,482)	(6,452)
Experience gains on liabilities	(8,647)	(2,739)
Gains from changes in demographic assumptions	(22,971)	-
Losses from changes in financial assumptions	21,009	68,153
At 31 December	343,143	349,570
Asset ceiling		
At 1 January	144	7,283
Effect of interest on the asset ceiling	-	269
Change in asset ceiling	(144)	(7,408)
At 31 December	-	144

History of plan assets and liabilities	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000
Present value of defined benefit obligations	(343,143)	(349,570)	(276,562)	(277,459)	(255,604)
Fair value of plan assets	363,179	329,394	294,498	298,840	287,892
	20,036	(20,176)	17,936	21,381	32,288
Restrictions on asset recognised	-	(144)	(7,283)	(563)	-
Surplus/(deficit)	20,036	(20,320)	10,653	20,818	32,288

The weighted average duration of the defined benefit obligation at the end of the reporting period is 23 years (2016: 23 years).

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 2017 £000	2016 £000
Discount rate	Increase by 0.5%	(35,480)	(36,040)
	Decrease by 0.5%	41,550	40,140
Inflation	Increase by 0.5%	26,620	33,530
	Decrease by 0.5%	(26,410)	(26,300)
Salary increase	Increase by 0.5%	5,170	10,660
	Decrease by 0.5%	(4,960)	(9,840)
Life expectancy	Increase by 1 year	13,500	9,460
	Decrease by 1 year	(13,500)	(9,790)

Notes to the financial statements

17 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	2017 £000	2016 £000
Present value of unfunded obligations and net obligations in the statement of financial position	10,932	11,913
Movements in the net obligations recognised in the statement of financial position are as follows:		
At 1 January	11,913	9,193
Total expense charged to profit or loss	307	346
Net actuarial (gains)/losses during the year, recognised in other comprehensive income	(1,184)	2,565
Benefits paid	(104)	(191)
At 31 December	10,932	11,913
The amounts recognised through profit or loss are as follows:		
Interest cost	307	346
Total, included in employee benefits expense	307	346

The weighted average duration of the net obligations at the end of the reporting period is 18.5 years (2016: 18.5 years).

The main actuarial assumptions for the plan are a long-term increase in medical costs of 9.2% (2016: 9.3%) and a discount rate of 2.4% (2016: 2.6%). In the current year an actuarial gain of £1.4m has been recognised due to changes in demographic assumptions as explained in relation to the Group's main defined benefit pension plan. Actuarial losses of £0.2m have been recognised due to changes in financial assumptions in the year. 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 2017 £000	2016 £000
Discount rate	Increase by 0.5%	(923)	(1,006)
	Decrease by 0.5%	1,049	1,143
Medical expense inflation	Increase by 1.0%	2,041	2,224
	Decrease by 1.0%	(1,634)	(1,781)
Life expectancy	Increase by 1 year	943	1,028
	Decrease by 1 year	(845)	(921)

Notes to the financial statements

18 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 2017	2,565	2,388	7,759	5,917	18,629
Additions	-	703	205	1,859	2,767
Disposals	(310)	(665)	(73)	(233)	(1,281)
Exchange differences	-	-	(2)	(15)	(17)
At 31 December 2017	2,255	2,426	7,889	7,528	20,098
Depreciation					
At 1 January 2017	-	923	4,520	4,488	9,931
Charge for the year	-	356	837	984	2,177
Disposals	-	(463)	(73)	(223)	(759)
Exchange differences	-	-	(13)	(10)	(23)
At 31 December 2017	-	816	5,271	5,239	11,326
Net book value at 31 December 2017	2,255	1,610	2,618	2,289	8,772
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

All properties were revalued at 31 December 2015, with the exception one property which was revalued 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 £2,444,000 (2016: £2,723,000).

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

Included within net book value of motor vehicles is £1,543,000 (2016: £1,359,000) in respect of assets held under finance leases.

Notes to the financial statements

18 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 2017	**2,190**	**2,250**	**7,346**	**5,250**	**17,036**
Additions	**-**	**672**	**80**	**1,792**	**2,544**
Disposals	**(310)**	**(592)**	**-**	**(71)**	**(973)**
Exchange differences	**-**	**-**	**(2)**	**(11)**	**(13)**
At 31 December 2017	**1,880**	**2,330**	**7,424**	**6,960**	**18,594**
Depreciation					
At 1 January 2017	**-**	**827**	**4,361**	**4,113**	**9,301**
Charge for the year	**-**	**341**	**782**	**847**	**1,970**
Disposals	**-**	**(407)**	**-**	**(71)**	**(478)**
Exchange differences	**-**	**-**	**(13)**	**(7)**	**(20)**
At 31 December 2017	**-**	**761**	**5,130**	**4,882**	**10,773**
Net book value at 31 December 2017	**1,880**	**1,569**	**2,294**	**2,078**	**7,821**
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

The Company's properties were revalued at 31 December 2015. 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 £2,044,000 (2016: £2,323,000).

