



# Understanding what matters

Ecclesiastical Annual Report & Accounts 2020

# Understanding precision matters

We raise the bar with our specialist  
insurance for independent schools





# Understanding magnificence matters

We confidently cover the most complex and specialist risks

# Understanding heritage matters

We are trusted to insure our  
nations' iconic places and spaces





# Understanding reflection matters

We lead the way in specialist  
insurance for faith buildings

# Understanding kindness matters

We exist uniquely to give our profits to charity – supporting the communities we serve



## Understanding what matters

Understanding what matters is what we've been doing since 1887. Understanding what matters to our customers, to our brokers, our colleagues and communities.

It's why we're trusted to cover the most complex and specialist risks. And it's why people know they can depend on us for our unrivalled niche knowledge, experience and passion; for our personal approach and empathetic support. And it's why we've got the confidence to take a different business approach – to give back to society and to the communities we serve. Understanding what matters. It's ultimately what matters.

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## Section One

# About Us

Building a movement for good  
Ecclesiastical at a glance  
Our businesses

Appreciating what's important and what's not. Being able to talk with knowledge and passion. And having the integrity and power to put words into action. These things matter. And it's understanding this, that's given us the edge, making us the trusted experts in specialist insurance. Trusted for over 130 years.

Across all our niche sectors – from heritage to education and from arts and culture to faith and charity – we have world-respected expertise and experience. And however narrow a niche, we're always able to take a wide-angled view by drawing in insights and ideas from our knowledgeable teams. All this, along with our personal approach and empathetic support, is reflected in our 98%+ customer satisfaction score.

We're trusted not just for our specialist knowledge but for being especially good in our chosen fields. We're trusted to do good too. A significant proportion of our profits are channelled towards funding good causes that we know matter to our communities. We do this through independent grants from our charitable owner or via our own considerable donations, so, together we're building a movement for good.

Understanding what matters.  
It's ultimately what matters.

## Ecclesiastical at a glance



An independent, specialist financial services group that exists to give its profits to charity



Since the 1880s

Ecclesiastical has been providing specialist insurance and risk management support to its customers

Trusted by independent schools for over 60 years

44,000+

charities and not for profit organisations insured in the UK alone

A leading multi-faith insurer

Protecting churches, synagogues, mosques and Hindu, Sikh and Buddhist temples across our territories



£99m+

One of the UK's largest charitable donors. We are proud of our ambition to give more than £100m to good causes. Since 2016 we have given over £99m in grants and donations\*

\*Cumulative total 2016 – 2020

98% +

UK overall customer satisfaction across all the sectors we measure\*



\*Based on FY 2020 results for Home New Business and Renewals; Church Renewals; Ecclesiastical claims; Risk Management; FWD Charity; EFAS and Funeral Directors results

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



£437.3m

gross written premium (£395.0m in previous year)

£15.7m

loss before tax  
(£73.3m profit before tax in previous year)

Movement for Good

Through our Movement for Good Awards – our biggest ever giving campaign – we gave £1m to help change people's lives



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

\*Independent survey by FWD

Over 7,000 charities have benefitted from our giving

In Canada our Community Impact Grants supported projects that make a positive impact on the community



## Our businesses

We are organised into three divisions: Specialist Insurance; Investment Management; and Broking and Advisory. All are underpinned by our specialist knowledge and 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 award-winning 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. Committed to being the most trusted and ethical specialist financial services group, we are proud that our UK home insurance has again been awarded the First Place Gold Ribbon in this year's independent Fairer Finance Customer Experience ratings for home insurance.

**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. This year, for the twelfth consecutive year, EdenTree celebrated winning 'Best Ethical Investment Provider' at the Moneyfacts Investment Life & Pensions Awards.

**Broking and Advisory**  
SEIB Insurance Brokers (SEIB) / Ecclesiastical Financial Advisory Services (EFAS) / Ecclesiastical Planning Services Ltd\* (EPSL) / Lycetts Insurance Brokers\* (Lycetts) / 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. SEIB won Personal Lines Broker of the Year again at this year's British Claims Awards.

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.

\* These businesses are owned by Ecclesiastical Insurance Group plc (EIG) which is the parent company of Ecclesiastical Insurance Office plc (EIO). This Annual Report and Accounts for EIO does not include the results of EIG. Where helpful, we've included some additional information about these businesses.

This Annual Report & Accounts is for Ecclesiastical Insurance Office plc (referred to as the 'Company', or 'Parent'), together with its subsidiaries (collectively, the 'Group').



**Ecclesiastical UK**  
**Negotiating the changing risk landscape**

The world is becoming more volatile, more complex, and uncertain – not least due to Covid-19. As a result, our customers are facing new and emerging strategic risks. To help them prepare for and tackle these risks – at a more strategic level – we have now extended our specialist risk management proposition to include Enterprise Risk Management (ERM).

Developed following consultation with brokers and customers, a key part of this new offering is our Strategic Risk Workshop. And the first of our customers to try it was Hopetoun House, one of Scotland's finest stately homes.

In terms of risk identification, the team at Hopetoun House were keen to start with a blank sheet of paper. Our ERM experts worked alongside them, to find out exactly what was keeping them awake at night and to then work through the causes and consequences of those risks. We then produced a new risk register, which significantly enhanced their existing approach.

Their broker took part in the workshop too, and by having this three way approach, we were able to share valuable insights and best practice as well as to identify opportunities.

Of course, Covid 19 means many customers are having to change how they operate and to adapt their strategy – and are looking for support and guidance to do this. Our ERM team can help them strengthen their strategic risk management arrangements, so that risks can be managed in a structured way. By sharing our expertise and understanding of emerging risks, and by delivering valuable insights, we can help customers make informed decisions as well as seize opportunities. In short, we can help them look to the future with more confidence.

The Workshop was brilliant bringing brokers and key staff together to gain deeper insight and mutual understanding. This approach confirmed that we'd largely been on the right track albeit with significant improvements from you.

Piers de Salis, General Manager,  
Hopetoun House, Edinburgh

Identifying risk, and assessing the likely occurrence and business impact, is the start to managing and transferring risks to a conventional insurance programme. Ecclesiastical's Strategic Risk Workshop unites all interested parties, encouraging the sharing of opinions, ideas and experience, which then helps create an informed and valuable action plan.

Marcus Rennick, Divisional Director,  
James Hallam Limited, London

Section Two

# Strategic Report

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## Chairman’s Statement

2020 was the year that none of us could have predicted. The global pandemic affected our lives in ways more far-reaching than we could have imagined. It has been a testing time for all of us.



**‘I’m delighted that, despite the challenges of the past 12 months, we’ve been able to donate over £2.7m to good causes through our own direct giving such as the Movement for Good awards.’**

Throughout this period, I’ve been overwhelmed by the efforts of all our colleagues at Ecclesiastical to continue to deliver what matters most to our customers. I have heard inspiring stories from around the Group of how colleagues have overcome their own personal challenges to support our customers and help those in society who need it most. True character emerges in adversity and our teams pulled together during this difficult time to keep us on course and stay true to our vision and purpose.

### Achievements

The year had many highlights, but I am especially proud that we kept our impressive customer satisfaction rankings, continued to win independent awards and maintained our strong credit ratings in the most trying of circumstances. A heart-felt thanks to all.

While I recognise it was a difficult and uncertain period for our customers, I welcome the clarity and certainty brought by the courts’ rulings in the FCA High Court Case. I know that we also remain determined to do the right thing by handling claims with empathy and sensitivity following the publication of the IICSA report into the Anglican Church.

### A resilient set of results

Despite the difficulties of the Covid-19 pandemic and the Group reporting a loss of £15.7m (2019: profit before tax £73.3m), our businesses generally performed well and we remain financially strong. Our underwriting performance was resilient and gross written premiums grew, thanks to a number of new business wins. What makes Ecclesiastical unique in the financial services world is our charitable ownership. It’s a business model suited to our times and means we’re not driven by the short-term pursuit of profit. Instead, we take a long-term view, focused on sustainable growth, enabling us to weather the difficult times.

I’m delighted that, despite the challenges of the past 12 months, we’ve been able to donate over £2.7m to good causes through our own direct giving such as the Movement for Good awards. This is in addition to over £23m of funds awarded through our parent Allchurches Trust.

### Looking ahead

This is an exciting year for Ecclesiastical. We enter a new chapter in our strategy with a new visual identity. Representing a modern and confident Ecclesiastical, the new brand focuses on our core strengths of being trusted, specialist and committed to customer service.

The benefits of our long-term investment programme continue to be realised. Our new purpose-built office in Gloucestershire opened its doors in February, providing a modern and inspiring environment for our colleagues. It’s a great achievement, particularly considering the challenges of the past 12 months, and I’m looking forward to visiting when restrictions are eased.

This year will also see the start of the rollout of our new strategic General Insurance (GI) system for the UK and Ireland, which will provide customers and brokers with a better, faster experience. At a time when our competitors are battening down the hatches, we are well-placed to thrive and achieve our purpose of contributing to the greater good of society.

### Board activity

On a personal level, my second year leading the Group as Chairman could not have been more different to my first. While I was fortunate enough at the start of the year to spend time with colleagues developing the new GI operating system, many of my plans to engage with the business were curtailed due to the pandemic and I have missed the personal engagement of being with colleagues. As a Board, we had to adapt to new ways of working and since March last year, we have been meeting virtually in our role of reviewing and overseeing the Group’s activities.

I was pleased to welcome two new Board members in 2020. Neil Maidment joined in January, bringing a wealth of industry experience, and Sir Stephen Lamport followed him in March, bringing vast experience from his time in Westminster and serving in the Royal Household. Their diversity of skills and experience strengthen our Board considerably. We were sad to bid farewell to Dean Christine Wilson, who served the Board admirably for 11 years.

### The future

At a time when the reputation of the insurance industry is under scrutiny, it’s more important than ever that Ecclesiastical is, and is seen to be, doing the right things for its various stakeholders. I believe that, provided we continue to fulfil our purpose and live our values, we are well-placed to stand out amongst our competitors and enhance our already considerable achievements.

David Henderson  
Chairman

‘True character emerges in adversity and our teams pulled together during this difficult time to keep us on course and stay true to our vision and purpose.’



## Ecclesiastical UK

### Using new technology to protect the irreplaceable

The top concerns facing the heritage sector are the threat of a major fire, a significant loss and ongoing maintenance costs. To help combat this, we turned to technology – partnering with property performance management experts, Shepherd. We worked with English Heritage, a valued customer, to help identify a suitable property in which to pilot our project. Kenwood House in London, an 18th century stately home with a world-class art collection, was their suggestion.

The team installed dozens of small non-invasive sensors throughout Kenwood House that gathered data from around the property. This was subsequently analysed using a machine learning algorithm to establish a pattern of normal operation. Any abnormal readings would then immediately alert the Kenwood House management team.

At the end of April, a spike was recorded in the moisture levels, triggering an alert to the maintenance team who were able to respond swiftly, preventing water damage to the gallery below. With so many heritage sites now closed due to Covid 19, such remote monitoring is invaluable.

The sensor coverage enables machinery and equipment to be monitored too, making it easier to detect potential issues fast – nipping things in the bud before they escalate into serious and costly problems.

Overall, the project has been a great success. And this was recognised at this year's CIR Risk Management Awards where we picked up the highly commended award in the Risk Management Innovation of the Year category.

We're now using the insights gained from our work at Kenwood House to develop a scaled proposition, so we can use our understanding and specialism in risk management, buildings and heritage – along with innovative technology – to help as many customers as possible.

This is an exciting pilot project for English Heritage. The application of live real-time monitoring has huge potential to revolutionise the management of heritage estates in a sustainable way. This partnership with Ecclesiastical will enable us to minimise risks to the building and its irreplaceable

collections by cost effective evidence based preventive maintenance. We'll be able to identify issues in real time and take preventative steps before maintenance issues become too large and costly. The cost savings will also enable the charity to invest a greater percentage of its annual maintenance budgets in the delivery of exemplary conservation work across the estate.

Nicola Duncan-Finn, Senior Estates Manager at English Heritage

## Chief Executive's Report

For over 130 years, Ecclesiastical has understood what matters most to our customers and communities. Trusted to protect and preserve much of the nation's irreplaceable heritage and history, we're distinguished in the financial services industry by our expertise, ethical approach and unique charitable purpose.



**'The challenges we have overcome, the progress made and speed with which we have done it would not be possible were it not for the dedication of our specialist teams worldwide.'**

We are driven by the pursuit of excellence, which we achieve through our unrivalled knowledge of our specialist markets and a commitment to customer service.

Throughout our long history, we have been unwavering in our focus and determination to serve our customers and support those in society who need us most. This time last year, as I wrote the Chief Executive's report for the 2019 annual report, the impact of Covid-19 was just beginning to be felt across the globe. None of us could have predicted just how much of an impact it would have on our lives. Businesses closed, financial markets collapsed and at times that most basic of human needs, social contact, all but ceased. The global Covid-19 pandemic has affected every aspect of our lives – economically, politically and socially – and has changed the way we live and work forever.

Extraordinary times require an extraordinary response and our businesses responded to this most unprecedented challenge in the best way possible. Together, we rose above the challenges to dream even bigger, and perform even better. Through it all, we never lost sight of our purpose, our strategy and our ambition to drive and grow our business in order to make an even bigger contribution to the greater good of the communities in which we live and work.

### Continuing to build a Movement for Good

Thanks to the incredible support of our customers, brokers, business partners, employees and all our supporters, we have now given over £99m to charity, and are about to meet the £100m target we set ourselves back in 2017. This means that over the last five years our rolling average donations have exceeded £20m per annum – something of which all our supporters can be proud.

Indeed in 2020, in addition to over £23m of funds awarded through our parent Allchurches Trust, the Group gave over £2.7m to support charities and communities during this difficult time, including:

- £1m through our annual corporate giving programme Movement for Good awards – which saw 500 charities receive £1,000 grants and 10 charities receive longer-term funding of £50,000 – and a further £120,000 through our 12 Days of Giving campaign;
- Over £200,000 to a combination of the industry's Covid-19 Support Fund, The National Emergency Trust and the Disaster Emergency Committee's Coronavirus Crisis Appeal;
- Over £250,000 via local charitable programmes such as our 'Community Impact Grants' in Canada and our 'Community Education Programme' in Australia.

We launched Fundraising Hubs to support Church and Charities raise much needed financial support, and undertook a programme to encourage 'Acts of Kindness' across the group for those in need. These acts, mostly unsung, range from providing meals to the homeless or those in isolation, through to the establishment of a Hygiene Bank by our Ansvar office in Eastbourne, and for which Ansvar have been recognised as 'Pro-Bono Company of the Year'.

It's very humbling to think we've been able to support so many good causes during such a challenging period. For many frontline charities, their work has never been more vital, and they are often helping the most vulnerable members of society. I'm proud that we've been able to make a difference to so many lives.

Our charitable purpose drives us to help those most in need and we have now increased our aspirations and are focused to exceed our original £100m charitable

giving target by September 2021. We invite others to join us in this goal. By working together, and with these charities, we can help to build a movement for good.

### Delivering for our customers

I am immensely proud of the way our colleagues showed great courage and resilience to continue to deliver for our customers. All our colleagues quickly and successfully moved to remote working and we adapted our plans to enable our response to the pandemic, showing flexibility and agility across our businesses. This was all achieved while colleagues faced many personal challenges of their own. The Board and I are immensely grateful for the hard work and sacrifice of our colleagues who went above and beyond to ensure customer service was enhanced, and our charitable purpose maintained. Throughout the pandemic, we have made the health, safety and wellbeing of our employees a key priority. We invested in new systems to enable different ways of working, and provided homeworking and mental health and wellbeing support. We decided not to take financial benefit from the Government’s furlough scheme.

I also recognise that this has been a challenging time for many of our customers. Many businesses, charities, schools, nurseries and churches have suffered financially due to the impact of successive lockdowns. We introduced a series of measures to support our customers and partners during this difficult period. These included paying claims quickly where cover was in place, offering enhanced cover, free of charge, to many of our customers, and providing credit support to customers in financial difficulty. We also introduced online information hubs, as well as pandemic-related risk management advice.

The insurance industry came under intense scrutiny as a result of the test case on Business Interruption (BI) insurance brought by the Financial Conduct Authority. We were always clear that our BI policies were never intended to cover pandemics and we welcomed the certainty and clarity provided by the High Court’s judgment in our favour. Nevertheless, the case has damaged trust in the insurance industry and I believe we now need to work together to restore trust in insurance.

Despite all the challenges of the pandemic, I am pleased to report that 98% of surveyed customers were satisfied with how we handled their claim last year, with 92% being very and extremely satisfied, which is consistent with previous years.

In last year’s report, I talked about the importance of managing claims for physical and sexual abuse and we remain committed to improving the claims experience in these sensitive cases. To this end, we welcomed the publication of the Independent Inquiry into Child Sexual Abuse (IICSA) report on the Anglican Church investigation and the insights it gives into the best possible ways to better safeguard children and how to improve the treatment of victims and survivors when disclosing abuse.

The experience of bringing an insurance claim can be traumatic for victims and survivors within the adversarial civil justice system in which we operate. We always aim to handle claims with empathy and sensitivity, as embodied in our Guiding Principles. We thank the Inquiry for its work, and we will continue to review our processes as part of our commitment to continual improvement.

### Financial performance

2020 was a challenging year for all businesses due to the significant impact of Covid-19 and our results were affected by the falls in investment markets. While this affected our reported overall financial performance, resulting in a loss of £15.7m (2019: profit before tax £73.3m), our underlying businesses performed well and we remain financially resilient as we move into 2021.

Underwriting results have been resilient at £12.1m (2019: £20.0m) after £18.7m for Covid-19 related claims where cover is confirmed. We delivered Gross Written Premium (GWP) growth of 11% to £437m (2019: £394m) supported by strong retention and new business. Despite the challenges faced by all businesses in 2020, our commitment to long-term profitable growth has endured and our diverse portfolio of companies has continued to support this. Our long-term view of risk means we have a strong capital position that can withstand short-term volatility and I’m delighted that our excellent A and A- credit ratings by AM Best and S&P were both maintained throughout 2020.

### Our strategy for the future

As we move into 2021, we are entering an exciting phase in our history. After making significant progress in recent years to become the most trusted and ethical specialist financial services group, we are now investing in the next stage of our journey. While many businesses retreat in the face of the coronavirus pandemic, we see the opportunity to refocus and re-energise our business based on our core strengths – our charitable purpose, our outstanding people and our passion to do the right thing.

I’m excited to be able to showcase the new Ecclesiastical Insurance brand in this Annual Report & Accounts. The new visual identity represents the organisation that

we are today – shaped by tradition, while looking to the future. The star carries many meanings but for me it represents our pursuit of excellence, the ethics and standards that we strive for and the guiding light we aspire to be.

Through the launch of our new visual identity, we will be reinforcing everything that our audiences know and love about our organisation – our expertise, our ethics, and our unique purpose – but articulated with greater energy than before. It reflects an Ecclesiastical that not only does good, but is unified, dynamic and innovative. It’s a new era for our business and, to support us, we adapted the strategy in 2020 that will take us through this challenging period and enable us to take advantage of the hardening market conditions.

Alongside the investment in our new visual identity, I’m delighted that our new head office in Gloucestershire is now fully operational and ready to welcome employees with new flexible ways of working once lockdown restrictions are lifted. The premises are truly impressive and provide a modern and spacious working environment for our employees.

In addition to investing in our people and brand, we have also continued to invest in new systems and technology, helping our businesses to innovate with purpose and increase our agility and efficiency. We have recently implemented new systems for our broking, investment management and overseas insurance businesses. This year, we’ll start to deliver a new strategic General Insurance system for the UK and Ireland which, once live, will help us to provide our customers and brokers with an enhanced experience and more efficient processes and capacity.

This investment in our business, together with our great people and financial strength, provides us with the foundation for a bright future.

## Working together for the greater good

With our £100m charitable target within our near term grasp, our adapted strategy, new brand, new systems, new head office and the new ways of working developed this year, we enter 2021 energised and inspired to work together for our customers and society.

The challenges we have overcome, the progress made and speed with which we have done it would not be possible were it not for the dedication of our specialist teams worldwide. As such the Board and I say "Thank you" to our exceptional colleagues who, no matter where they might be, or whatever their circumstances, will always put doing what is right for our customers and our charitable purpose at the centre of everything they do.

To those who are reading about Ecclesiastical for the first time, I invite you to join us, whether as a colleague, customer or business partner, and experience for yourself how it is possible to do business differently. There is no doubt that, together, we are creating something very special – a movement for good that touches and transforms lives in our homes, in our communities, in this country and abroad.

Together, by understanding what matters, we are better able to help our customers. Together, we are better able to increase giving to our beneficiaries. And together, in the words of Captain Sir Tom Moore, we will ensure that for more people "Tomorrow will be a good day".

By order of the Board

**Mark Hews**  
Group Chief Executive

'We are driven by the pursuit of excellence, which we achieve through our unrivalled knowledge of our specialist markets and a commitment to customer service.'

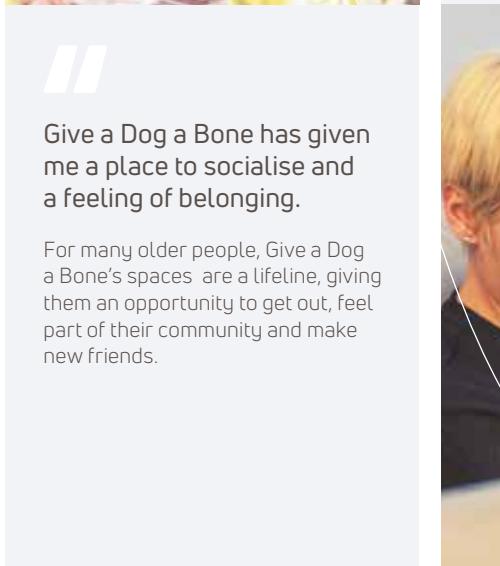
## Connecting for generations

We're proud of our ambition to give more than £100m to good causes. Since 2016 our Group has given over £99m in grants and donations. Impressive as these numbers might seem, it's the countless precious human connections they help forge, that are truly remarkable. Here are just some of the people whose lives have been transformed through our giving. You can read more about these stories in our Impact Report, available on our website [www.ecclesiastical.com/impactreport](http://www.ecclesiastical.com/impactreport)



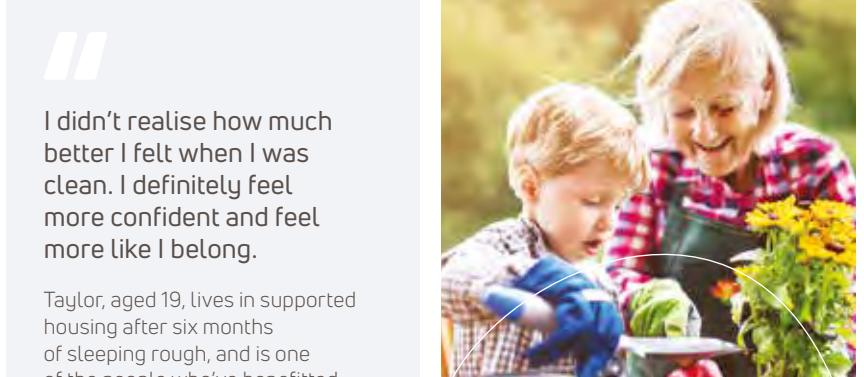
**Give a Dog a Bone** has given me a place to socialise and a feeling of belonging.

For many older people, Give a Dog a Bone's spaces are a lifeline, giving them an opportunity to get out, feel part of their community and make new friends.



Paul waits for his carer by the window every Saturday morning; he knows he is going to Club Islington. When his carer arrives, he doesn't stop smiling.

Paul's mum, Susan, loves seeing her son so happy and hugely appreciates the support she gets from Disability Sports Coach clubs.



I didn't realise how much better I felt when I was clean. I definitely feel more confident and feel more like I belong.

Taylor, aged 19, lives in supported housing after six months of sleeping rough, and is one of the people who've benefitted from the services of The Hygiene Bank project in Eastbourne.



Your assistance and generosity put proper school shoes on five of my grandchildren's feet.

Grandparents For Grandchildren South Australia is a voluntary, not for profit organisation that helps prevent at-risk children from entering the statutory child protection system, instead keeping them within their extended families wherever they can.



Junior Juries was an exceptional experience. The group was lovely, the books were fabulous and I feel like I have gained immensely.

Reading for pleasure can have a fundamental positive impact on children's lives. Designed to encourage reading, The Junior Juries Award is a unique annual programme, run by Children's Books Ireland, for schools, libraries and book clubs.



Emerald was emaciated and suffering from exhaustion – she required round-the-clock care from our team to bring her back from the brink.

One of the UK's largest equine welfare charities, Bransby Horses provides rescue and welfare services for horses and ponies along with donkeys and mules, with a focus on rehabilitation and careful handling to give animals a second lease of life.



Chemotherapy attacks the illness, but unfortunately it also attacks the spirit.

The Katie Nugent fund was established within the Children's Medical and Research Foundation, by Katie's parents Alice and Nick, to provide psychological and emotional support for the children on St John's Ward in Crumlin, and their families, during cancer treatment.



Collaboration is a big aspect of the course, as it's about bringing different crafts together to make something that bit more extraordinary.

The new Building Arts Programme was established by The Prince's Foundation in partnership with QEST to help preserve valuable skills, which are gradually being lost as the average age of workers in the heritage sector approaches retirement age.





## Ansvar UK A swift return to service

We've been protecting churches from the risk of fire since 1887. So, when our claims team got a call telling them that Moravia Church in Hornsey, North London, had suffered significant fire damage, we sprang into action.

The fire, which happened after their Christmas Day service in 2019, was thought to have been caused by tree lights being mistakenly left on. The loss was initially reported to us on 27 December 2019 and we immediately made arrangements for our specialist loss adjusters and restoration team to attend on Sunday 29 December to begin the reinstatement process.

The fire had caused serious damage to the front, left hand corner of the Nave and meant that the floorboards and joists needed replacing along with areas of plasterwork, which had delaminated and blackened. There was also damage to the roof boarding, which was charred in places, and to the timber organ pipes which were next to the tree.

Besides the localised fire damage, the building had suffered smoke logging

throughout, affecting both the structure and the contents. Soot had also entered the large pipe organ, which needed completely taking apart, cleaning and rebuilding.

To discuss plans, we set up a meeting the following week with our claims team, members of the local congregation, and the wider church organisation.

We quickly agreed and set in motion a strategy for the rapid and sensitive restoration of the building, as well as a plan for the remaining areas of the site, the church hall and adjoining nursery, to remain open and fully functioning throughout.

Works were completed in July 2020, less than eight months after being notified of the fire. Claims costs were significant and covered the cost of upgrading the church's traditional

organ to a modern sound system more suited to their needs. Thanks to the initial swift actions of our team and the sensitive reinstatement programme, we were able to avoid any long term interruption to church services and activities throughout. A happy outcome for all involved.

This church suffered severe fire damage, but by quickly deploying the specialist loss adjusters and restorations teams, we were able to complete the works very quickly, and to enable the clubs and groups who used the premises to continue functioning throughout the process – providing valuable support to the wider community.

Natasha Baugh, Team Leader, Claims Department, Ansvar UK

## 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 is demonstrated within Strategy in action (page 40).

Trend	Our perspective
<b>Low trust in financial services</b>	<p>Trust is at the heart of all business relationships and is a result of a combination of ethics and competence. Ethical behaviour is driven by being purpose-led, honest and fair. Competent businesses create value, act as a force for innovation and drive economic prosperity.</p> <p>Historically, financial services has been the least trusted business sector and falls far short of the levels of trust achieved by the technology, automotive and entertainment sectors. During 2020, the insurance industry faced further challenges to its position, with test cases and class actions raised in a number of countries including the UK.</p> <p>Ecclesiastical aims to be the most trusted and ethical financial services group. Our distinct positioning is supported by our business model which underpins our behaviours – we have high levels of trust placed in us that are rare amongst financial services businesses. This is evidenced by recognition of our UK insurance business as the most trusted insurer by consumers (top of the Fairer Finance league table for over ten years), and the market-leading reputation and ethical approach of our investment business (winning the Moneyfacts award for the twelfth consecutive year).</p>
<b>Geopolitical landscape</b>	<p>Uncertainty within the geopolitical landscape continues with an ongoing shift from globalisation to localism (including increased trade protectionism). The race to produce Covid-19 vaccines has led to some increased cooperation between nations.</p> <p>Many countries have seen a significant economic impact during 2020. Pandemic containment measures have led to rising unemployment, increased government debt and left some sectors in critical condition – creating the conditions for future economic instability.</p> <p>There are signs that the fragmented status quo is beginning to improve. The UK is seeking to create a stable landscape following its Brexit transition period and there are stable governments in all our geographies.</p> <p>Our businesses continue to monitor both the local and global landscape to respond to the potential impacts arising from this uncertainty.</p>

Trend	Our perspective
<b>Climate change response</b>	<p>Average temperatures have risen over the past decade which is expected to lead to more extreme weather events. Increased urbanisation is putting further pressure on natural defences, increasing their vulnerability to rising sea levels. Together these forces are likely to lead to greater concentrations of insurance losses. This will undoubtedly have an impact on the way that risk is understood and managed.</p> <p>Even in the midst of a global pandemic, the climate emergency dominates the top five risks in the World Economic Forum's Global Risks Report. After infectious diseases, climate action failure is the top risk by impact. There is growing recognition that governments need to do more to manage their climate change risk as evidenced by a significant increase in catastrophic weather events over recent years.</p> <p>It is crucial that climate change is tackled during the 2020s. The UN Intergovernmental Panel on Climate Change (IPCC) has advised that global warming must be kept to a maximum of 1.5°C within 12 years to reduce the risk of catastrophic outcomes for hundreds of millions of people. The new US President has an ambitious list of climate goals including net-zero emissions by 2050 – this would have significant positive implications for the 1.5°C target.</p> <p>Investor demand, rather than changes in regulation, is more likely to be the key driver of increasing environmental responsibility in financial services. EdenTree, our responsible investment business, has continued to focus on climate change engaging with companies on the opportunities arising from ESG (environmental, social and governance) focused investing.</p>

## Trend

## Our perspective

## Regulation



Regulation continues to evolve to reflect the global and local context: common themes are governance, culture and accountability in order to address the historic financial crisis and associated misconduct issues. There is regulatory scrutiny on technology and data management given the increasingly digitalised and interconnected world.

An increased focus on credit risk, financial resilience and operational resilience is expected, shaped in part by the Covid-19 pandemic. Prudential standards are expected to be revised with implications for financial institutions across the globe. It is supposed that the European Union (EU) will seek to reduce the impact on its banks in order to support growth as part of the recovery from the Covid-19 pandemic.

The EU and UK regulatory frameworks are expected to diverge in both timing and substance. This is expected to increase regulatory complexity in financial services. Following the UK's exit from the EU, our Ecclesiastical Ireland business is now authorised to trade as a Third Party Branch – enabling us to continue offering our specialist proposition in Ireland. Our Northern Ireland portfolio has been repatriated to our Ecclesiastical UK business.

Our insurance businesses responded to the Covid-19 pandemic by offering support to our customers, clients and business partners including pandemic-related guidance, cover extensions or policy adjustments where appropriate, and speedy claims settlement where cover exists.

Ecclesiastical participated in the FCA's business interruption test case in order to bring maximum clarity to our customers in the shortest amount of time. The High Court agreed that losses arising from the pandemic are not covered by our business interruption policies.

We continue to respond to the regulatory context across all our businesses, to continue to operate in compliance with law and regulations and support our customers and business partners.

## Trend

## Our perspective

## Demographics and social trends



While there has been significant change in demographics and social trends since the turn of the 21st century, the last 12 months have accelerated this change. Although the Covid-19 pandemic significantly reduced international migration and travel, global interconnectivity has increased.

There has been a significant shift to a digital-enabled society, with a huge uptick in the online economy and an explosion in remote working due to Covid-19 control measures in many parts of the world. This has accelerated the pace of technological change seen in recent years and amplifies the increased expectations from customers and business partners seeking enhanced tailored propositions.

There is growing appetite for ethical employers and businesses, particularly from young people. A rising focus on the climate emergency is beginning to influence buyers and partners with a more proactive requirement for proven ethical and trusted companies. As award-winning, trusted providers, our businesses continue to attract and retain prestigious customers across our geographies.

## Data, technology and analytics



Data is the world's most valuable asset, and has been called the oil of the digital era. To enhance their competitive advantage, data-driven strategies are being adopted by businesses across the world.

The online economy has become ever more significant – the shift to trusted brands and platforms has continued. The speed of digital adoption has increased against the backdrop of the Covid-19 pandemic with containment measures meaning that retail businesses have struggled to operate or faced significant restrictions.

Greater global interconnectivity means that cyber security remains critical with the increased threat and potential for harm from cyber-attacks for governments, businesses and individuals alike.

Our businesses continue to respond to the opportunities arising from this evolving landscape to work with current and emerging technologies. Our businesses have appropriate measures in place and continue to raise awareness of cyber-risk to our customers, business partners and employees.



**Ecclesiastical Ireland**  
**Playing our part in protecting a national treasure**

The National Opera House in Wexford, South East Ireland, is world-renowned for its opera festival – Wexford Festival Opera. Since 2014 we've become a trusted partner and supporter of this prestigious event, and of the opera house.

The history of the festival, which in 2017 won 'Best Opera Festival in the World' at the International Opera Awards, dates back to 1951 when a group of opera enthusiasts in Wexford decided to stage an opera in their little theatre. What was then the Theatre Royal, was later demolished and the magnificent National Opera House built in its place. Since the grand reopening in 2008, it's hosted over 1,300 live performances to over 400,000 people from across Ireland and around the world.

The landmark building lies at the heart of Wexford. Housing two diverse performance spaces, it has a state of the art auditorium and horseshoe shaped balconies that enhance the performance experience for both audiences and performers. This, along with its rooftop café and bars, make it a magnet for the local community providing entertainment and employment.

The magnificent building is Ireland's first custom built, multi purpose opera house and the only national institution of this

kind outside of the capital. We are proud to partner with and protect such a valuable national institution.

Over the years, various events have strengthened our relationship. Besides providing ongoing risk management, we've dealt with a particularly technical claims settlement and maintained our sponsorship support – up to and including 2020 – when Covid 19 forced the festival to move to a virtual setting, hosting a series of high profile recorded and live performances, which were broadcast nationally.

The close partnership with Ecclesiastical has been instrumental in enabling Wexford Festival Opera and the National Opera House to continue to flourish. As our valued and trustworthy insurer, Ecclesiastical has provided professional and efficient advice and support. And as an enthusiastic and visionary sponsor, Ecclesiastical has provided essential support to many of Wexford Festival's annual opera productions. It has also crucially supported from the outset the

Ecclesiastical Wexford Festival Volunteer of the Year Award, which celebrates the strong ethos of volunteerism, which has been the bedrock of the Festival since its foundation. This enduring partnership has been so beneficial to the entire Wexford family.