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

Included within net book value of motor vehicles is £1,543,000 (2016: £1,359,000) in respect of assets held under finance leases.

Notes to the financial statements

19 Investment property

Group and Parent	2017 £000	2016 £000
Fair value at 1 January	**125,284**	98,750
Additions - acquisitions	**19,540**	27,851
Additions - subsequent expenditure	**-**	142
Disposals	**-**	(343)
Fair value gains/(losses) recognised in profit or loss	**7,414**	(1,116)
Fair value at 31 December	**152,238**	125,284

The Group's investment properties were last revalued at 31 December 2017 by Cluttons LLP, an external firm of chartered surveyors. Valuations were carried out using standard industry methodology to determine a fair market value. There has been no change in the valuation technique during the year. 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 £7,492,000 (2016: £6,368,000) and is included in net investment return. Other operating and administrative expenses include £802,000 (2016: £423,000) relating to investment property.

20 Financial investments

Financial investments summarised by measurement category are as follows:

	2017 Group £000	2017 Parent £000	2016 Group £000	2016 Parent £000
Financial investments at fair value through profit or loss				
Equity securities				
- listed	**286,790**	**250,117**	262,727	232,323
- unlisted	**42,279**	**42,277**	35,376	35,375
Debt securities				
- government bonds	**153,908**	**93,121**	179,227	108,207
- listed	**362,709**	**236,920**	374,188	253,730
- unlisted	**125**	**125**	139	139
Derivative financial instruments				
- forwards	**582**	**1,396**	2,974	4,928
- options	**2,029**	**2,029**	-	-
	848,422	**625,985**	854,631	634,702
Financial investments at fair value through other comprehensive income				
Derivative financial instruments				
- forwards	**1,388**	**574**	2,067	113
Total financial investments at fair value	**849,810**	**626,559**	856,698	634,815
Loans and receivables				
Cash held on deposit	**9,860**	**9,860**	9,802	9,802
Other loans	**16**	**15**	17	14
Parent investments in subsidiary undertakings				
Shares in subsidiary undertakings	**-**	**50,065**	-	50,065
Total financial investments	**859,686**	**686,499**	866,517	694,696
Current	**399,566**	**350,333**	392,036	344,855
Non-current	**460,120**	**336,166**	474,481	349,841

All investments in subsidiary undertakings are unlisted.

Notes to the financial statements

21 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.

The Group has also formally designated certain derivatives as a hedge of its net investments in Australia and Canada. A gain of £855,000 (2016: gain of £2,067,000) in respect of these 'hedge' derivatives has been recognised in the hedging reserve within shareholders' equity, as disclosed in note 25. 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	2017 Contract/ notional amount £000	2017 Fair value asset £000	2016 Contract/ notional amount £000	2016 Fair value asset £000	2016 Fair value liability £000
Non-hedge derivatives					
Equity/Index contracts					
Futures	**-**	**-**	25,157	-	543
Options	**114,578**	**2,029**	-	-	-
Foreign exchange contracts					
Forwards (Euro)	**93,991**	**582**	78,511	2,974	-
Hedge derivatives					
Foreign exchange contracts					
Forwards (Australian dollar)	**46,934**	**814**	39,443	1,954	-
Forwards (Canadian dollar)	**34,123**	**574**	29,047	113	-
	289,626	**3,999**	172,158	5,041	543

Included with Equity/Index contracts are options with a contract/notional value of £17,991,000, and fair value asset of £854,000, which expire in greater than one year. All other derivatives in the current and prior period expire within one year.

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 20) and derivative fair value liabilities are recognised within other liabilities (note 29).

Amounts pledged as collateral in respect of derivative contracts are disclosed in note 23.

Notes to the financial statements

22 Other assets

	2017 Group £000	2017 Parent £000	2016 Group £000	2016 Parent £000
Receivables arising from insurance and reinsurance contracts				
- due from contract holders	**28,887**	**28,625**	25,579	25,334
- due from agents, brokers and intermediaries	**49,209**	**33,333**	45,054	30,797
- due from reinsurers	**14,482**	**10,628**	15,631	8,120
Other receivables				
- accrued interest and rent	**4,922**	**3,700**	5,370	4,146
- other prepayments and accrued income	**3,852**	**3,103**	4,886	4,345
- amounts owed by related parties	**29,704**	**34,703**	25,092	29,737
- other debtors	**19,026**	**1,015**	19,399	1,232
	150,082	**115,107**	141,011	103,711
Current	**117,378**	**80,081**	114,315	74,640
Non-current	**32,704**	**35,026**	26,696	29,071

The Group has recognised a charge of £27,000 (2016: charge of £49,000) in other operating and administrative expenses in the statement of profit or loss for the impairment of its trade and other receivables during the year. The Parent has recognised a credit of £48,000 (2016: charge of £48,000).

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 £3,551,000 (2016: £3,599,000) pledged as collateral in respect of an insurance liability.

Movement in the allowance for doubtful debts	2017 Group £000	2017 Parent £000	2016 Group £000	2016 Parent £000
Balance at 1 January	**154**	**106**	151	106
Movement in the year	**34**	**(37)**	3	-
Balance at 31 December	**188**	**69**	154	106

Included within trade receivables of the Group is £3,106,000 (2016: £3,214,000) overdue but not impaired, of which £2,795,000 (2016: £2,972,000) is not more than three months overdue at the reporting date. Included within trade receivables of the Parent is £2,630,000 (2016: £2,617,000) overdue but not impaired, of which £2,318,000 (2016: £2,381,000) is not more than three months overdue at the reporting date.

23 Cash and cash equivalents

	2017 Group £000	2017 Parent £000	2016 Group £000	2016 Parent £000
Cash at bank and in hand	**62,474**	**30,574**	50,255	31,307
Short-term bank deposits	**31,293**	**20,825**	39,239	28,436
	93,767	**51,399**	89,494	59,743

Included within short-term bank deposits of the Group and Parent are cash deposits of £nil (2016: £1,956,000) 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 £758,000 (2016: £2,612,000) pledged as collateral by way of cash calls from reinsurers.

Notes to the financial statements

24 Called up share capital

	Issued, allotted and fully paid 2017 £000	2016 £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:

	2017	2016
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.

25 Translation and hedging reserve

Group	Translation reserve £000	Hedging reserve £000	Total £000
At 1 January 2017	**19,664**	**1,844**	**21,508**
Losses on currency translation differences	**(1,642)**	**-**	**(1,642)**
Gains on net investment hedges	**-**	**855**	**855**
Attributable tax	**-**	**(73)**	**(73)**
At 31 December 2017	**18,022**	**2,626**	**20,648**
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
Parent			
At 1 January 2017	**8,472**	**94**	**8,566**
Losses on currency translation differences	**(1,034)**	**-**	**(1,034)**
Gains on net investment hedges	**-**	**606**	**606**
Attributable tax	**-**	**(103)**	**(103)**
At 31 December 2017	**7,438**	**597**	**8,035**
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

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

26 Insurance liabilities and reinsurance assets

	2017 Group £000	2017 Parent £000	2016 Group £000	2016 Parent £000
Gross				
Claims outstanding	**509,319**	**421,397**	540,864	451,199
Unearned premiums	**171,788**	**141,707**	160,288	134,646
Life business provision	**88,141**	**-**	91,900	-
Total gross insurance liabilities	**769,248**	**563,104**	793,052	585,845
Recoverable from reinsurers				
Claims outstanding	**102,635**	**67,600**	115,179	81,083
Unearned premiums	**56,573**	**42,525**	50,753	38,877
Total reinsurers' share of insurance liabilities	**159,208**	**110,125**	165,932	119,960
Net				
Claims outstanding	**406,684**	**353,797**	425,685	370,116
Unearned premiums	**115,215**	**99,182**	109,535	95,769
Life business provision	**88,141**	**-**	91,900	-
Total net insurance liabilities	**610,040**	**452,979**	627,120	465,885
Gross insurance liabilities				
Current	**328,879**	**263,912**	312,224	260,982
Non-current	**440,369**	**299,192**	480,828	324,863
Reinsurance assets				
Current	**110,013**	**80,381**	94,791	75,364
Non-current	**49,195**	**29,744**	71,141	44,596

(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

26 Insurance liabilities and reinsurance assets (continued)

(iv) Discounting

General insurance outstanding claims liabilities 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	**2017**	2016	**2017**	2016
UK and Ireland	**1.0% to 2.5%**	0.7% to 2.7%	**16**	16
Canada	**1.9% to 2.6%**	1.1% to 3.1%	**11**	14
Australia	**2.5%**	2.5%	**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 liability was £549,264,000 for the Group (2016: £581,958,000), and £455,306,000 for the Parent (2016: £487,894,000).