David McLoughlin, Chief Executive, Wexford Festival Opera and The National Opera House

The National Opera House and the Wexford Festival Opera are the result of great vision combined with great passion and the hard work of a dedicated group of people. Partnering with the Festival and the venue brings the specialist knowledge and insurance strength of Ecclesiastical together with the talent, vision and passion that have made The National Opera House and the Wexford Festival Opera stand out international successes.

Mary Kelly, Chairperson, Wexford Festival Opera.

# 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 long-standing 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 charitable owner and demonstrating that a distinctly ethical, specialist financial services group can succeed in competitive markets.

## Strategic Report

## Strategy in action

Our strategic goal is: To be the most trusted and ethical specialist financial services group, delivering more than £100m to charity and our communities.

In mid-2020, the Group adapted its strategy, formalising its response to the Covid-19 pandemic. The strategy demonstrates the Group's aim to support charities and widens this ethos to its communities. This strategy enables our business to focus on some of the more immediate needs and opportunities arising over the next year, while continuing to have a positive impact on the communities that are important to the Group.

Considerable progress has been made by our business towards its donations target and it is expected that this will be achieved in 2021. This has been made possible through the endeavours of all our businesses across the Ecclesiastical Insurance Group, which are focused on meeting the needs of their customers and business partners.

Charitable purpose underpins our business strategy. Our business is one of the UK's top corporate donors and has market-leading levels of employee-led community investment. Our charitable ethos is demonstrated by a wide variety of activities including volunteering, employee-nominated charitable grants and employee fundraising.

Our strategy reflects our response to global trends and the external market context, together with the actions needed to sustain our distinctive position in our chosen markets. We have continued to deliver the key elements of our strategy while investing in our businesses and delivering value to our customers.

### Most trusted specialist insurer

We achieve this by being



**Trusted** – Operating with the highest ethical standards and living our customer promise and our intermediary promise.

**Specialist** – Focusing on customer segments where we have sustainable competitive advantage

**Customer-led** – Delivering a value proposition focused on outstanding customer experience built on insight, innovation, personalised engagement, ethics and true product differentiation

**Expert** – Possessing outstanding expertise in core risk and insurance disciplines

**Efficient** – Leveraging innovation and technology to keep costs as low as possible

**Agile** – Leveraging data and our smaller size as an advantage to drive pace of decision making

### Strategy in action



- Attracted and retained prestigious customers across all our segments in all our territories with ongoing recognition of valued and trusted approach
- The first UK insurer to sign the C19 business pledge to boost opportunity and social mobility in response to the pandemic
- Provided local support to our brokers and customers with advice on specialist topics including risk management, across all geographies
- A specialist, expert voice, provided a roadmap for business resilience and published insights into risks in the Heritage and Education sectors
- Continued to provide tailored support to our church customers through our team of Church Insurance Consultants (CIC) who offer a range of support including an introduction to Church insurance and risk management guidance

- Launched online tailored fundraising advice hubs for church customers and charity customers, supported by bespoke webinars to address specific needs and build resilience in the face of Covid-19

- Launched the Hub for Education to support our educational customers in managing their operational and strategic risks
- Launched toolkits for brokers to support them with their social media presence and their mental wellbeing

### Customer satisfaction

• 98% overall satisfaction for our Ecclesiastical UK claims service with an 84% Net Promoter Score

• 98% of church customers are satisfied with our service, with 86% extremely or very satisfied

• 97% of brokers that place business with Ecclesiastical UK are satisfied with our service, with 83% of brokers stating that we understand what truly matters

- 81% of brokers that place business with Ecclesiastical UK believe that we are an ethical and responsible business

<sup>1</sup> Excludes 'don't know' responses. Source: Group Insight, January 2021

## Most trusted specialist insurer

### Awards and accreditations



Recognised externally for our expertise and ethical approach, as evidenced by a number of awards:

#### Ecclesiastical UK:

- Fairer Finance #1 for Home Insurance, Spring 2020 and Autumn 2020 (12th consecutive time)
- Insurance Post Claims & Fraud Awards: Personal Lines Team of the Year
- Insurance Post Claims & Fraud Awards: Customer Care Individual
- Drum Roses Creative Awards: Gold Award for Corporate/Promotional Literature (Art & Private Client Review magazine)
- Chartered Insurance Institute: Chartered Insurer status
- Cheltenham and Gloucester CII: Achiever of the Year and runner-up
- Manchester CII: Jubilee Prize for excellence in Claims Practice examinations

#### Ecclesiastical Canada:

- Canada's Top 100 Employers for Young People (8th consecutive year)
- Elite Women in Canadian Insurance
- Greater Toronto Top Employer (3rd consecutive year)
- Insurance Business Canada Award for Woman of Distinction

#### Ecclesiastical Ireland:

- Chartered Insurance Institute: Chartered Insurer status

#### Ansvar UK

- Better Society Awards: Pro Bono Company of the 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 products – we are developing and deepening our fund offering with particular focus on meeting the demands of our investors

Listening to our clients – we have implemented a client feedback programme to create greater proximity to our clients and their evolving needs

Enhancing our infrastructure – we are building a platform for growth and increased efficiency

### Strategy in action



- Recognised for responsible and sustainable investment with a strong long-term performance record

- Acknowledged as a pioneer and thought leader in our markets

- Continued to engage across the responsible investment landscape with membership of IIGCC (Institutional Investors Group on Climate Change), BBFAW (Business Benchmark on Farm Animal Welfare) and The 30% Club (to increase gender diversity at board and senior management levels)

- Published our acclaimed specialist EdenTree Insights research with topics including The future of road transport; Animals, business and investment; and Supply chains: at the heart of business

- Reinforced our thought leadership position with responsible investment expert briefings and press commentary on topics ranging from Fast Fashion to Fossil Fuel Divestment and Healthy Futures

- Continued to strengthen our distribution capabilities including implementation of a new customer relationship management (CRM) solution

### Awards and accreditations



- Moneyfacts Best Ethical Investment Provider (12th consecutive award)

- Investment Week Sustainable & ESG Investment Awards: Outstanding Contribution to the Industry (Sue Round)

- Retained Tier I Status under the Stewardship Code

- Sustained A+ rating for Strategy and Governance in the PRI Transparency Report

- Gained eighth accreditation under the European SRI Transparency Code

## 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



- Maintained supportive and responsible service during Covid-19 lockdown
- Introduced product cover adaptations quickly to support customers as their business models evolved due to the Covid-19 pandemic. Worked with carriers to reduce premiums to reflect less usage (SEIB)
- Provided a comprehensive and efficient bridge to carriers to support business interruption claims queries from their customers
- Created new schemes in response to understanding specialist client needs

- Assessed behavioural insights to enhance broker etrade user experience
- Created quick win opportunities to support customer propositions across the Broking and advisory division
- Acquired WRS Insurance Brokers, strengthening our proposition to charities, churches and community groups
- Continued to meet the key financial concerns of clergy and church-related people and offered financial support seminars in a number of dioceses (EFAS)

### Customer satisfaction



- High levels of customer satisfaction in broking:
  - 97% of customers satisfied with the service (SEIB)
  - 85% of customers extremely or very satisfied with the service (EFAS)
  - 97% of customers extremely or very satisfied (Lycetts\*)

- 100% very/extremely satisfied score from funeral directors for the second year (Ecclesiastical Planning Services (EPSL))\*
- 100% satisfaction across the recently-acquired Funeral Planning Services book, a significant improvement on their previous scores (EPSL\*)

\*part of the Ecclesiastical Insurance Group

### Awards and accreditations



- British Claims Awards, Personal Lines Broker of the Year (SEIB)
- Excellence in CII diploma examinations – the Kemp Prize, Chelmsford and South Essex CII (SEIB)
- Chartered Insurance Broker status across all the Group's broking businesses (SEIB / Lycetts\* / Lloyd & Whyte\*)

- Highly commended for the following awards:
  - Young Insurance Woman (SEIB)
  - Insurance Age UK Broker Awards: Marketing and Customer Engagement Award (SEIB) and Covid-19 Response Award (SEIB)

\*part of the Ecclesiastical Insurance Group

## Strategic Report

### Key Performance Indicators

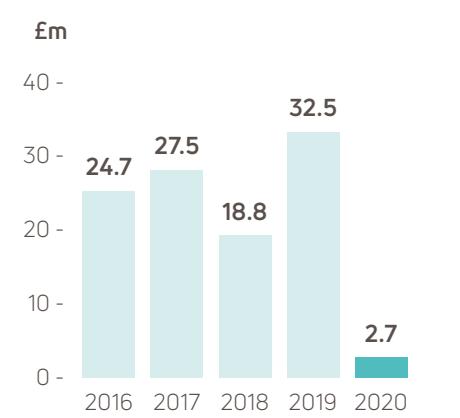
#### Financial

#### Non financial

# Key Performance Indicators

## Financial

Measure	Performance
<b>Donations</b> The amount donated by Ecclesiastical to charities, including our charitable owner, each year. This is the main measure of our ambition, which is to exceed £100m in charitable giving by September 2021.	Despite the impacts of Covid-19, the Group has continued to give to charity and donated £2.7m during 2020. The original target of £100m by 2020 was extended and enhanced to reach more than £100m by September 2021.
<b>Regulatory capital<sup>1</sup></b> 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 Ecclesiastical Insurance Group plc (Ecclesiastical Insurance Office Group's parent company). 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 cover under Solvency II has remained broadly stable. During 2020, own funds reduced largely reflecting unrealised losses on equity investment assets held for the long term, together with the impact of reduced discount rates applied to Pension Fund and General Insurance liabilities. Significant improvement in equity markets occurred after the initial Covid-19 related impacts, although overall capital cover has reduced for the year because reductions in the market risk are offset by less available future tax absorbency remaining, and insurance risk has increased, driven by higher opening discounted reserves. The figures for 2020 are based on the information provided to the Board as part of their ongoing management of the business and are unaudited. 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.



Measure	Performance
<b>Profit or loss before tax</b> The Group's profit before deduction of tax.	The Group reported a loss before tax in 2020 of £15.7m (2019: profit before tax £73.3m) as a result of market impacts, largely from the Covid-19 pandemic, impacting the investment return. Our Broking and Advisory business continued to contribute profits to the Group result while our Investment Management business reported a small loss due to continued investment in infrastructure. More information on underwriting performance <sup>1</sup> is given below. See the Financial Performance Report within the Strategic Report for more details.
<b>Combined operating ratio<sup>1</sup> (COR)</b> The sum of Ecclesiastical's general insurance incurred losses and expenses divided by earned premiums for each financial year.	In 2020, the ratio was slightly above the longer term target. This reflects the impact of Covid-19, adverse weather events in Australia and Canada and the anticipated lower prior year releases and reserves strengthening. The Group continues to keep underwriting and pricing discipline at the centre of its strategy, prioritising profit over growth in the competitive business environment. For a breakdown of how COR is calculated, see note 36 to the financial statements. See the Financial Performance Report within the Strategic Report for more details.



(i) the 2017 and 2018 figures are audited and reflect figures from the Company's published Solvency and Financial Condition Report which is available via the Company's website  
(ii) the 2018 and 2019 own funds are audited and reflect figures from the Company's published Solvency and Financial Condition Report which is available via the Company's website



<sup>1</sup> Alternative performance measure, refer to note 36 to the financial statements for further explanation.

<sup>1</sup> Alternative performance measure, refer to note 36 to the financial statements for further explanation.

Measure	Performance												
<b>Net expense ratio<sup>1</sup> (NER)</b>  Total expenses as a proportion of the net premium earned in the year. These expenses include acquisition costs, administration costs, the movement in deferred acquisition costs and commission paid less commission received.  Our aim is to make year-on-year improvements in the NER. However, in the short term we expect NER to reflect a planned increase in strategic investment.	<p>Our NER decreased in 2020 to 52.4% driven by a 9.6% increase in net earned premium. Expenses continue to include our programme of strategic investment in technology, our people, innovation and loss prevention along with specialist risk management services that help to protect organisations and irreplaceable heritage.</p> <p>For a breakdown of how NER is calculated, see note 36 to the financial statements.</p> <p>(%)</p> <table border="1"> <thead> <tr> <th>Year</th> <th>NER (%)</th> </tr> </thead> <tbody> <tr> <td>2016</td> <td>51.5</td> </tr> <tr> <td>2017</td> <td>53.6</td> </tr> <tr> <td>2018</td> <td>54.5</td> </tr> <tr> <td>2019</td> <td>53.0</td> </tr> <tr> <td>2020</td> <td>52.4</td> </tr> </tbody> </table>	Year	NER (%)	2016	51.5	2017	53.6	2018	54.5	2019	53.0	2020	52.4
Year	NER (%)												
2016	51.5												
2017	53.6												
2018	54.5												
2019	53.0												
2020	52.4												
<b>Net inflows<sup>1</sup> (Investment Management)</b>  Net inflows are the difference between the funds invested and the funds withdrawn during the period by 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.	<p>Despite political and economic challenges, the year ended with far less uncertainty and volatility compared to what was experienced from March 2020 as markets reacted to the measures taken by governments to tackle Covid-19.</p> <p>The pandemic resulted in a challenging year, limiting the assets clients had available to invest, in particular charities. Against this backdrop, total net new inflows were £58m.</p> <p>£m</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Net Inflows (£m)</th> </tr> </thead> <tbody> <tr> <td>2016</td> <td>(38)</td> </tr> <tr> <td>2017</td> <td>61</td> </tr> <tr> <td>2018</td> <td>173</td> </tr> <tr> <td>2019</td> <td>204</td> </tr> <tr> <td>2020</td> <td>58</td> </tr> </tbody> </table>	Year	Net Inflows (£m)	2016	(38)	2017	61	2018	173	2019	204	2020	58
Year	Net Inflows (£m)												
2016	(38)												
2017	61												
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2019	204												
2020	58												

<sup>1</sup> Alternative performance measure, refer to note 36 to the financial statements for further explanation.

## Key Performance Indicators Non-Financial

We place equal importance on financial and non-financial key performance indicators. Details of the non-financial performance indicators can be found within our Strategy in action section starting on page 40 and our Corporate Responsibility Report starting on page 78.

# Strategic Report

# Financial Performance Report

The year 2020 has been one of the most challenging in living memory for us, our brokers and our customers. It has challenged us in ways we might never have expected but demonstrated the importance of Ecclesiastical's purpose and its financial and operational resilience.



We entered 2020 from a position of strength, but as the global economy slowed from the impacts of the pandemic, our financial performance suffered in line with the rest of the economy. The real measure of our performance in 2020 however has been how we responded to support our customers, brokers, people and communities.

Following a strong financial performance in 2019, reported loss before tax of £15.7m<sup>1</sup> (2019: profit before tax £73.3m) was principally due to investment losses experienced after significant market falls in the first half of the year, offset by steady gains later in the year. The Group's underwriting businesses reported profit of £12.1m (2019: £20.0m) after £18.7m for Covid-19 related claims where there is confirmed cover, demonstrating continued progress in our underlying performance. To ensure the Group delivers sustainable profitable growth, we have continued to make strategic investments in technology, property and our people and this is reflected both in our capital expenditure and other costs.

We continue to be a trusted partner to our customers and brokers, and this is reflected in our strong retention and satisfaction levels, which have supported our growth in gross written premiums (GWP) of more than 10%. Despite the unprecedented challenges of 2020, we have continued to invest in the future of our business, including development of our new insurance underwriting platform and our new head office.

Our business is managed with a long-term view of risk and as a result, we have a strong capital position that can withstand short-term volatility and our strong credit ratings with S&P and AM Best were both reaffirmed during the second quarter of 2020. Our Solvency II regulatory capital position remains above regulatory requirements and risk appetite and was further supported with the issuance of €30m subordinated debt in February 2021, as the Group seeks to take advantage of profitable growth opportunities.

## General insurance

The Group's underwriting businesses have proven resilient in 2020, reporting a Combined Operating Ratio<sup>2</sup> (COR) of 95.1% (2019: 91.1%). Underlying underwriting performance has been resilient, despite the impact of adverse weather events in Australia and Canada and the impacts of anticipated lower prior year releases and reserves strengthening. Our strategy has continued to deliver moderate GWP growth by maintaining our strong underwriting discipline and focusing on profit over growth. GWP grew 11% to £437m (2019: £394m), supported by retention and rate increases as well as new business towards the later part of the year.

## United Kingdom and Ireland

In the UK and Ireland, financial year underwriting profits decreased to £12.3m (2019: £20.4m) giving a COR of 92.5% (2019: 86.8%) and GWP grew by 7.6% to £276.6m (2019: £257.1m). This represents another strong performance with positive results on both the property and liability accounts. As expected, the level of prior year releases during 2020 was significantly lower than in 2019. The run-off of unprofitable business exited in 2012 and 2013, combined with our prudent approach to reserving have positively impacted the overall result over the last four years. We would expect to continue to see a modest level of prior year releases, but with a greater contribution coming from our current year underwriting performance.

Both property and casualty accounts generated net underwriting profits on a current year basis, despite the impacts of Covid-19 and a significant church fire. Current year loss ratios are in line with expectations, reflecting favourable underlying claims performance and fewer weather events. We have also seen the benefit of rate increases in a number of portfolios.

<sup>1</sup> Further details can be found in note 5 to the financial statements.

<sup>2</sup> Alternative performance measures, refer to note 36 to the financial statements for further information.

Trading conditions remained competitive and we expect this to continue in a number of areas. The education sector was particularly competitive, although we observed some market hardening in property, specifically for larger property exposures. We have continued to achieve high levels of retention and carried positive rate change where needed, whilst continuing to have very strong customer satisfaction and Net Promoter Scores across the UK and Ireland. Market hardening in some property lines and a strong operational response to keep trading through Covid-19 has also enabled us to bring on good levels of new business at the required rate, and our Real Estate, Heritage and Art & Private Client business delivered particularly strong growth during 2020. GWP in respect of our Faith business remained in line with prior year reflecting a good result in challenging market conditions.