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

At 31 December 2017, it is estimated that a fall of 1% in the discount rates used would increase the Group's net outstanding claims liabilities by £15,683,000 (2016: £17,482,000). 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.

(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 the oustanding claims liability 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:

		2017		2016	
		Gross £000	**Net £000**	Gross £000	Net £000
Liability	- UK	**22,600**	**21,300**	24,700	22,600
	- Overseas	**10,600**	**8,800**	10,100	8,600
Property	- UK	**6,200**	**3,700**	7,100	4,000
	- Overseas	**6,300**	**2,500**	6,500	2,400
Motor	- UK	**1,200**	**500**	1,500	700

Notes to the financial statements

26 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	**2008 £000**	**2009 £000**	**2010 £000**	**2011 £000**	**2012 £000**	**2013 £000**	**2014 £000**	**2015 £000**	**2016 £000**	**2017 £000**	**Total £000**
At end of year	56,420	74,742	84,476	82,095	100,612	81,725	61,901	46,464	51,738	50,736	
One year later	53,552	59,807	75,550	76,371	88,046	80,027	50,571	43,582	46,073		
Two years later	47,643	55,250	62,239	71,543	78,196	69,860	48,327	40,337			
Three years later	44,658	57,134	66,422	68,587	72,516	66,192	45,495				
Four years later	40,433	55,695	61,330	60,841	67,980	60,174					
Five years later	37,546	58,631	62,074	59,914	62,712						
Six years later	37,864	54,942	61,871	57,950							
Seven years later	37,289	57,729	60,155								
Eight years later	38,014	57,626									
Nine years later	37,157										
Current estimate of ultimate claims	37,157	57,626	60,155	57,950	62,712	60,174	45,495	40,337	46,073	50,736	518,415
Cumulative payments to date	(32,455)	(49,112)	(52,223)	(48,764)	(49,195)	(38,198)	(14,410)	(8,043)	(5,339)	(1,666)	(299,405)
Outstanding liability	4,702	8,514	7,932	9,186	13,517	21,976	31,085	32,294	40,734	49,070	219,010
Effect of discounting											(12,202)
Present value											206,808
Discounted liability in respect of earlier years											126,323
Total discounted gross liability (for liability classes) included in insurance liabilities in the statement of financial position											333,131

Parent	**2008 £000**	**2009 £000**	**2010 £000**	**2011 £000**	**2012 £000**	**2013 £000**	**2014 £000**	**2015 £000**	**2016 £000**	**2017 £000**	**Total £000**
At end of year	46,882	60,810	69,230	66,864	84,511	71,798	52,350	34,769	37,981	34,210	
One year later	43,344	46,660	60,202	63,770	77,629	60,950	40,153	31,941	32,541		
Two years later	37,204	43,853	50,834	62,587	69,580	54,792	39,015	30,129			
Three years later	37,669	49,444	53,390	60,653	63,068	50,492	37,158				
Four years later	34,514	47,970	50,526	52,985	56,225	43,910					
Five years later	33,384	47,482	51,031	50,355	51,872						
Six years later	33,667	45,534	48,499	49,127							
Seven years later	33,030	45,718	47,523								
Eight years later	33,285	45,894									
Nine years later	32,526										
Current estimate of ultimate claims	32,526	45,894	47,523	49,127	51,872	43,910	37,158	30,129	32,541	34,210	404,890
Cumulative payments to date	(28,255)	(39,281)	(40,823)	(41,911)	(41,132)	(26,213)	(12,237)	(6,207)	(3,118)	(840)	(240,017)
Outstanding liability	4,271	6,613	6,700	7,216	10,740	17,697	24,921	23,922	29,423	33,370	164,873
Effect of discounting											(8,225)
Present value											156,648
Discounted liability in respect of earlier years											121,796
Total discounted gross liability (for liability classes) included in insurance liabilities in the statement of financial position											278,444

Notes to the financial statements

26 Insurance liabilities and reinsurance assets (continued)

Estimate of ultimate net claims

Group	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	Total £000
At end of year	51,796	64,476	73,218	75,302	88,247	76,729	59,633	42,739	47,402	45,920	
One year later	48,432	53,700	64,796	72,336	79,272	66,475	47,690	40,397	41,631		
Two years later	44,498	50,805	57,758	68,057	73,735	60,075	47,428	37,740			
Three years later	42,524	50,168	59,353	66,822	69,837	55,710	41,494				
Four years later	39,231	50,062	55,975	60,314	65,872	51,482					
Five years later	37,208	49,879	57,012	59,521	60,800						
Six years later	37,606	48,960	57,050	57,641							
Seven years later	37,089	52,254	55,778								
Eight years later	37,998	52,330									
Nine years later	37,141										
Current estimate of ultimate claims	37,141	52,330	55,778	57,641	60,800	51,482	41,494	37,740	41,631	45,920	481,957
Cumulative payments to date	(32,455)	(44,632)	(47,906)	(48,547)	(47,544)	(30,342)	(14,404)	(8,043)	(5,339)	(1,666)	(280,878)
Outstanding liability	4,686	7,698	7,872	9,094	13,256	21,140	27,090	29,697	36,292	44,254	201,079
Effect of discounting											(12,002)
Present value											189,077
Discounted liability in respect of earlier years											115,403
Total discounted net liability (for liability classes) included in insurance liabilities in the statement of financial position											304,480

Parent	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	Total £000
At end of year	41,631	51,226	57,135	59,011	74,361	67,690	50,025	33,122	35,882	33,134	
One year later	38,270	39,841	49,060	59,873	69,805	57,538	38,944	31,041	30,906		
Two years later	33,814	40,198	48,250	59,997	65,297	51,828	38,215	29,494			
Three years later	34,983	43,879	51,827	59,352	61,795	47,942	34,393				
Four years later	34,458	44,064	49,171	52,850	55,686	43,568					
Five years later	33,366	43,640	49,598	50,189	51,766						
Six years later	33,666	41,966	47,783	49,029							
Seven years later	33,021	42,761	46,951								
Eight years later	33,283	43,002									
Nine years later	32,521										
Current estimate of ultimate claims	32,521	43,002	46,951	49,029	51,766	43,568	34,393	29,494	30,906	33,134	394,764
Cumulative payments to date	(28,255)	(37,171)	(40,268)	(41,854)	(41,129)	(26,098)	(12,232)	(6,207)	(3,118)	(940)	(237,272)
Outstanding liability	4,266	5,831	6,683	7,175	10,637	17,470	22,161	23,287	27,788	32,194	157,492
Effect of discounting											(8,225)
Present value											149,267
Discounted liability in respect of earlier years											111,212
Total discounted net liability (for liability classes) included in insurance liabilities in the statement of financial position											260,479

Notes to the financial statements

26 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. For the only material line of business, the base tables used are English Life Tables number 16F and English Life Tables number 16M. 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:

	2017	2016
UK and overseas government bonds: non-linked	**0.71%**	0.75%
UK and overseas government bonds: index-linked	**-1.85%**	-1.83%
Corporate debt instruments: index-linked	**-1.35%**	-1.29%

The investment return assumption is determined by calculating an overall yield on all cash flows projected to occur from the portfolio of financial assets which are assumed to back the relevant class of liabilities.

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 £3.20 per annum (2016: £2.90 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 £6.5 million (2016: £6.1 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 4.04% per annum (2016: 4.21%).

Tax

It has been assumed that tax legislation and rates applicable at 1 January 2018 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 £0.4 million (2016: £10.9 million increase).

Changes to unit renewal expense assumptions (described in (b)(i) above), was a £0.5 million increase (2016: £0.6m 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		**2017 £000**	2016 £000
Deterioration in annuitant mortality	+10%	**900**	900
Improvement in annuitant mortality	-10%	**(1,100)**	(1,100)
Increase in fixed interest/cash yields	+1% pa	**(200)**	(100)
Decrease in fixed interest/cash yields	-1% pa	**-**	(200)
Worsening of base renewal expense level	+10%	**(700)**	(700)
Improvement in base renewal expense level	-10%	**700**	700
Increase in expense inflation	+1% pa	**(1,100)**	(1,100)
Decrease in expense inflation	-1% pa	**900**	900