We expect the market to continue to harden in some parts of the property portfolio as competitors correct portfolios, and also in some parts of the casualty sector. Education is likely to remain a key competitive area as the UK Government's risk protection arrangement (RPA) attracts local authority maintained schools in addition to academies. This has left the independent schools sector at increased competition from all education insurers.

Our strategy over the medium term is to deliver moderate GWP growth, while maintaining our strong underwriting discipline, as our philosophy is to seek only profitable growth. We will continue to deepen our specialist capabilities through investment in technology and innovation together with the propositions and excellent service that our customers value.

## Ansvar Australia

Our Australian business reported an underwriting loss of AUD\$1.2m resulting in a COR of 102.2% (2019: AUD\$6.0m loss, COR of 114.1%). GWP grew by 18.5% in local currency to AUD\$149.9m (2019: AUD\$126.5m) with strong new business growth, retention and rate increases. Action has been taken to exit from unprofitable business and the current year performance of the ongoing business has shown improvement over 2019. The property account was adversely impacted by early 2020 weather events and Covid-19 related claims and the liability account was strengthened for physical and sexual abuse (PSA) reserves to reflect higher claims reported in 2020.

## Canada

Our Canadian business continued its track record of delivering premium growth, reporting a 20.2% increase at CAD\$131.5m (2019: CAD\$109.5m) supported by strong retention, growth in new business and rate increases.

Canada reported an underwriting profit of CAD\$7.4m resulting in a COR of 91.2% (2019: CAD\$3.4m profit, COR of 95.1%). Despite the impact from Covid-19 and two weather events, the property book performed well, driven by fewer large losses and a favourable development on prior year claims. The liability account also performed well delivering an underwriting profit despite some adverse development on prior year claims.

## Investments

With the conclusion of a Brexit deal and the US election, the year ended with far less uncertainty and volatility compared to that experienced from March 2020 as markets reacted to the measures taken by governments to tackle Covid-19. The Group's net investment loss of £4.2m as compared to the 2019 net investment profit of £74.4m can be largely attributed to performance of UK equities. The Group's fund nevertheless produced a total return ahead of its asset benchmark over the year.

The lower than expected return on investments of £20.9m reflects market conditions and reactions to the pandemic during 2020 (2019: £26.2m). The impact from Covid-19 was also reflected in fair value losses on financial instruments of £13.6m which contrasted with gains of £56.0m in 2019. Whilst 2020 ended with less uncertainty, as for all businesses, there remains economic uncertainty which could impact the performance of our investments. However we remain confident in our long-term value investment philosophy, and are relatively defensively positioned.

Within our UK equity portfolio, small and mid-cap bias proved beneficial as the FTSE Small-Cap and FTSE 250 indices outperformed the FTSE All-Share.

Our directly-held sterling bond portfolio underperformed the FTSE Gilts benchmark by 5.4%, as the longer dated index outperformed on falling yields and our portfolio has a higher proportion of short dated bonds.

The downward movement in bond yields led to a decrease in the discount rate applied to long-tail general insurance liabilities. The change in discount rate on those liabilities resulted in a £10.9m loss recognised within net investment return (2019: £9.9m loss).

## Investment Management

The Group's investment management business, EdenTree, incurred a loss before tax for the year of £1.0m (2019: loss before tax £0.3m) as it continued to invest in infrastructure. The Covid-19 pandemic resulted in a challenging year, limiting the assets clients had available to invest, in particular charities. Against this backdrop, EdenTree were pleased to report £58m of net new money for the year having reached a historic high of £204m in 2019.

Global equity markets dipped significantly in March and April due to the pandemic, the recovery accelerating towards the back end of the year with some markets approaching opening levels. Assets under management were £3.1bn (2019: £3.1bn) and £2.3bn (2019: £2.3bn) excluding assets managed for the Group.

Net income at £12.4m was slightly down (2019: £12.6m). This is due to the combination of lower fees earned on assets, a trend which has been seen across the industry in recent years, and market turbulence over the course of the year.

## Long-term insurance

Our life insurance business, which is currently closed to new business, reported a profit before tax of £0.5m for the year (2019: £0.3m). Assets and liabilities are well matched, and the small profit is in line with our expectations for this business.

## Broking and advisory

Overall, broking and advisory had modest growth in income and profit, reporting a profit before tax of £2.4m (2019: £2.1m). This area of our business includes our insurance broker, SEIB Insurance Brokers (SEIB) and our financial advisory business, Ecclesiastical Financial Advisory Services (EFAS). SEIB reported an increase in profit before tax to £2.8m (2019: £2.6m) and during the year, extended its own range of specialisms with the acquisition of WRS Insurance Brokers, recognised as specialists in charity, church and care and community groups. EFAS reported a loss of £0.3m in the year (2019: £0.4m loss).

In addition to these broking and advisory businesses our immediate parent company, Ecclesiastical Insurance Group holds interests in the specialist broker groups Lycetts and Lloyd & Whyte and a prepaid funeral plan business, Ecclesiastical Planning Services. Whilst the results of these are not included within the Ecclesiastical Insurance Office plc Group, they are managed together as part of Ecclesiastical's wider broking and advisory group of businesses. The broker businesses were profitable in 2020 but the prepaid funeral plan business was loss making as a result of the adverse impacts caused by lockdown measures in the UK.

## Outlook

Whilst the conclusion of Brexit and the US election towards the end of 2020 provided some market stability, we are still living with Covid-19 and the economic consequences are expected to continue. However, the Group's long-term view to managing and investing in the business has underpinned its financial resilience and strong capital position and we are well positioned for the future.

We remain focused on our vision to be the most trusted and ethical financial services group, and whilst we can look forward with more hope, we will do so whilst continuing to exercise caution where we operate around uncertainty and market disruption. We will continue to focus on delivering sustainable profit growth and evolve our business for the greater good of society and to make a positive impact on people's lives.

Denise Cockrem  
Group Chief Financial Officer

*'We will continue to focus on delivering sustainable profit growth and evolve our business for the greater good of society and to make a positive impact on people's lives.'*

With over 50 years' experience in the equestrian industry, we remain one of the leaders in this specialist field. Working in an industry for this length of time, it's fair to say that there isn't much that surprises us anymore – and then Covid-19 hit. Like everyone else, we knew relatively little about the virus, but one thing we were certain about: it was going to have a serious effect on our clients.

We immediately set to work reducing cover for livery yards and riding schools, such as Cheston Farm in South Devon, who have been our customer for over 10 years. This successful riding school and livery yard was set up by husband and wife team, Sophie and Andrew Osborne. As a result of their hard work and commitment, the centre boasts some of the best facilities in the region and plays host to a varied programme of competitions, clinics and events.

Over the last seven months, we have been working very closely with Sophie and Andrew to ensure that their insurance cover and price reflected only the activities that they were allowed to carry out as a result of Covid 19 restrictions.

In March, we made a range of cover changes to enable cost cutting. These included the reclassification of 28 tuition horses to private horses; removing cover for shows, camps and pony clubs, along with cover for freelancing, and amending the business description as a whole to reflect the reduced rating. We made further reductions in April, and from May onwards, we've been in regular contact with Andrew to increase cover in line with the easing of lockdown restrictions.

Lockdown was like a bolt from the blue. Overnight 90% of our income was gone, yet 100% of our overheads remained: we had to focus quick and hard on all of our costs and get them down. Furlough saved the staff, moving our borrowing to interest-only

served to protect our reserves, and the flexibility of our insurance offered by SEIB's specialist team saved us money – we could turn the tap up or down, depending on what we were able to do, and the policy adjustments that went with this were instant. When we thanked the team, we were told simply, 'not needed, we are just doing our job.'

Andrew Osborne, Proprietor, Cheston Farm, South Devon



'With over 50 years' experience in the equestrian industry, we remain one of the leaders in this specialist field.'

## Section Two

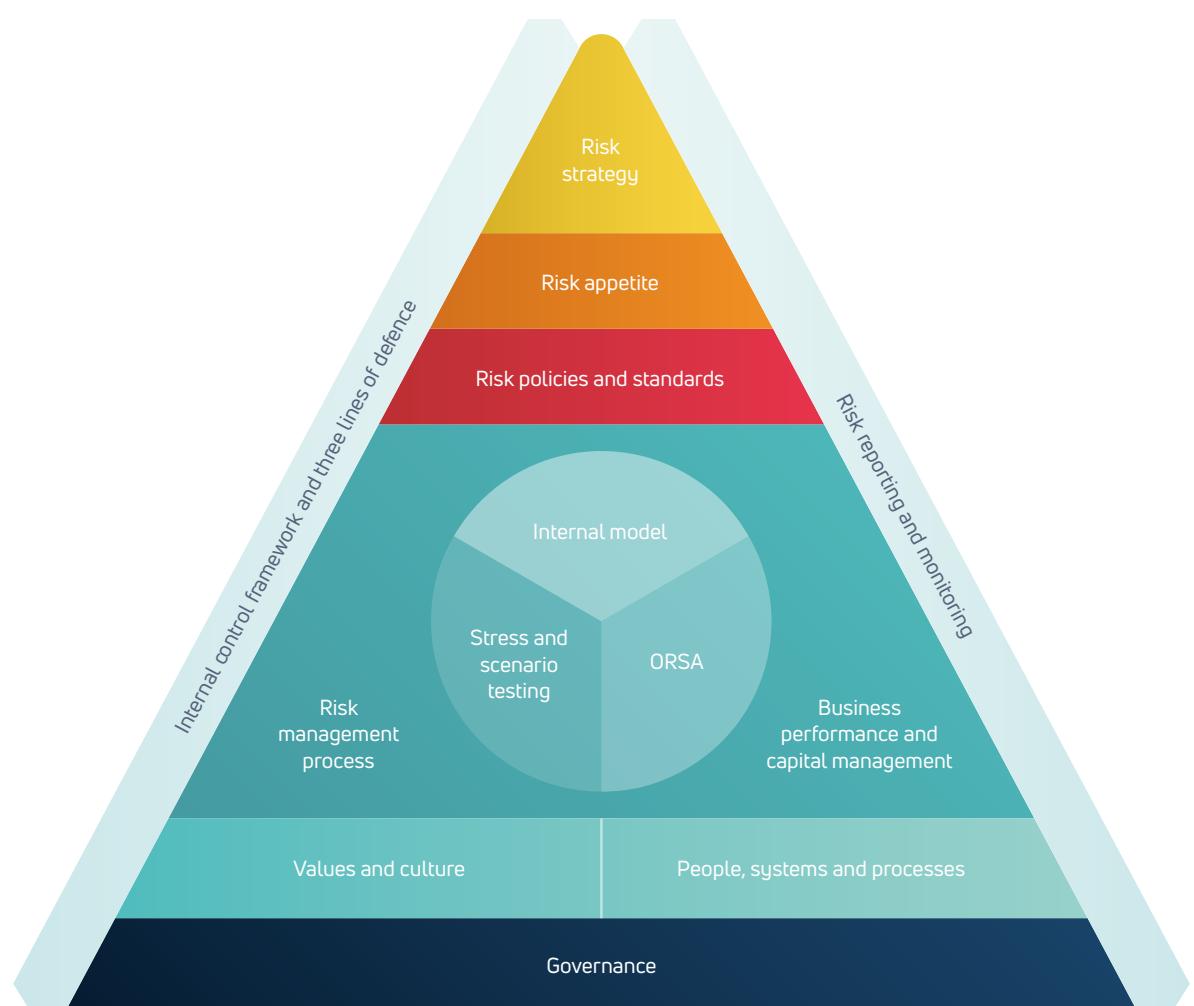
# Strategic Report

Risk Management Report  
Principal risks

# Risk Management Report

## Introduction

Strong governance is fundamental to what we do and drives the ongoing embedding of our enterprise-wide risk management framework. This provides the tools, guidance, policies, standards and defined responsibilities to enable us to achieve our strategy and objectives and ensure 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 facilitation of the implementation and oversight is delegated via the Group Chief Executive to the Group Risk Function, led by the Group Chief Risk and Compliance Officer.

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 (GRC), on behalf of the Board, carries out a formal review of the key strategic risks for the Group with input from the Group Management Board (GMB) and the Strategic Business Units (SBUs). The GRC allocates responsibility for each of the risks to individual members of the Group's executive management team. Formal monitoring of the key strategic risks is undertaken quarterly including progress of risk management actions and is overseen by executive risk committees.

Ecclesiastical has clearly defined the accountabilities, roles and responsibilities of all key stakeholders in implementing and maintaining its Risk Management Framework. These are defined, documented and implemented through the terms of reference of board sub committees, management and executive forums, position descriptions and functional charters.

The Group's Risk Management Framework is part of a wider Internal Control Framework. Systems of internal control are designed to manage rather than eliminate the risk of failure to achieve business objectives, and provide reasonable, but not absolute assurance as to the prevention and detection of financial misstatements, errors, fraud or violation of law or regulations.

Key to the successful operation of the internal control framework is the deployment

of a strong Three Lines of Defence Model whereby:

- 1st Line (Business Management) is responsible for strategy execution, performance and identification and management of risks and application of appropriate controls;
- 2nd Line (Reporting, Oversight and Guidance) is responsible for assisting the Board in formulating risk appetite, establishing minimum standards, developing appropriate risk management tools, providing oversight and challenge of risk profiles and risk management activities within each of the business units and providing risk reporting to executive management and the Board.
- 3rd Line (Assurance) provides independent and objective assurance of the effectiveness of the Group's systems of internal control. This activity principally comprises the Internal Audit function which is subject to oversight and challenge by the Group Audit Committee.

We seek to develop and improve our risk management framework and strategy on an ongoing basis to ensure it continues to support the delivery of our strategy and objectives.

The Group risk appetite defines the level of risk-taking that the Board considers to be 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 GRC at each meeting.

The risk appetite is formally reviewed annually with approval and sign-off by the Board and there are ongoing assessments to ensure its continued appropriateness for the business.

The Own Risk and Solvency Assessment (ORSA) process is carried out at least once a year and is a key part of the business management and governance structure. This integrates the risk management, business planning and capital management activities and ensures that risk, capital and solvency considerations are built into the development and monitoring of the Group's business strategy and plans and all key decision making.

The Group has regulatory approval for the use of an Internal Model to determine our regulatory capital requirement. In addition, the Internal Model's capability to quantify material risks and assess the impacts on capital requirements across a range of scenarios allows us to gain a deeper insight into the relationship between risk and capital management.

The Internal Model is used extensively to inform key business decisions across the Group, including setting business strategies and objectives, producing risk profiles and capital requirements for different scenarios, informing risk taking guidelines, informing and defining the Group risk appetite and Investment Strategy, determining risk mitigation mechanisms and responses to regulatory capital requirements.

### Risk environment

The risk environment is monitored on an ongoing basis and key areas of concern are escalated to the Group Risk Committee.

The Covid-19 pandemic has had a wide-ranging impact on the Group and the environment in which we operate. The management of various risks arising from the evolving position has been co-ordinated by the GMB. As well as significant operational implications there were impacts on the insurance policies written by Group companies and on the Group's investment assets.

A Crisis Management Team (CMT) was convened as the Group's Business Continuity Plans were triggered, and this remained in place throughout the year to oversee the ongoing management of operational elements. The primary focus of the CMT was oversight of the effective transition to remote working, with particular emphasis on people and technology. This event provided the Group an opportunity to test its operational resilience in practice and overall the required activity was completed successfully over a relatively short time period.

Responses to other specific risk-types were delegated to existing bodies within the risk framework, with focused management groups set up where considered appropriate.

The UK based general insurance business was one of the eight insurers involved in a test case brought by the Financial Conduct Authority to seek clarity on the eligibility of business interruption claims linked to Covid-19. The judgement confirmed that losses arising from the Covid-19 pandemic were not covered by our BI policies considered in the case. This high profile case had potential reputational implications for the whole insurance industry. However, there are a small number of policies that do provide cover and appropriate provisions are in place.

Substantial falls in equity markets during the first quarter of 2020, as the pandemic took hold globally, adversely affected the value of our investment assets. We monitored markets closely and used derivatives to provide protection against the risk of further falls, though overall we maintained our existing investment approach and made no material changes to our asset mix. Markets at least partially recovered later in the year and we continue to hold a diversified portfolio of assets including equities which we believe remain a good prospect for long-term returns. Consequently, we continue to take a relatively high level of market risk, which is well understood and closely managed.

Uncertainty around the eventual outcome of Brexit negotiations continued during 2020. The main risk identified for the Group as a result of Brexit was the loss of our ability to carry out business in the Republic of Ireland using the freedom to provide services previously afforded by the United Kingdom's membership of the EU. To mitigate this risk the Ireland branch has been granted authorisation by the Central Bank of Ireland to operate as a Third Country Branch ensuring continuity of operations for our customers.

The profitable management of our insurance businesses on a portfolio basis in hardening markets continues to be a key area of focus for the Group; ensuring that the business written and retained is profitable and sustainable. Competitor activity is an ever-present risk across all our business operations and chosen niches and 2020 was no exception. Our strategy remains to achieve controlled and profitable growth within our defined specialist niches. During 2020 there have been improvements in rate strength and we have maintained our strong underwriting discipline and risk appetite.

The potential for adverse development of long-tail liability claims, particularly in respect of PSA claims, remains a key risk that we continue to actively manage. The Independent Inquiry into Child Sexual Abuse in the UK is progressing and we participated in one of the investigations that delivered its report in 2020. Further investigations as part of the Inquiry are underway and we continue to monitor these and also developments in the other territories in which we operate, to determine the potential impacts on such claims.