Notes to the financial statements

26 Insurance liabilities and reinsurance assets (continued)

(c) Movements in insurance liabilities and reinsurance assets

Group	Gross £000	Reinsurance £000	Net £000
Claims outstanding			
At 1 January 2017	**540,864**	**(115,179)**	**425,685**
Cash (paid)/received for claims settled in the year	**(148,717)**	**43,676**	**(105,041)**
Change in liabilities/reinsurance assets			
- arising from current year claims	**172,308**	**(58,721)**	**113,587**
- arising from prior year claims	**(54,398)**	**26,525**	**(27,873)**
- change in discount rate	**1,278**	**165**	**1,443**
Exchange differences	**(2,016)**	**899**	**(1,117)**
At 31 December 2017	**509,319**	**(102,635)**	**406,684**
Provision for unearned premiums			
At 1 January 2017	**160,288**	**(50,753)**	**109,535**
Increase in the period	**172,518**	**(56,875)**	**115,643**
Release in the period	**(160,149)**	**50,824**	**(109,325)**
Exchange differences	**(869)**	**231**	**(638)**
At 31 December 2017	**171,788**	**(56,573)**	**115,215**
Life business provision			
At 1 January 2017	**91,900**	**-**	**91,900**
Effect of claims during the year	**(6,346)**	**-**	**(6,346)**
Changes in assumptions	**585**	**-**	**585**
Change in discount rate	**396**	**-**	**396**
Other movements	**1,606**	**-**	**1,606**
At 31 December 2017	**88,141**	**-**	**88,141**
Claims outstanding			
At 1 January 2016	551,571	(120,753)	430,818
Cash (paid)/received for claims settled in the year	(184,846)	64,907	(119,939)
Change in liabilities/reinsurance assets			
- arising from current year claims	172,164	(58,209)	113,955
- arising from prior year claims	(34,475)	7,045	(27,430)
- 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

Notes to the financial statements

26 Insurance liabilities and reinsurance assets (continued)

Parent	Gross £000	Reinsurance £000	Net £000
Claims outstanding			
At 1 January 2017	**451,199**	**(81,083)**	**370,116**
Cash (paid)/received for claims settled in the year	**(127,491)**	**34,240**	**(93,251)**
Change in liabilities/reinsurance assets			
- arising from current year claims	**130,199**	**(31,343)**	**98,856**
- arising from prior year claims	**(33,467)**	**10,168**	**(23,299)**
- change in discount rate	**1,793**	**-**	**1,793**
Exchange differences	**(836)**	**418**	**(418)**
At 31 December 2017	**421,397**	**(67,600)**	**353,797**
Provision for unearned premiums			
At 1 January 2017	**134,646**	**(38,877)**	**95,769**
Increase in the period	**141,789**	**(42,523)**	**99,266**
Release in the period	**(134,302)**	**38,852**	**(95,450)**
Exchange differences	**(426)**	**23**	**(403)**
At 31 December 2017	**141,707**	**(42,525)**	**99,182**
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	135,746	(35,746)	100,000
- arising from prior year claims	(30,709)	8,369	(22,340)
- change in discount rate	7,226	-	7,226
Exchange differences	14,450	(2,809)	11,641
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

Notes to the financial statements

27 Provisions for other liabilities and contingent liabilities

Group	Regulatory and legal provisions £000	Other provisions £000	Total £000
At 1 January 2017	3,796	1,605	5,401
Additional provisions	3,032	106	3,138
Used during year	(2,899)	(28)	(2,927)
Not utilised	-	(12)	(12)
Exchange differences	-	(1)	(1)
At 31 December 2017	3,929	1,670	5,599
Current	3,354	-	3,354
Non-current	575	1,670	2,245
Parent			
At 1 January 2017	3,796	1,528	5,324
Additional provisions	3,032	95	3,127
Used during year	(2,899)	(28)	(2,927)
Not utilised	-	(12)	(12)
At 31 December 2017	3,929	1,583	5,512
Current	3,354	-	3,354
Non-current	575	1,583	2,158

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

28 Deferred tax

An analysis and reconciliation of the movement of the key components of the net deferred tax liability during the current and prior reporting period is as follows:

Group	Unrealised gains on investments £000	Net retirement benefit assets £000	Equalisation reserve £000	Other differences £000	Total £000
At 1 January 2016	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
Charged/(credited) to profit or loss	**3,336**	**(507)**	**(790)**	**293**	**2,332**
Charged to other comprehensive income	**-**	**7,559**	**-**	**97**	**7,656**
Exchange differences	**2**	**-**	**-**	**1**	**3**
At 31 December 2017	**33,796**	**1,547**	**2,994**	**(1,683)**	**36,654**
Parent					
At 1 January 2016	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
Charged/(credited) to profit or loss	**3,115**	**(507)**	**(790)**	**(95)**	**1,723**
Charged to other comprehensive income	**-**	**7,559**	**-**	**97**	**7,656**
Exchange differences	**-**	**-**	**-**	**(16)**	**(16)**
At 31 December 2017	**32,808**	**1,549**	**2,994**	**(187)**	**37,164**

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

28 Deferred tax (continued)

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

	2017 Group £000	2017 Parent £000	2016 Group £000	2016 Parent £000
Deferred tax liabilities	**38,375**	**37,164**	28,848	27,801
Deferred tax assets	**(1,721)**	**-**	(2,185)	-
	36,654	**37,164**	26,663	27,801
Current	**(974)**	**790**	(1,433)	790
Non-current	**37,628**	**36,374**	28,096	27,011

The Group has unused tax losses of £16,952,000 (2016: £18,695,000) 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.

29 Other liabilities

	2017 Group £000	2017 Parent £000	2016 Group £000	2016 Parent £000
Creditors arising out of direct insurance operations	**1,693**	**794**	1,464	724
Creditors arising out of reinsurance operations	**20,662**	**10,874**	18,698	11,189
Derivative liabilities	**-**	**-**	543	543
Other creditors	**21,051**	**8,901**	20,073	9,514
Amounts owed to related parties	**7**	**83**	-	77
Accruals	**23,450**	**18,659**	20,118	16,442
	66,863	**39,311**	60,896	38,489
Current	**66,533**	**39,311**	60,562	38,489
Non-current	**330**	**-**	334	-

Derivative liabilities are in respect of equity futures contracts and are detailed in note 21.

30 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:

	2017 Group £000	2017 Parent £000	2016 Group £000	2016 Parent £000
Within 1 year	**7,764**	**7,764**	6,857	6,857
Between 1 & 5 years	**26,860**	**26,860**	24,218	24,218
After 5 years	**37,799**	**37,799**	35,620	35,620
	72,423	**72,423**	66,695	66,695

Notes to the financial statements

30 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:

	2017 Group £000	2017 Parent £000	2016 Group £000	2016 Parent £000
Within 1 year	**3,605**	**2,452**	3,417	2,461
Between 1 & 5 years	**11,368**	**8,508**	11,725	8,885
After 5 years	**3,010**	**2,510**	4,448	3,868
	17,983	**13,470**	19,590	15,214
Operating lease rentals charged to profit or loss during the year	**3,440**	**2,280**	3,528	2,436

31 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 242. 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 2017 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%	-	Trustee company
Ecclesiastical Group Healthcare Trustees Limited * ^	10988127	Ordinary	100%	-	Trustee 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

* Registered office: Beaufort House, Brunswick Road, Gloucester, GL1 1JZ, United Kingdom

** Registered office: Level 5, Southbank Boulevard, Melbourne, VIC 3006, Australia

^ Exempt from audit under s480 of the Companies Act 2006

† Exempt from audit

A 26% holding in the ordinary share capital of Regis Mutual Management Limited (Company No. 4194000), an insurance management company, was disposed of during the year and was included within financial investments in the prior year.

Notes to the financial statements

32 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not included in the Group analysis, but are included within the Parent analysis below.

Ecclesiastical Insurance Group plc is the Group and Parent's immediate parent company. Other related parties, of both Group and Parent, include subsidiary undertakings of Ecclesiastical Insurance Group plc, the ultimate parent undertaking and the Group's pension plans.

	Ecclesiastical Insurance Group plc £000	Subsidiaries £000	Other related parties £000
2017			
Group			
Trading, investment and other income, including recharges, and amounts received	**345**	**-**	**1,719**
Trading, investment and other expenditure, including recharges, and amounts paid	**6,229**	**-**	**2,930**
Amounts owed by related parties	**29,458**	**-**	**246**
Amounts owed to related parties	**-**	**-**	**64,923**
Parent			
Trading, investment and other income, including recharges, and amounts received	**345**	**4,928**	**470**
Trading, investment and other expenditure, including recharges, and amounts paid	**6,229**	**3,701**	**809**
Amounts owed by related parties	**29,458**	**5,001**	**244**
Amounts owed to related parties	**-**	**2,379**	**1**
2016 (restated)			
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	-	9,983
Amounts owed by related parties	23,504	-	1,588
Amounts owed to related parties	-	-	67,965
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	-	2,405	-

During the year, the Company received premiums, commission and reinsurance recoveries via a related party insurance agency amounting to £1,919,000 (2016: £1,031,000) and paid reinsurance protection, commission and claims amounting to £2,148,000 (2016: £902,000).

The prior year has been restated to better reflect balances and transactions with related parties.