The Covid-19 pandemic was the trigger for a high volume of regulatory guidance issued in all territories during 2020. Consequently, some other elements of regulatory change have been delayed, though we expect the pace of change to increase again as we move forward. Management of change in the regulatory environment continues to be a focus to ensure that we operate within

relevant legal, regulatory and consumer protection requirements and guidelines and that our people maintain the highest standards of conduct with continued commitment to placing customers at the centre of everything we do.

Cyber risk remains a constantly evolving threat due to the threat of zero-day attack. We hold customer data and therefore any event involving a significant loss of such data could result in harm to the data subjects, significant operational disruption and an impact on our service to customers as well as sizeable regulatory fines and reputational damage. The increased societal focus on data security and appropriateness of use, through regulations such as GDPR, results in increased scrutiny and prominence. Threat actors view the disruption arising from the move to a remote working environment as an exploitable opportunity and there has been a general increase in social engineering and phishing attacks across the financial sector. Employee awareness and vigilance is therefore highly important at this time and the Group operates an ongoing programme of training and awareness exercises.

The Group aims to be the most trusted, specialist insurer and therefore maintaining a positive reputation is critical. Our reputation could potentially be damaged as a result of a range of factors including poor business practices and behaviours. High standards of conduct are a core part of the Group's brand, values and culture and there is an ongoing focus on ensuring this is maintained.

Climate change presents increasing levels of risk to our businesses and our customers. Whilst the greatest impacts of these risks are expected to materialise in the medium to long term, it is important that we take actions to mitigate and manage these risks now. Our exposures to climate change risk include transition risk, primarily related to our investment portfolio, and physical risk which additionally affects the insurance risks that we cover.



**EdenTree Investment Management**  
**Making a difference for three decades**

This year, for the twelfth consecutive year, EdenTree celebrated winning 'Best Ethical Investment Provider' at the Moneyfacts Investment Life & Pensions Awards.

As one of the pioneers of responsible and sustainable investment, such longstanding recognition – in an award that's become increasingly competitive in recent years – is a testament to how we continue to lead in this market after more than thirty years. That's because for us, responsible and sustainable investing isn't a fad. Instead, it's a long-term dedication to achieving profits with principles.

While other asset managers are jumping on the environmental, social and governance (ESG) investing band wagon, EdenTree can point to authenticity that stems from longevity, and to a highly

experienced team, which has over 100 years of combined experience investing to make a difference.

Repeatedly, we've found that these credentials, and our rigorous responsible and sustainable investment process, have helped us to continually act as responsible stewards of our clients' capital over the long term; avoiding the 'greenwash' seen with increasing frequency elsewhere in the marketplace.

And since the 'Best Ethical Investment Provider' award is voted for by the financial adviser community itself, it's proof that our clients know this.

One of the things that made me excited to join EdenTree was the company's thirty-year track record of responsible and sustainable investing – there are very few others in the market that can claim that. We know that we have a great business and the right platform for our next stage of growth, with an authenticity that is hard to match. I am looking forward to working with the team to further our success in the future.

Andy Clark,  
Chief Executive Officer  
EdenTree Investment Management

# Principal risks

There is an ongoing risk assessment process which has identified the current principal risks for the Group as follows:

## Insurance risk

The risk that arises from the fluctuation in the timing, frequency and severity of insured events relative to the expectations of the firm at the time of underwriting.

Risk detail	Key mitigants	Change from last year*	Risk detail	Key mitigants	Change from last year*
<b>Underwriting risk<sup>1</sup></b>  The risk of failure to price insurance products adequately and failure to establish appropriate underwriting disciplines. The premium charged must be appropriate for the nature of the cover provided and the risk presented to the Group. Disciplined underwriting is vital to ensure that only business within the Company's risk appetite and desired niches is written.	<ul style="list-style-type: none"> <li>A robust pricing process is in place</li> <li>The Underwriting Licensing process has been refreshed</li> <li>A documented underwriting strategy and risk appetite is in place together with standards and guidance and monitored by SBUs</li> <li>This is supported by formally documented authority levels for all underwriters which must be adhered to. Local checking procedures ensure compliance</li> <li>Monitoring of rate strength compared with technical rate is undertaken on a regular basis within SBUs</li> <li>There are ongoing targeted underwriting training programmes in place</li> <li>A portfolio management framework is in place to ensure clear understanding and allow targeted actions to be taken</li> </ul>	<p>There have not been material changes to this risk during the year.</p> 	<b>Catastrophe risk<sup>1</sup></b>  The risk of large scale extreme events giving rise to significant insured losses. Through our general insurance business we are exposed to significant natural catastrophes in the territories in which we do business.	<ul style="list-style-type: none"> <li>Modelling is undertaken to understand the risk profile and inform the purchase of reinsurance</li> <li>There is a comprehensive reinsurance programme in place to protect against extreme events. All placements are reviewed and approved by the Group Reinsurance Board</li> <li>Exposure monitoring is undertaken on a regular basis</li> <li>A Catastrophe Risk Management Group provides oversight and sign off of reinsurance modelling</li> <li>The Group Risk Appetite specifies the reinsurance purchase levels and retention levels for such events.</li> <li>Local risk appetite limits have been established to manage concentrations of risk and these are monitored by SBUs</li> </ul>	<p>There have been no material changes to this risk. We continue to monitor our aggregations and exposures to such events and ensure careful management utilising appropriate protections.</p> 
<b>Reserving risk<sup>1</sup></b>  Reserving risk is the risk of actual claims payments exceeding the amounts we are holding in reserves. This arises primarily from our long-tail liability business. Failure to interpret emerging experience or fully understand the risks written could result in the Group holding insufficient reserves to meet our obligations.	<ul style="list-style-type: none"> <li>Claims development and reserving levels are closely monitored by the Group Reserving team</li> <li>For statutory and financial reporting purposes, prudential margins are added to a best estimate outcome to allow for uncertainties</li> <li>Claims reserves are reviewed and signed-off by the Board acting on the advice and recommendations of the Group Chief Actuary following review by the Reserving Committee.</li> <li>An independent review is also conducted by the Actuarial Function Director with reporting to the Board</li> </ul>	<p>This risk is not considered to have changed materially during the year. Whilst the majority of our policies have been found not to respond to Covid-19 claims we have made appropriate provision where cover is in place. A rise in numbers of Physical and Sexual Abuse claims in the Australian business over the past year has led to an increase in reserves.</p> 	<b>Reinsurance risk</b>  The risk of failing to access and manage reinsurance capacity at a reasonable price. Reinsurance is a central component of our business model, enabling us to insure a portfolio of large risks in proportion to our capital base.	<ul style="list-style-type: none"> <li>We take a long-term view of reinsurance relationships to deliver sustainable capacity</li> <li>A well-diversified panel of reinsurers is maintained for each element of the programme</li> <li>A Group Reinsurance Board approves all strategic reinsurance decisions</li> </ul>	<p>The level of this risk has remained broadly similar since last year. Reinsurance markets experienced significant challenges during 2020 due to the impact of Covid-19 claims. This resulted in tightening of criteria and capacity in certain areas. We continue to take a long term approach to our reinsurance relationships.</p> 

<sup>1</sup> Link to viability statement – risk included in stress and scenario analysis

\* change arrows reflect movement in underlying risks

## Other financial risks

The risk that proceeds from financial assets are not sufficient to fund the obligations arising from insurance contracts.

Risk detail	Key mitigants	Change from last year*	Risk detail	Key mitigants	Change from last year*
<b>Market and investment risk<sup>1</sup></b>  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. This principally arises from investments held by the Group. We actively take such risks to seek enhanced returns on these investments.  The Group's balance sheet is also exposed to market risk within the defined benefit pension fund.	<ul style="list-style-type: none"> <li>An investment strategy is in place which is reviewed at least annually and signed off by the Finance and Investment Committee (F&amp;I). This includes consideration of the Group's liabilities and capital requirements</li> <li>A Market and Investment Risk Committee is in place and provides oversight and challenge of these risks and the agreed actions. There is a formalised escalation process to GMB and F&amp;I in place</li> <li>There are risk appetite metrics in place which are agreed by the Board and include limits on Asset / Liability Matching and the management of investment assets</li> <li>Derivative instruments are used to hedge elements of market risk, notably equity and currency. Their use is monitored to ensure effective management of risk</li> <li>There is tracking of risk metrics to provide early warning indicators of changes in the market environment</li> </ul> <p>Further information on this risk is given in note 4 to the financial statements.</p>	Overall the market risk profile has not materially changed and we remain invested for the long term. Markets experienced significant volatility during 2020 and, whilst values had largely recovered by the year-end, there remains uncertainty around the future economic outlook and global socio-political developments, which we continue to monitor.	<b>Liquidity risk</b>  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. We 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.	<ul style="list-style-type: none"> <li>We hold a high proportion of our assets in readily realisable investments to ensure we could respond to such a scenario</li> <li>We maintain cash balances that are spread over several banks</li> <li>We have arrangements within our reinsurance contracts for reinsurers to pay recoverables on claims in advance of the claim settlement</li> </ul>	There have been no material changes to this risk since last year.
<b>Credit risk<sup>1</sup></b>  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. The principal exposure to credit risk arises from reinsurance, which is central to our business model. Other elements are our investment in debt securities, cash deposits and amounts owed to us by intermediaries and policyholders.	<ul style="list-style-type: none"> <li>Strict ratings criteria are in place for the reinsurers that we contract with and a Reinsurance Security Committee approves all of our reinsurance partners</li> <li>Group Reinsurance monitors the market to identify changes in the credit standing of reinsurers</li> <li>There are risk appetite limits in place in respect of reinsurance counterparties which are agreed by the Board</li> <li>Strong credit control processes are in place to manage broker and policyholder exposures</li> </ul> <p>Further information on this risk is given in note 4 to the financial statements.</p>	The economic impact of Covid-19 on both reinsurers and our policyholders has increased the inherent likelihood of this risk, though we have seen no evidence of this crystallising.	<b>Climate change</b>  The financial risks arising through climate change. The key impacts for the Company are physical risks (event driven or longer term shifts), the transition risks of moving towards a lower carbon economy and liability risks associated with the potential for litigation arising from an inadequate response.	<ul style="list-style-type: none"> <li>Catastrophe risk is managed through reinsurance models</li> <li>We consider flood risk and other weather-related risk factors in insurance risk selection</li> <li>There is an ESG overlay on the Investment Strategy</li> </ul>	<p>A programme of work continues to fully analyse the impact on the Group and to develop appropriate risk management responses.</p> <p>The Group has effected changes to its investment policy to:</p> <ul style="list-style-type: none"> <li>exclude investment in companies that are wholly or mainly involved in fossil fuel exploration and production and thermal coal.</li> <li>monitor the overall carbon profile and intensity of companies and, through its Fund Manager, engage with the highest emitters, and urge the setting of science-based targets aligned with the Paris Agreement.</li> <li>seek opportunities to invest in areas that are leading the transition to a low carbon economy, where these also meet robust investment criteria.</li> </ul>

## Operational risk

The risk of loss arising from inadequate or failed internal processes, people and systems, or from external events

Risk detail	Key mitigants	Change from last year*	Risk detail	Key mitigants	Change from last year*
<b>Systems risk</b>  The risk of inadequate, ageing or unsupported systems and infrastructure and system failure preventing processing efficiency. Systems are critical to enable us to provide excellent service to our customers.	<ul style="list-style-type: none"> <li>A defined IT Strategy is in place</li> <li>Systems monitoring is in place together with regular systems and data backups</li> <li>A strategic systems programme is underway to deliver improved systems, processes and data</li> <li>Business recovery plans are in place for all critical systems and are tested according to risk appetite</li> </ul>	<p>Programmes remain underway to modernise our IT systems and better enable our business. The scale and complexity of this programme results in heightened change risk during the development and implementation period.</p> 	<b>Operational Resilience</b>  The risk that the Group does not prevent, respond to, recover and learn from operational disruptions. The Group provides a wide range of services to a diverse customer base and has a reputation for delivering excellent service. Therefore, we seek to minimise the potential for any such disruption that would impact on the service provided to our customers.	<ul style="list-style-type: none"> <li>A recovery and resilience framework is in place aligned to the delivery of customer services</li> <li>Recovery exercises including IT systems are regularly performed across the Company with actions identified addressed within an agreed timescale</li> <li>All suppliers are subject to ongoing due diligence</li> <li>There is ongoing maintenance and monitoring of our systems and infrastructure in order to prevent and detect issues</li> </ul>	<p>Operational Resilience has been successfully tested during the year through the move to a remote working environment. This is currently an area of focus, with a programme of activity planned throughout 2021 that will add value to the business and improve customer service, as well as ensure compliance with enhanced regulatory expectations.</p> 
<b>Cyber risk</b>  The risk of criminal or unauthorised use of electronic information, either belonging to the Group or its stakeholders e.g. customers, employees etc. Cyber security threats from malicious parties continue to increase in both number and sophistication across all industries.	<p>A number of security measures are deployed to ensure protected system access</p> <ul style="list-style-type: none"> <li>Security reviews and assessments are performed on an ongoing basis</li> <li>There is ongoing maintenance and monitoring of our systems and infrastructure in order to prevent and detect cyber security attacks</li> <li>There is an ongoing Information Security training and awareness programme</li> </ul>	<p>Cyber risk remains a constantly evolving threat and has inherently increased during the year as malicious threat actors seek to exploit Covid-19 related business disruption including the move to remote working. Employee awareness and vigilance is therefore highly important at this time and is being proactively managed.</p> 	<b>Data Management and Governance</b>  The risk that the confidentiality, integrity and/or availability of data held across the Group is compromised, or data is misused. The Group holds significant amounts of customer and financial data and there could be significant implications if this is compromised or is found to be inaccurate.	<ul style="list-style-type: none"> <li>A Group Data Governance and Management Committee is in place</li> <li>Group Data Governance and Group Data Management and Information Security Policies are in place</li> <li>A Group Data Optimisation Programme is in place which is responsible for ensuring the delivery of the data strategy and all aspects relating to the governance, management, use and control of the Group's data in line with regulatory requirements</li> </ul>	<p>Enhancements have been made to the governance, management, use and control of data. It continues to be monitored and managed within the context of major change programmes.</p> 
<b>Change risk</b>  The risk of failing to manage the change needed to transform the business. A number of strategic initiatives are underway under three themes, Support and protect, Innovate and grow and Transform and thrive. These include a transformation of our core system and key processes, which will deliver significant change for the Company over the next few years. There are a number of material risks associated with major transformation, not only on the risks to project delivery itself, but the potential disruption to business as usual, or delays to planned benefits.	<ul style="list-style-type: none"> <li>We have a clearly articulated Group Strategic Programme, identifying areas of priority across the Group</li> <li>We ensure that there is adequate resourcing for change projects using internal and external skills where appropriate</li> <li>A Change Board and change governance processes are in place and operate on an ongoing basis</li> <li>The GMB undertakes close monitoring and oversight of the delivery of the strategic initiatives and key Group change programmes</li> </ul>	<p>The level of this risk has not materially changed. There continues to be a significant volume of change within the business which is monitored closely. Appropriate strengthening of expertise has been undertaken to reflect this volume of change.</p> 			

## Regulatory and conduct risk

The risk of regulatory sanction, operational disruption or reputational damage from non-compliance with legal and regulatory requirements or the risk that Ecclesiastical's behaviour may result in poor outcomes for the customer.

Risk detail	Key mitigants	Change from last year*
<b>Regulatory risk</b>  The risk of regulatory sanction, operational disruption or reputational damage from non-compliance with legal and regulatory requirements. We operate in a highly regulated environment which is experiencing a period of significant change.	<ul style="list-style-type: none"> <li>We undertake close monitoring of regulatory developments and use dedicated project teams supported by in-house and external legal experts to ensure appropriate actions to achieve compliance</li> <li>An ongoing compliance monitoring programme is in place across all our SBUs</li> <li>Regular reporting to the Board of regulatory compliance issues and key developments is undertaken</li> </ul>	<p>There continues to be a significant volume of regulatory change. We remain focused on the management of regulatory change and therefore the overall risk level is unchanged.</p> 
<b>Conduct risk</b>  The risk of unfair outcomes arising from the Group's conduct in the relationship with customers, or in performing our duties and obligations to our customers. We place customers at the centre of the business, aiming to treat them fairly and ethically, while safeguarding the interests of all other key stakeholders.	<ul style="list-style-type: none"> <li>There is ongoing staff training to ensure that customer outcomes are fully considered in all business decisions</li> <li>Customer charters have been implemented in all SBUs</li> <li>Conduct Risk Reporting to relevant governing bodies is undertaken on a regular basis</li> <li>Customer and conduct measures are used to assess remuneration</li> </ul>	<p>The probability of such risks crystallising increased due to distraction and changes in working practices due to the Covid-19 pandemic. However, we remained committed to placing customers at the centre of our practices and decision making. Overall the level of this risk is unchanged from last year.</p> 

## Reputation risk

The risk that our actions lead to reputational damage in the eyes of customers, brokers or other key stakeholders

Risk detail	Key mitigants	Change from last year*
<b>Brand and reputation risk</b>  The Group aims to be the most trusted specialist insurer and as a consequence this brings with it high expectations from all of our stakeholders, be they consumers, regulators or the wider industry.	<ul style="list-style-type: none"> <li>There is ongoing training of core customer facing staff to ensure high skill levels in handling sensitive claims</li> <li>We adopt a values-led approach to ensure customer-centric outcomes</li> <li>There is a dedicated Marketing and PR function responsible for the implementation of the marketing and communication strategy</li> <li>Ongoing monitoring of various media is in place to ensure appropriate responses</li> </ul>	<p>Maintaining a positive reputation is critical to the Group's vision of being the most trusted and ethical specialist financial services group. Risks to our brand and reputation are inherently high in an increasingly interconnected environment, with the risks of external threats such as cyber security attacks, and viral campaigns through social media always present.</p> <p>The external environment in 2020 resulted in a high inherent probability of reputational issues across all financial services companies. We continued to focus on serving our customers and ensuring fair treatment and clear communication.</p> 

<sup>1</sup>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 31 of the 2018 UK Corporate Governance Code. The assessment of the Group's prospects by the directors covers the three years to 2023 and is underpinned by management's 2021-23 business plans. In making its assessment the directors considered:

- The Group's current position and prospects, risk appetite, and the potential impact of the principal risks and how these are managed;
- The Group's long-term business plans and strategy, and the costs associated with its delivery;
- The Group's current capital, liquidity and solvency position and projections;
- The political, economic and regulatory environment, including uncertainties on the geopolitical outlook, the Covid-19 pandemic and the UK's exit from the EU.