Amounts owed to related parties by the Group and by the Parent include insurance liabilities which are included in note 26.

Transactions and services within the Group are made on commercial terms. With the exception of some insurance liabilities, 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.

Charitable grants paid to the Group's ultimate parent undertaking are disclosed in note 14. Contributions paid to and amounts received from the Group's defined benefits schemes are disclosed in note 17.

Notes to the financial statements

33 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 44: 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 net inflows to funds managed by Ecclesiastical Insurance Office plc's subsidiary, EdenTree Investment Management Limited, do not have an IFRS equivalent. Regulatory capital is covered in more detail in note 4(i).

		2017							
		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		342,889	28	-	-	-		-	342,917
Outward reinsurance premiums		(129,387)	-	-	-	-		-	(129,387)
Net change in provision for unearned premiums		(6,318)	-	-	-	-		-	(6,318)
Net earned premiums	[1]	207,184	28	-	-	-		-	207,212
Fee and commission income	[2]	40,551	-	-	11,686	8,627		-	60,864
Other operating income		1,935	-	-	-	-		-	1,935
Net investment return		-	2,739	68,839	(41)	757		-	72,294
Total revenue		249,670	2,767	68,839	11,645	9,384		-	342,305
Expenses									
Claims and change in insurance liabilities		(117,910)	(2,003)	-	-	-		-	(119,913)
Reinsurance recoveries		32,196	-	-	-	-		-	32,196
Fees, commissions and other acquisition costs	[3]	(64,619)	(16)	-	(982)	464		-	(65,153)
Other operating and administrative expenses	[4]	(72,271)	(374)	(3,204)	(8,946)	(7,565)	[5]	(14,783)	(107,143)
Total operating expenses		(222,604)	(2,393)	(3,204)	(9,928)	(7,101)		(14,783)	(260,013)
Operating profit	[6]	27,066	374	65,635	1,717	2,283		(14,783)	82,292
Finance costs		(96)	-	-	-	-		-	(96)
Profit before tax		26,970	374	65,635	1,717	2,283		(14,783)	82,196
Underwriting profit	[6]	27,066							
Combined operating ratio		86.9%							
Net expenses (= [2] + [3] + [4] + [5])	[7]	(111,122)							
Net expense ratio		54%							

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

33 Reconciliation of Alternative Performance Measures (continued)

		2016							
		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		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%							

Section Five

Other Information

Directors, executive management and company information

Directors

* J. F. Hylands FFA *Chairman*
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
* A. J. McIntyre MA, ACA, FRCO
* C. J. G Moulder FCA, MA, BA
* 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 *Senior Independent Director*
* 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

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Charles Russell Speechlys LLP
London

DAC Beachcrofts LLP
Leeds and London

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:**	Regional Vice President:	K. Biermann BBA, CIP 100 Eileen Stubbs Avenue Suite 201 Dartmouth, Nova Scotia B3B 1Y6
- **Western Region:**	Regional Vice President:	K. Webster CRM, FCIP Suite 521, 10333 Southport Road S.W. Calgary, Alberta T2W 3X6
- **Pacific Region:**	Regional Vice President:	N de Souza Jensen BA, CIP Suite 1713, Three Bentall Centre 595 Burrard Street, Box 49096 Vancouver, British Columbia V7X 1G4
- **Central Region and National Accounts:**	Regional Vice President and 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:	Beaufort House Brunswick Road Gloucester GL1 1JZ
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, 14th June 2018 at 12:35pm for the following purposes:

Ordinary business

1. To receive the Report of the Directors and Accounts for the year ended 31st December 2017 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 Mrs C. H. Taylor as a director.*
7. To re-elect Mrs S. J. Whyte as a director.*
8. To re-elect The Very Revd C. L. Wilson as a director.*
9. To re-elect Ms D. P. Wilson as a director.*
10. To re-elect Mr D. Henderson as a director.*
11. 11. To elect Mr A. McIntyre as a director.*
12. To elect Mr C. Moulder as a director.*
13. To consider the declaration of a dividend.
14. To re-appoint Deloitte LLP as auditors and authorise the directors to fix their remuneration.

By order of the Board

Mrs R. J. Hall, Secretary
14th March 2018

* Brief biographies of the directors seeking election or re-election are shown on pages x to x of the 2017 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.

Notes

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Annual Report & Accounts 2017

Ecclesiastical Insurance Office plc
Beaufort House
Brunswick Road
Gloucester
GL1 1JZ

www.ecclesiastical.com