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 directors will continue to monitor and consider the suitability of this period.

The Group uses varying stress scenarios with reference to the principal risks, which are documented on pages 66 to 73. Scenarios are designed to be severe, but plausible, and assess the impact of certain events on the Group's profitability and capital strength. Reverse stress testing is also used to assess what could make the Group's business model unviable. The outcome of testing was discussed

by the Board during the year and consideration was given to the current environment and the impact of Covid-19 on the Group's viability.

Among the considerations and scenarios were further investment market volatility, claims experience and business deterioration.

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, 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.

Analysis confirms that the Group has sufficient capital resources to cover its capital requirements and is operationally resilient. The impact of Covid-19 on the Group has been subject to continual monitoring with additional focus across committees and at Board level.

The directors have also considered the Group's ability to service its preference share borrowing and the expectations of its ultimate charitable owner, Allchurches Trust Limited. The Group has fixed annual dividend payments of £9.2m in respect of its non-cumulative irredeemable preference shares. The Group makes regular grants to its ultimate charitable owner, Allchurches Trust Limited. There is a regular cycle of discussion with Allchurches Trust Limited 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 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 over the three year period of the viability assessment.

## Section Two

## Strategic Report

### Corporate Responsibility Report

#### 2020 highlights

##### Overview

##### Our workplace

##### Our community

##### Our marketplace

##### Our environment

Less than 30 months after fire destroyed St Paul Church in Bas-Caraquet, New Brunswick, Canada, it was ready to re-open its doors to worshippers once more. The speed of the rebuild was the result of a remarkable team effort. Throughout this time, our claims team held numerous meetings with the architect, engineers, church leaders and, most importantly, the community to ensure that the finished church met with everyone's approval.

At the initial project presentation in April 2019, to over 200 members of the community, the reaction was overwhelmingly positive – we even received a standing ovation. Many people were very emotional as they were so happy that we were giving them back a church that integrated so many elements of the old, much loved one.

One of the other positives, was that we were able to provide bilingual communications – something that was especially useful since the community in Bas Caraquet are French speaking and some of the project team members only spoke English.

An important part of the rebuild was the bell tower, as previously it was used as a navigation point by local fishermen to guide them safely back to shore. So, we made sure that the new tower was built to the same height as the original. And, following customer feedback, we made sure that some of the stones from the original church featured in the new build.

Since Bas Caraquet is in an isolated location, prone to frequent power cuts, there was a great idea to build a new comfort centre in the church for residents, equipped with a commercial kitchen and washrooms. The area also

has meeting rooms and a large church hall for community group meetings and events. To ensure the comfort centre remains operational during power cuts, the contractor who rebuilt the church kindly donated a generator to the project.

Without your professionalism and countless volunteer hours contributed, we would never have achieved such a result. You can all be proud of your contribution.

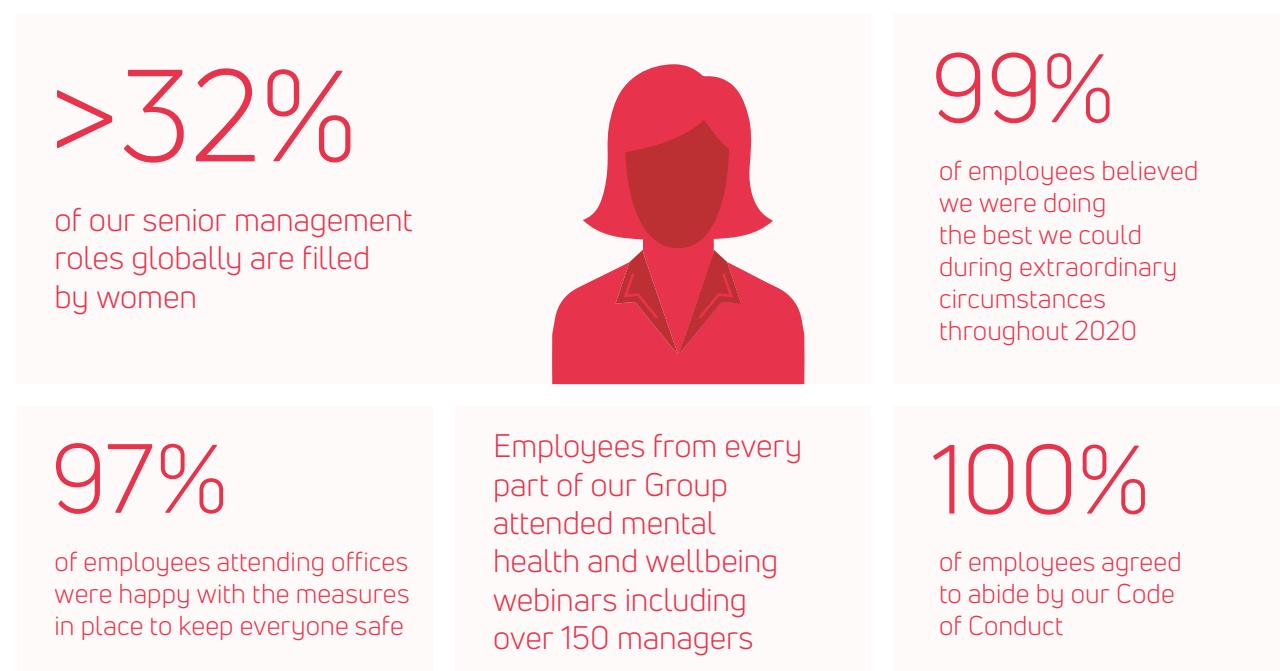
Bishop Daniel Jodoin,  
Diocese of Bathurst, New Brunswick



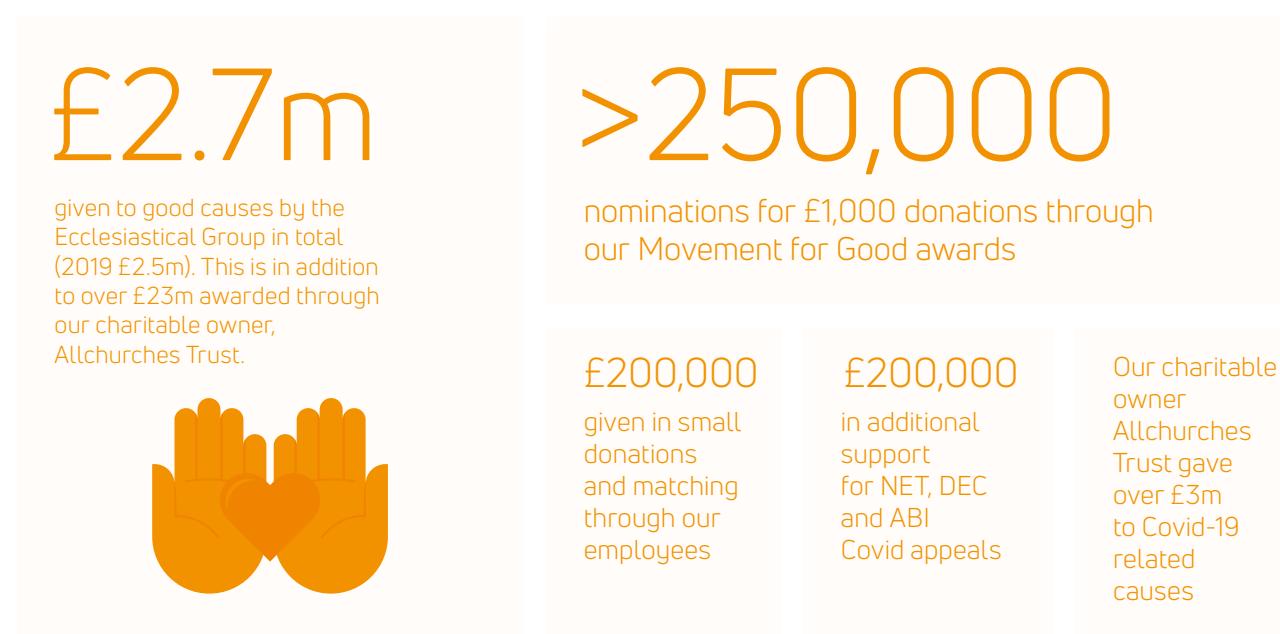
# Corporate Responsibility Report

## 2020 highlights

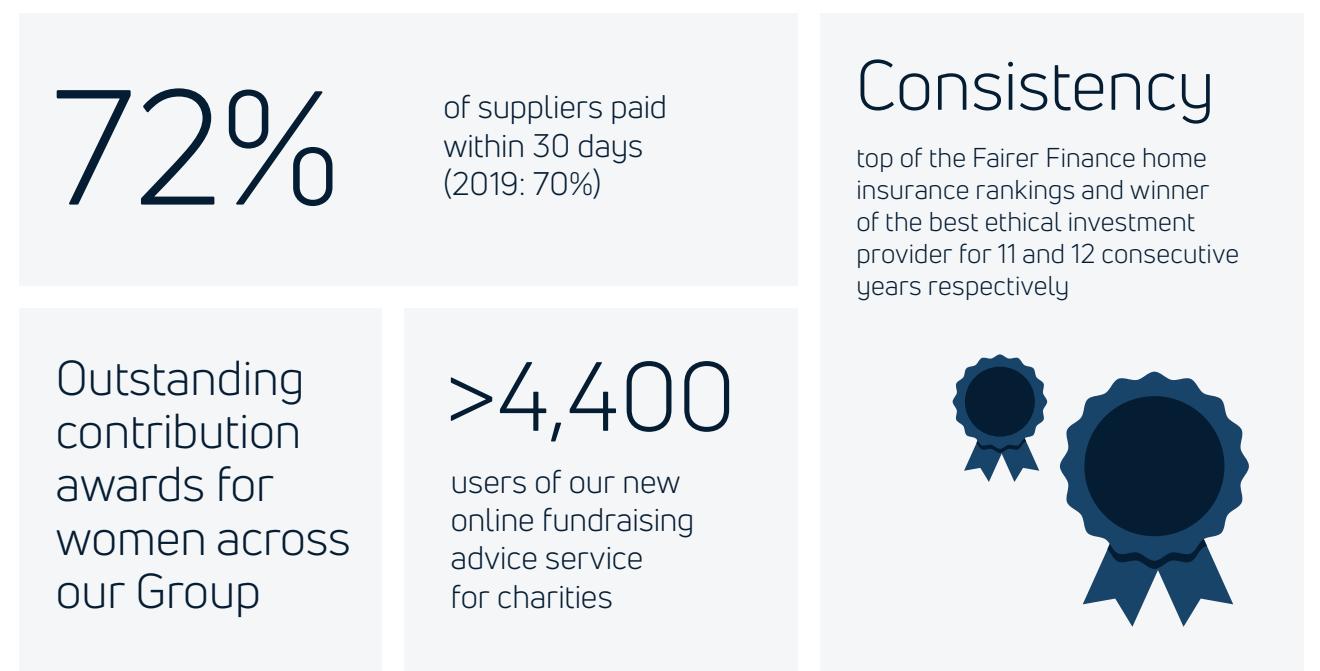
### Our workplace



### Our community



### Our marketplace



### Our environment



## Overview: governance, assessment and materiality

As a charitably-owned ethical financial services group, we've been advocating a more responsible approach to business since we were founded. It's so engrained in what we do but it also has formal governance in place which includes Board visibility and responsibility for overarching strategy; a senior-level Steering Group providing leadership; and local business ownership of activity.

Independent assessment and accreditation continues to be important – it ensures we challenge ourselves and live up to the highest standards. We continue to hold standards including Living Wage, Women in Finance and the Fairer Finance Gold Ribbon and we are a voluntary member of ClimateWise. 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.

We use a materiality approach to drive our strategy and respond to current issues. In many ways in 2020 every aspect of responsible business was a priority. We needed to focus on supporting our people through a challenging time; in turn our customers needed our reassurance and expertise; charities relied on our giving more than ever before; and the importance of climate change was brought into greater focus.

In an unprecedented year we needed to deliver for today, but we have also been very focused on the future. Read on to find out more.

## Key employee statistics

### Gender by level

	Male	Female	Total
Group Management Board*	5	3	8
Senior Leader	78	27	105
Manager	233	164	397
Team Member	449	681	1130
Total	765	875	1640

### Gender pay gap

	2020	2019	2018
Fixed pay gap mean/median	28.0%/21.1%	27.6%/22.4%	30.6%/23.5%
Bonus pay gap mean/median	49.3%/28.9%	50.1%/32.4%	55.8%/36.5%

### Ethnicity

White	Prefer not to say	BME	Total
1349	209	82	1640

\* Includes Executive Directors

## Our workplace

### Supporting our people through extraordinary times.



Supporting our employees was of paramount importance during such challenging and uncertain times. Due to the pandemic we quickly established a Group-wide approach to homeworking with investment in technology and equipment. Where our offices remained open for essential work we ensured they were Covid-safe environments – 97% of employees were happy with the measures in place. We established a new 'check-in survey' to gather employee feedback across our Group throughout the year. Response rates sustained at around 70% and gave us valuable insight on what more we could do.

Throughout the year 99% of employees felt we were definitely or mostly doing the best we could in extraordinary circumstances. Only 4% of employees felt unable to do their jobs as effectively as possible and employees felt more effective as the year progressed. Eighty-four percent felt they were receiving the right level of support from colleagues, managers and the Company.

Employees from every part of our Group attended mental health and wellbeing webinars – including over 150 managers to enable them to support their teams better. Despite the situation we continued to invest in developing our people, growing our expertise and building our professionalism. Every single employee committed to our Code of Conduct, all of our brokers have achieved Corporate Chartered Broking status, another cohort of senior managers progressed through our leadership development programme and our proactive training included sessions on whistleblowing,

data protection and managing negotiations. We've sustained a gradual improvement in our gender pay gap. When we signed up as one of the founding signatories of the Women in Finance Charter, women made up 23.3% of our senior management group globally. Four years on, we are delighted to say over 32% of our senior management roles globally are filled by women and 27.3% representation at board level. This is a fantastic achievement for us and something that we will continue to focus on. Our Canadian team was named one of Canada's 'top employers for young people' for the ninth consecutive year and we continue to commit to Living Wage status.

The challenges of 2020 gave us a unique opportunity to invest time in building a flexible, healthy and resilient approach to work for the long term. We've launched a new strategic initiative to drive this work, started conversations all over our Group and integrated this thinking into the design and plans for our new head office due to open in 2021.

## Our community

### Sustaining our commitment to giving.



The events of 2020 had a devastating impact on the charity sector – many charities faced the double pressure of a dramatic drop in fundraising and huge demand for their services. We sustained giving from our Group at £2.5m and gave an additional £200,000 to Covid-related appeals.

Our charitable owner Allchurches Trust distributed more than £3 million to help communities tackle loneliness, poor mental health, food poverty and financial hardship. We gave donations to the National Emergencies Trust and the Disasters Emergency Committee to support efforts in the UK and overseas. We also donated to the Association of British Insurers' Covid response fund, which was the biggest business sector fund established during the crisis.

Our Impact Report shares stories of the amazing charities we reach and the people and communities we connect through our giving – [www.ecclesiastical.com/impactreport](http://www.ecclesiastical.com/impactreport)

The second year of our Movement for Good awards brought double the success in many respects. Our £1,000 donations attracted over 250,000 nominations for over 14,000 charities. The breadth and diversity of good causes was staggering. With the help of sector experts and employee judges our £50,000 grants will be transforming projects focused on a range of areas including mental and physical health, supporting young people and community cohesion.

Once again through a range of other giving campaigns we supported the charities our brokers, customers and employees care about in the UK and overseas in Canada, Australia and Ireland. We gave nearly £100,000 with our closest broker partners; through our employee-led giving we donated nearly £200,000 in personal grants and we also retained our gold standard for Payroll Giving. We also gave £1,000 donations to 120 charities at Christmas once again generated thousands of nominations.

Despite hugely challenging circumstances our people still found ways to give in innovative ways. We came up with exercise challenges to generate sponsorship, volunteered at vaccination centres and our Gloucester catering team avoided furlough by volunteering at a local food bank instead.

All of this combined means we are continuing to make progress towards our ambition to give more than £100m to charities and our communities.

## Our marketplace

### Putting customers and partners first with consistency and care.



Consistency and care were forefront in our minds when supporting our customers and partners throughout 2020. This was recognised through awards and recognition across the Group.

Our consistency was reflected in a top of the table performance in Fairer Finance's home insurance rankings for the 11th year running and best ethical investment provider win for the 12th successive year. Our care was recognised with award wins for our personal lines claims team, personal lines broker and pro bono company of the year.

What's more, women across our Group were put in the spotlight for outstanding contribution and distinction in the insurance and investment industries. A number of colleagues were shortlisted in the Women in Insurance awards and our Deputy Group Chief Executive Jacinta Whyte and Deputy Chairman of our EdenTree investment business Sue Round both won prestigious industry awards.

Understanding and supporting customers through strong sector partnerships continues to be important to us. In particular in 2020 we launched an online fundraising hub and webinar series to provide additional fundraising advice and support to charities. We conducted new research on charity concerns and supported a campaign to improve trustee recruitment. Founded on mutual interest we have strong partnerships in all parts of our Group and across all sectors including heritage, faith and education.

## Our environment

### Strengthening our commitment to action on climate change.



Through our continued membership of voluntary initiative ClimateWise we are strengthening our commitment to acting on climate change and improving the transparency of our reporting. The ClimateWise report is in line with regulatory requirements and aligned with the Taskforce on Climate-related Financial Disclosures (TCFD). Key highlights of our performance are shown in the graphic opposite:

#### Methodology

We have reported on all emission sources required under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. Our reporting year runs from January to December 2020.

The emissions reporting boundary is defined as all entities and facilities either owned or under operational control of Ecclesiastical Insurance Office, i.e. emissions relating to our Gloucester, London, Birmingham, Manchester, Eastbourne, and Dublin premises, and associated travel by staff based at those premises. It includes data covering around

two thirds of our Group by headcount. We continue to improve the coverage and quality of data which informs our report.

Scope 1 Emissions from fluorinated gas losses and fuel combustion in premises / vehicles, Scope 2 Emissions from electricity and cooling in premises, and Scope 3 Emissions associated with business travel, waste and water use have been calculated using UK Government Greenhouse Gas reporting conversion factors 2020 (Department for Business, Energy & Industrial Strategy), and independently verified according to ISO – 14064-3:2019 Specifications with Guidance for the Validation and Verification of Greenhouse Gas Statements.

#### Commentary

Our 2020 carbon footprint has been significantly influenced by the Covid-19 pandemic. Business travel makes the largest contribution to our footprint and it was greatly reduced due to Government restrictions. We expect business travel to increase in the future, however 2020 also inspired us to adopt new technologies and

In line with the Streamlined Energy and Carbon Reporting requirements the Group's carbon footprint is detailed here including our first report on carbon intensity:

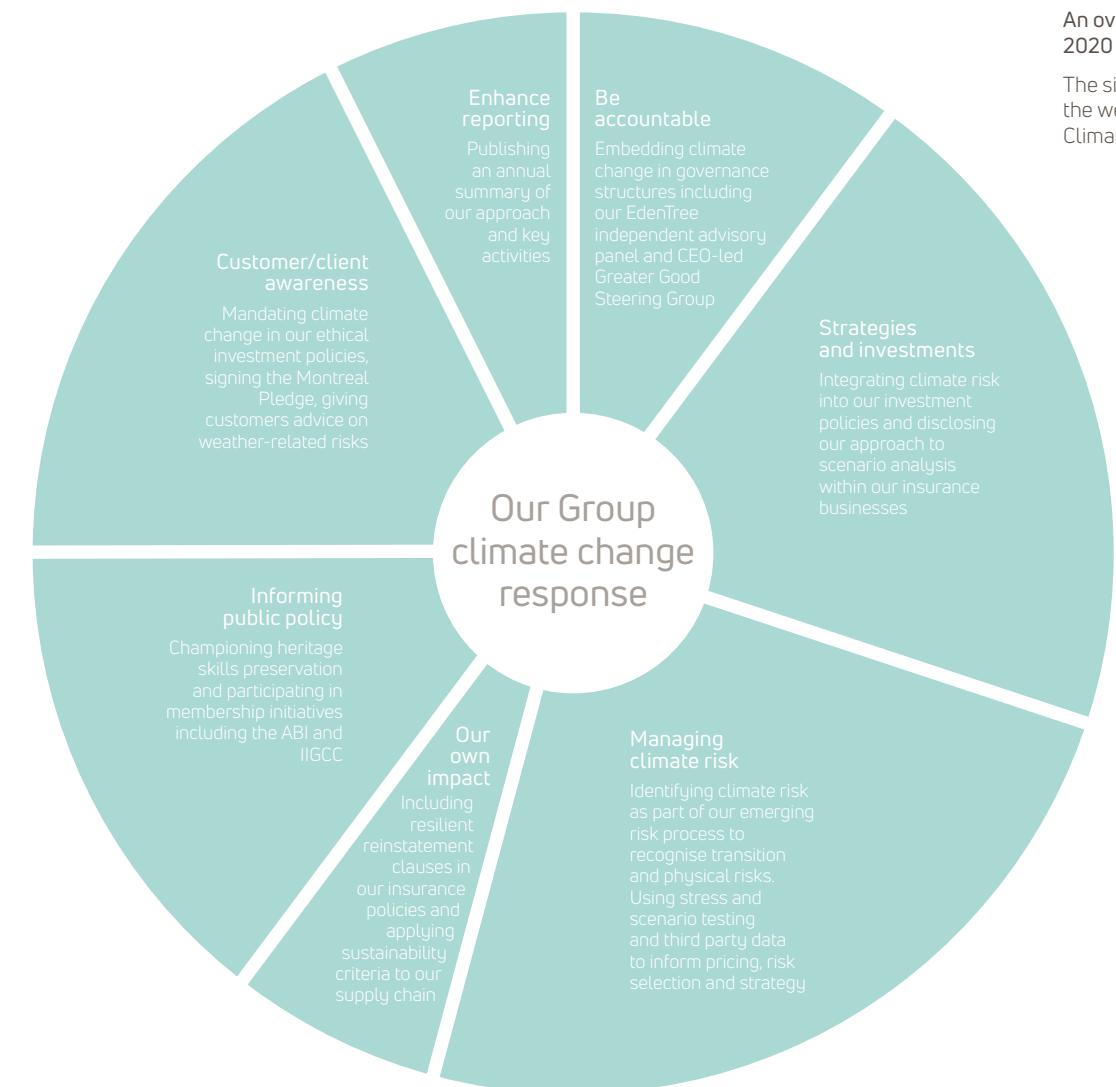
2020 (2019)		
UK tCO <sub>2</sub> e	Non-UK tCO <sub>2</sub> e	Total tCO <sub>2</sub> e
Scope 1	378 (530)	0 (0)
Scope 2	17 (63)	6 (7)
Scope 3	125 (826)	0 (0)
<b>Total</b>	<b>520 (1,419)</b>	<b>6 (7)</b>
526 (1,426)		

Total energy use: 2,682,606 kWh, of which 2,655,294 is UK and 27,312 non-UK. Of the 526 tCO<sub>2</sub>e, 520 relate to UK and 6 to non-UK. Carbon intensity: 0.54 tonnes/employee (2019: 1.45).

think differently about future working so we expect our impact to reduce overall. We are particularly pleased to achieve sourcing more than 92% of our energy from renewables.

We continue to focus on the influence we can exert through the carbon intensity of our investments. All five of our EdenTree investment funds are below their sector benchmark for 2020 and four out of five have a lower carbon intensity than five years ago.

In 2021 we will also move into our new head office which has been designed to a 'very good' BREEAM sustainability standard. The building features heat recycling, solar panels and electric charging points. We have been planting trees in the local area to improve green spaces. Improving working environments across our Group will boost wellbeing, reduce our impact and support a more flexible working future.



An overview of our Group's 2020 ClimateWise report

The size of the sectors reflects the weighting applied by ClimateWise



**Ansvar Australia**  
**Building on a strong relationship**

We have a long tradition of providing specialist insurance solutions to the Australian faith community, and over the years we've built up a number of trusted relationships with our brokers and partners. One of our long-standing partners is the Anglican Insurance and Risk Services (AIRS), one of Australia's largest religious, education, not-for-profit, aged and community care insurance programme providers for the Anglican community in Australia.

For the past 21 years, we have successfully partnered with AIRS and their brokers to protect the Anglican Church and communities. In a lead up to the 2020-21 renewal, the AIRS team have undertaken a full remarketing of the AIRS Programme, and we were privileged to be selected once again as the AIRS insurance and risk solutions partner, fending off strong market competition in a challenging Covid 19 environment.

As part of the 2020-21 renewal, we worked closely with both AIRS and their broker Marsh to deliver on the shared vision through co-design of the insurance and risk services, building AIRS members' capabilities with risk management to strengthen governance and risk culture, and providing a comprehensive and competitively priced Property and Casualty insurance programme along with the priority claims support.

Having listened closely to our clients' objectives and needs, we've delivered a comprehensive risk-led value proposition across all AIRS membership sectors of faith, care and education. Supported by our parent, Ecclesiastical Insurance Group, our risk-led value proposition reflected our deep sector experience, based on 132 years of protecting the Anglican churches, communities and exposures.

As well as providing AIRS members with enhanced advice on risk maturity in a lead up to the renewal, our new 2020-21 initiatives included the delivery of the inaugural Anglican Risk Conference, building and delivering virtual education and Risk Alert series, and enterprise risk management advice and support with the focus on safeguarding for vulnerable people and building safer Anglican communities.

We have also committed to delivering innovative resources for the AIRS

membership including a new Anglicans Fundraising Hub – exclusive to AIRS members – a benchmarking toolkit, risk management scholarships for the emerging Anglican Risk leaders, risk engineering support as well as training and education initiatives for the team at AIRS.

Ansvar remains committed to our long term partnership with AIRS and Marsh, to continue their mission of fusing the insurance and risk management, whilst embedding a strong risk culture within the AIRS Programme members.

Warren Hutcheon, Ansvar Australia  
Chief Executive Officer

Throughout the 2020-21 renewal process, Ansvar were the only partner that listened and aligned their offering and value proposition to support delivery of the AIRS vision.

Neil Bull, AIRS Chief Executive Officer

# Non-Financial Information Statement

## Non-financial information

The Non-Financial Reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006 are addressed below:

Non-financial information	Disclosure	Section	Pages
Business model	Our business model and information on how we do business differently	Strategic report – Our Business model and strategy	36
Key performance indicators (KPIs)	Our KPIs set out how we are doing against our strategic goal	Strategic report – Strategy in action	40
Principal risks	Our key risks and their management	Strategic report – Principal risks	66
Our policies	We have a range of policies and guidance in place to support the key outcomes for our stakeholders. These also ensure consistent governance on environmental matters, our employees, social matters, human rights and anti-bribery and corruption	See below	

## Our key policies / statements of intent

### Environmental matters

- We are committed to running the business in a sustainable way to tackle climate change and encourage others to do more.
- We assess performance against ClimateWise reporting which is aligned to Taskforce on Climate-related Financial Disclosures (TCFD) reporting.
- We aim to reduce our direct impact on the environment and seek to use renewable sources of energy.
- Other information on environmental matters is included within the Our environment section of the Corporate responsibility report on page 84.

### Employees

- Our Code of Conduct policy is centred on 'Doing the right thing' and sets the standards of conduct and behaviour expected from employees.
- The Board aims to ensure it is comprised of persons who are fit and proper to direct the business. The Board's diversity policy sets out the approach to diversity in the leadership population.
- Other information on our commitments to supporting diversity and development is included in the workplace section of the Corporate responsibility report on page 81. Also included within the Corporate Governance report on page 104 is information about the composition and diversity of the Board.

### Social matters

- We were founded over 130 years ago with a charitable purpose and this remains what motivates us today. We believe business has a social responsibility and should give more to support charities and communities. More information about how we support our communities can be found in the Corporate responsibility report on page 82. The Group does not make political donations.
- Our tax strategy supports our group strategy and the ethical way we do business. We are committed to managing all aspects of tax transparently and in accordance with current legislation. We work to achieve the spirit of legislation and not just the letter of the law in each tax jurisdiction. Our tax strategy is available on [www.ecclesiastical.com](http://www.ecclesiastical.com)

### Human rights, anti-bribery and anti-corruption

- The Board is committed to operating with honesty and integrity in all of our business activities and promoting an anti-bribery and corruption culture across the Group.
- We have established and upheld good practices regarding human rights, anti-corruption and anti-bribery through a range of measures including robust risk management, employee Code of Conduct and employee training on topics such as data protection and vulnerable customers.
- We comply with relevant legislation concerning our supply chain – the Modern Slavery Act 2015 and the Payment Practices and Performance regulations – to drive good practice and transparency.
- The marketplace section of our Corporate responsibility report contains more information including our commitment to putting customers and partners at the heart of everything we do, focusing on good governance, service and support.

## Section 172 Statement

This section of the Strategic Report describes how the directors have had regard to the matters set out in section 172(1) (a) to (f), and forms the directors' statement required under section 414CZA, of the Companies Act 2006. The directors recognise that the long-term success of the Group is dependent on having regard to the interests of its stakeholders. The Board has identified and documented its stakeholders in the Group Governance Framework. Key stakeholders include its shareholders, employees, customers and clients, bondholders, regulators and intermediary partners (including brokers and other suppliers). Stakeholder engagement is considered as part of the decision making process of the Board.

## Strategic Report approval

The Strategic Report, outlined on pages 14 to 90, incorporates the Chief Executive's Review, the Business Model and Strategy, the Key Performance Indicators, reviews of Financial Performance and Position and Risk Management, the Corporate Responsibility Report and the Section 172 Statement 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  
18 March 2021

'Thanks to the incredible support of our customers, brokers, business partners, employees and all our supporters, we have now given over £99m to charity.'

Section Three

# Governance

Board of Directors

Directors' Report

Corporate Governance

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## Board of Directors



David Henderson (a) (b) (e)

**Chairman, 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 a Senior Adviser to the Bank until 2019. He holds several external Non-Executive Directorships.



Denise Cockrem

**Group Chief Financial Officer**

Denise Cockrem was appointed Group Chief Financial Officer on 10 December 2018 and joined the EiO Board on 6 September 2019. Denise is a Chartered Accountant with significant industry experience, predominantly in financial services. She spent her early career in corporate finance and banking roles for EY, Barclays, RBS and Direct Line. She then joined RSA as Group Financial Controller, spending 9 years with them in various roles culminating in UK & Western Europe Finance Director. Denise most recently held the position of Chief Financial Officer at Good Energy Group plc, an AIM-listed renewable energy company who provide 100% renewable electricity and carbon neutral gas. Denise has also been a Non-Executive Director of the Skipton Building Society since 2015. Denise is also a Trustee of MacIntyre Academy Trust, which provides special schools and specialist alternative provision for children and young people.



Chris Moulder (b) (c) (d)

**Senior Independent Non-Executive Director**

Chris Moulder was appointed to the Board in September 2017. Chris is also a Director of the Company's ultimate parent, Allchurches Trust Limited, as well as the Insurance Board of Lloyds Banking Group and Tokyo Marine Kiln. Chris retired in 2017 after five years at the Bank of England as Director of General Insurance at the Prudential Regulation Authority. Prior to this he had spent 26 years with KPMG as a partner in its Financial Sector practice.



Caroline Taylor (a) (b) (e)

**Independent Non-Executive Director**

Caroline Taylor was appointed to the Board in September 2014. Until May 2012, she was an Executive Director of Goldman Sachs Asset Management International and was previously 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 and Floors Castle Outdoor Events Ltd.



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 and 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 (formerly Bacon and Woodrow) as a consultant and actuary.



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 where he chairs the Audit, Risk and Compliance Committee, and an independent Non-Executive Director of Lloyds Bank Corporate Markets plc, where he also chairs the Audit Committee. He is an Independent Non-Executive Director of National Bank of Greece S.A. and chairs its Audit Committee. Previously, Andrew was for 24 years a partner in EY, and was for nine years Chairman of the Board of Southern Housing Group, one of the largest housing associations in the UK. He has also been a board member of the National Bank of Greece S.A.



S. Jacinta Whyte

**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 also appointed to the Ansvar Australia Board during 2013. Jacinta joined Ecclesiastical in 2003 as the General Manager and Chief Agent of the Group's Canadian business. 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.



Angus Winther (a) (b) (e)

**Independent Non-Executive Director**

Angus Winther was appointed to the Board in March 2019. Angus co-founded Lexicon Partners, a London-based investment banking advisory firm, where he specialised in advising clients in the insurance and financial services sectors. He was closely involved in Lexicon Partners' leadership until it was acquired by Evercore in 2011 and served as a senior Adviser at Evercore until October 2016. He is currently a Non-Executive Director and Chair of the audit committee at Trinity Exploration & Production plc and a Non-Executive Director of Lloyd's managing agent, Hiscox Syndicates Limited. Angus is also Churchwarden of Holy Trinity Brompton, Deputy Chair of the Church Revitalisation Trust and a trustee of St Mellitus College Trust and St Paul's Theological Centre.

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

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



**Neil Maidment (c) (d) (e)**  
**Independent Non-Executive Director**

Neil Maidment was appointed to the Board in January 2020. Neil is an Independent Non-Executive Director at Lloyd's of London. He has over 35 years' experience in the insurance market. He was previously a Director of Beazley plc and was Chief Underwriting Officer of the company and Active Underwriter of its Lloyd's syndicates from 2008 to 2018. He was Chairman of the Lloyd's Market Association from 2016 to 2018 and served as an elected working member of the Council of Lloyd's during the same period.



**Francois-Xavier Boisseau (c) (d)**  
**Independent Non-Executive Director**

Francois-Xavier Boisseau was appointed to the Board in March 2019. Francois-Xavier has more than 30 years' experience working in the insurance industry, 25 years in the UK. He was CEO Insurance Ageas (UK) until December 2018. Prior to that, Francois-Xavier was CEO of Groupama and CEO of GUK Broking Services as well as being Non-Executive Chairman of Lark, Bollington and Carole Nash. He is also a Non-Executive Director of Argo Managing Agency Ltd and Chairman of ERS Managing Agency Ltd.



**Sir Stephen Lampert (c) (e)**  
**Independent Non-Executive Director**

Sir Stephen was appointed to the Board in March 2020. He is the Vice Lord-Lieutenant of Surrey and a Senior Adviser at Sanctuary Counsel. He is a Board member of Allchurches Trust; Vice-President of the Community Foundation for Surrey; a Trustee of Painshill Park; a member of the Court of the St Katharine Foundation; and Chairman of the British Red Cross UK Solidarity Fund Committee. He is the Deputy High Bailiff of Westminster Abbey. Sir Stephen was the Receiver General of Westminster Abbey from 2008 to 2018, and previously a Group Director of the Royal Bank of Scotland for five years. He was Deputy Private Secretary to The Prince of Wales from 1993, and Private Secretary and Treasurer from 1996 to 2002. From 1994 to 2002 he was a member of HM Diplomatic Service, with overseas postings in New York, Tehran and Rome.

The Very Reverend Christine Wilson retired as a director at the Annual General Meeting held on 18 June 2020

## Board diversity

	2020	2019
<b>Balance of Non-Executive Directors and Executive Directors</b>		
Non-Executive Directors : Executive Directors	<b>8:3</b>	<b>8:3</b>
<b>Gender Balance</b>		
Male : Female	<b>8:3</b>	<b>7:4</b>
<b>Length of Tenure</b>		
(Chairman and Non-Executive Directors)		
0 – 3 years	<b>4</b>	<b>5</b>
3 – 6 years	<b>3</b>	<b>2</b>
6 – 9 years	<b>1</b>	<b>1</b>
10 years +	<b>0</b>	<b>0</b>
<b>Geographical Mix</b>		
United Kingdom	<b>9</b>	<b>9</b>
Rest of Europe	<b>1</b>	<b>1</b>
North America	<b>1</b>	<b>1</b>
Rest of World	<b>0</b>	<b>0</b>
<b>Age</b>		
35 – 45	<b>0</b>	<b>0</b>
45 – 55	<b>2</b>	<b>2</b>
55 – 65	<b>7</b>	<b>8</b>
65 +	<b>2</b>	<b>1</b>

# Directors' Report

The directors submit their Annual Report and Accounts for Ecclesiastical Insurance Office plc, together with the consolidated financial statements for the year ended 31 December 2020.

The Group Chief Executive's Review, Strategic Report and Corporate Governance section (this includes Board Governance, the Group Finance and Investment Committee Report, the Group Nominations Committee Report, the Group Risk Committee Report, the Group Audit Committee Report, and the Group Remuneration Report) are all incorporated by reference into this Directors' Report.



## Principal activities

The Group operates principally as a provider of general insurance in addition to offering a range of financial services, with offices in the UK, Ireland, Canada, and Australia. A list of the Company's subsidiary undertakings are given in note 34 to the financial statements and details of international branches are shown in Section Five, Other Information.

## Ownership

At the date of this report, the entire issued Ordinary share capital of the Company and 4.35% 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 pages 94 to 96.

The following directors of the Company, and their connected persons, held Preference shares in the capital of the Company at 31 December 2020:

Director	Nature of interest	Number of Non-Cumulative Irredeemable Preference Shares held
Mark Hews	Connected person	75,342
Denise Cockrem	Connected Person	16,000

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

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

## Dividends

Dividends paid on the Preference shares were £9,181,000 (2019: £9,181,000).

The directors do not recommend a final dividend on the Ordinary shares (2019: £nil), and no interim dividends were paid in respect of either the current or prior year.

## Charitable and political donations

Charitable donations made in the year amounted to £2.7 million (2019: £32.5million).

It is the Company's policy not to make political donations. No political donations were made in the year (2019: £nil).

## Financial instruments

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

## Employees

The Group is committed to nurturing a culture and work environment in which all employees can fulfil their potential. Our Equality and Diversity Standard and Guidance sets our expectations for an open and inclusive workplace and we place the care and wellbeing of our employees at the heart of our employment policies.

Information on engaging and involving employees is provided on page 109.

Throughout the employee lifecycle from recruitment onwards, we carefully consider adjustments to our processes and practices and look for solutions to remove barriers for those employees with disabilities. When needed, we engage with third-party and Occupational Health specialists who provide us with expert advice and ensure we are offering the best support we can. Through our adjusted work approach, we provide an environment in which

disabled employees can fully participate in all opportunities provided by the Group from continued employment to training, job moves and promotions.

## Climate change and environment

Information about the approach to climate change and the environment is provided on page 84.

## 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 on page 60.

## Events after the balance sheet date

Note 37 to the financial statements contains disclosures of events after the reporting period.

## Going concern

The Financial Performance section on page 50 and Risk Management section of the Strategic Report starting on page 60 provide a review of the Group's business activities and disclose the Group's principal risks and uncertainties, including exposures to insurance financial risk, operational and strategic risk, and risks associated with Covid-19.

The Group has considerable financial resources: financial investments of £820.8m, 92% of which are liquid (2019: financial investments of £857.9m, 91% liquid) and cash and cash equivalents of £104.4m (2019: £74.8m). Liquid financial investments consist of listed equities and open-ended investment companies, government bonds and listed debt. In February 2021, the Company raised €30 million of Tier 2 capital with

the issue of 20-year subordinated bonds, callable after year 10.

The Group also has a strong risk management framework and solvency position, is well placed to withstand significant market disruption and has proved resilient to stress testing.

Due to the level of uncertainty created by the global Covid-19 pandemic, the Group has considered its capital position, liquidity and the impact on performance. The Group and its businesses have strong levels of cash and other liquid resources and has no concerns over the ability to meet its cash commitments over the three year planning horizon. The Group and its businesses expect to continue to meet regulatory requirements.

Covid-19 has impacted how the businesses operate, with a significant proportion of employees working effectively in a remote environment. They have continued to support our customers, work with our key suppliers and perform other functions of the Group. Whilst making some of these changes to the way the Group and its businesses operate caused some level of disruption, the businesses are equipped to deliver services in this way and can continue to do so over a prolonged period. Given the Group's operations, robust capital strength, liquidity and in conjunction with forecast projections and stress testing, the directors have a reasonable expectation that the Group has adequate resources and is well placed to manage its 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 the 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 appointment 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 126.

In accordance with Section 489 of the Companies Act 2006, a resolution proposing that PricewaterhouseCoopers 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 regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Accounting Standards (IAS) in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRS) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and Parent company financial statements in accordance with IAS in conformity with the requirements of the Companies Act 2006.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent company and of the profit or loss of the Group for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IAS in conformity with the requirements of the Companies Act 2006 and IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union have been followed for the Group financial statements and IAS in conformity with the requirements of the Companies Act 2006 have been followed for the Parent company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business.

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

The directors are responsible for the maintenance and integrity of 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, which have been prepared in accordance with IAS in conformity with the requirements of the Companies Act 2006 and IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Group.
- The Parent company financial statements, which have been prepared in accordance with IAS in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and loss of the Parent company;
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Parent company, together with a description of the principal risks and uncertainties that it faces.
- 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

**David Henderson**  
Chairman  
18 March 2021

**Mark Hews**  
Group Chief Executive  
18 March 2021

# Governance

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# 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 does not have shares with a premium listing on the London Stock Exchange and, therefore, does not need to adhere to requirements, the Company has voluntarily chosen to comply with the Principles and Provisions of the 2018 UK Corporate Governance Code (the Code) throughout the year ended 31 December 2020 where relevant. A copy of the Code can be found on the FRC's website. The Corporate Governance Statement also includes the reports from Group Audit Committee, the Group Finance and Investment Committee, the Group Nominations Committee, Group Remuneration Committee and the Group Risk Committee.\*

The following aspects of the Code are not considered appropriate for the Company given ownership structure:

- provisions relating to outcomes from shareholder votes (Provision 4)
- shareholding requirements for Executive Directors (Provision 36).

During the year, the Company did not comply with the following provision of the Code:

- with the exception of the GCEO, pension contribution rates for Executive Directors are aligned to those available to the wider workforce (Provision 38). Further information is contained in the Directors' Remuneration Report. Given current market practice, the Group Remuneration Committee is currently content with the contribution rates for all Executive Directors. This will be monitored as part of the Committee's review of market developments.

## Board leadership and company purpose

### Role of the Board

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

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

The Board sets annual objectives for each year in addition to setting the Group's strategic direction. These are implemented through approval and regular assessment of the business plan and strategy process.

At each Board meeting, the directors discuss strategic and business matters, financial, operational and governance issues, and other relevant business items that arise. Following Committee meetings, the Board receives oral reports from the Chairman of each Committee at the next Board meeting.

### Purpose, value and strategy

The Group's purpose is to contribute to the greater good of society. In particular, the Group strives to improve the lives of customers, beneficiaries and society as a whole. This is achieved by managing a portfolio of businesses that operates on the highest ethical principles. It seeks to diversify and bring an ethical dimension to more aspects of society; and all of its businesses need to set a high bar, putting its customers first and setting an example to others.

See page 36 for more details.

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 2020, no director had any such concerns.

### Culture

The Board is responsible for setting the right values and culture within the Group and ensuring the fair treatment of customers. The target culture is described below.

This is embedded across the Group's employee lifecycle, from recruitment through performance management and our behaviour model, personal development and communications. The Board monitors cultural alignment through the MySay survey results.

Our Target Culture	
	<b>Ambitious and driven...</b> We outperform our business goals
	<b>Working collaboratively</b> We value our diversity and work well together
	<b>...For the greater good</b> We contribute to the greater good of society
	<b>Inspiring each other</b> We energise each other to deliver
	<b>Passionate about customers</b> We offer unrivalled high standards of customer relationships and care
	<b>Empowered to deliver</b> We trust our colleagues to make decisions
	<b>Ethical and trusted</b> We can be trusted to do the right thing
	<b>Innovative in our thinking</b> We are bold, pro-active and creative, always improving

## Strategy and Company Performance

### Key

- Communities
- Customers
- Employees
- Regulators
- Shareholders
- Suppliers

The following shows the structure and content of Board Meetings and how stakeholders have been considered as part of the decision making process during 2020, which was an exceptional year in terms of the challenging strategic environment.

The Chairs of the Group Finance and Investment, Group Audit, Group Nominations and Group Remuneration Committees provide updates on key matters discussed at those meetings and any recommendations for the Board's approval. This ensures that the Board as a whole understands a range of significant issues including those that are outside its immediate remit.

### Strategic matters

The Board considered strategically significant matters, provided insight and constructive challenge and implemented required action.

### Covid-19

• Held regular meetings to discuss and monitor the impact of Covid-19 on the business and the impact on stakeholders (including in relation to the FCA's business interruption test case (in the UK) and the Australian Financial Complaints Authority business interruption test case). Extensive activity has been undertaken to support customers and protect the Group's business. An interim transition strategy was adopted to respond to the pandemic. Core business functions were successfully moved to remote working which enabled external stakeholders to continue to be supported. A package to support remote working and wellbeing (and returning to the office) was agreed.

Acts of kindness from across the Group were celebrated. In addition, the Board considered operational resilience and received regular updates from the Crisis Management Team (CMT) who responded to the Government's rapidly changing guidance.

### Culture

- Considered findings from the 2020 staff surveys and the update from the designated Non-Executive Director for employee engagement

### Benefact House

- Received regular updates on the relocation to a new Head Office

### Brand

- Received updates on the new visual identity and brand

### Allchurches Trust Limited

- Received regular reports from the Shareholder

## Strategy, Company and Operational Performance

The Chief Executive led discussions on general business performance and key strategic initiatives

### Business Updates

- Received updates on the performance from each of the business areas (general insurance, broker and advisory and investment)

### Organisation

- Received updates on senior leadership appointments and succession plans for the Senior Leadership Team (including the appointment of Richard Coleman (Managing Director – UK), Andy Clark (Chief Executive, EdenTree) and Sarah Binstead (Group Chief Risk and Compliance Officer))
- Considered Health and Safety (including how the Group was responding to supporting staff with mental stress from working at home and their physical wellbeing)
- Reviewed the vision and strategy for the Broking and Advisory Businesses

### Charitable Purpose

- Considered regular updates on the charitable purpose and mission. The Board is proud that local communities were supported across the Group's four territories and fundraising support was delivered to impacted church and charity communities. The reach of visibility of the Movement for Good Campaign and 12 Days of Giving Campaign was also materially increased. This included consideration of the Grants Policy in Canada and Australia and a donation to the Charities Aid Foundation's Covid-19 Support Fund.
- Approved the Sustainable & Responsible Investment Policy

### Portfolio Optimisation

- Received regular report on portfolio optimisation with the general insurance businesses

## Financial Updates and Regulatory Reporting

### Financial resilience

- Considered the tolerances for various scenarios and solvency positions and any resulting actions
- Considered the financial position of its subsidiaries
- Reviewed the going concern assessment
- Considered GI Claims Reserves Adequacy

### Capital, costs and budget

- Reviewed the Company's financial and liquidity position
- Agreed the Group Strategy and Business Plans for 2021 to 2023
- Considered reinsurance arrangement
- Considered the capital management strategy and approved the raising of £30 million of Tier 2 capital

### Cash flow and dividends

- Considered the dividends to be paid to the holders of the 8.625% Non-Cumulative Irredeemable Preference Shares of £1
- Considered making a distribution in the form of a grant to the Company's ultimate parent, Allchurches Trust Limited
- Considered the approach to inter group funding

### Regulatory and reporting

- Considered the Actuarial Function Director's Opinion on Technical Provisions, Reinsurance, Underwriting and Pricing, Business Plan and Aggregate Report Wrapper as required under Solvency II

### Risk

- Approved the Internal Model Management Actions and the Internal Model Quarterly Change reports
- Approved the Annual review of Profit & Loss Attribution Report, and SCR and EC end of year 2019 annual evaluations
- Approved the Group Risk Framework and Risk Appetite
- Approved the Group ORSA

### Governance

#### Board Evaluation

- Considered outcomes from the external Board Evaluation and received regular progress updates

#### Board succession and diversity

- Approved the appointment of two new Non-Executive Directors and changes to Committee composition
- Approved the refreshed Board Diversity Policy

#### Governance Framework

- Approved changes to the Group Governance Framework and Expectations of SBUs
- Approved changes to the Board Committee Terms of Reference
- Considered Directors' Conflicts of Interest

#### Regulatory disclosures

- Reviewed and approved the Annual Report and Accounts, Notice of General Meeting, Half Year and Full Year Results Announcements

#### AGM

- Approved the resolutions to be put to the shareholders at the AGM (including the proposal that following the conclusion of the tender process PricewaterhouseCoopers LLP be appointed as External Auditors)

#### IICSA and safeguarding

- Considered updates on developments with the IICSA inquiry

**Capital Raising Case Study**

The Board approved the decision to raise €30 million (as announced on 25 February 2021). When considering its decision, the Board took into account the likely perspectives of stakeholders regarding potential capital raising, the short-term and long-term requirements of the business which could impact on employees, customers and suppliers, and the protection of stakeholder interests as a whole. The merits of proposal were reviewed to ensure that resilience against future uncertainty could be maintained and opportunities could be leveraged by ensuring funds were available to support growth and diversification aspirations. The Board sought external debt, legal and tax advice in order to determine the type of capital, product terms and structure of the chosen debt instrument. In addition, the Board assessed a number of factors including cost, timing, market conditions and investment performance, perspectives from banks and investment houses, and credit rating. It was agreed that privately placed issue of a 20-year subordinated bond would achieve the desired outcomes. Consultation with Allchurches Trust Limited and management also underpinned the view that the debt instrument was in the best interest of all stakeholders and was therefore approved by the Board.

**Stakeholder engagement**

The Board recognises the importance of engaging with stakeholders, understanding their views and interests in order to be successful over the long term. Dialogue with stakeholders can help the Board to understand significant changes in the landscape, predict future developments and trends, and re-align strategy.

The Board has identified its stakeholders and associated engagement mechanisms. Employees, customers, shareholders, suppliers, reinsurers, external auditors, regulators, credit rating agencies, banks and

other creditors, trade unions and community groups have been identified as current stakeholders. Further information is provided in the Corporate Responsibility Report.

**Shareholder engagement**

Ecclesiastical Insurance Group plc owns the entire issued Ordinary share capital of Ecclesiastical Insurance Office plc. The directors of the Boards of both companies are identical. Ecclesiastical Insurance Group plc in turn is wholly owned by Allchurches Trust Limited with whom the Board has an open and constructive relationship.

Protocols for the exchange of information between Allchurches Trust Limited and Ecclesiastical Insurance Group plc and its subsidiaries (including Ecclesiastical Insurance Office plc) are in place and cover performance, operations and financial position. There is at least one 'Common Director' (i.e. a Director who is a member of the Boards of Allchurches Trust Limited, Ecclesiastical Insurance Group plc and Ecclesiastical Insurance Office plc) who is expected to attend every Board Meeting.

Sir Stephen Lamport and Chris Moulder were appointed as 'Common Directors'.

The Common Directors present a summary of highlights from Allchurches Trust Limited Board meetings to the Directors. There is also engagement between respective Board and Committee Chairmen and the Group Chief Executive Officer. Regular dialogue takes place on Allchurches Trust Limited's expectations of the Group, strategy for the development of business and the grant from the Group.

This ensures that the views of Allchurches Trust Limited are communicated to the Board as a whole, which enables Allchurches Trust Limited to effectively communicate 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 interest between the two companies are managed is in place.

When determining if it is appropriate to make a distribution in the form of a grant to the Company's ultimate parent undertaking, Allchurches Trust Limited, the Board considers advice from the Group Chief Financial Officer. A key area for the Board's deliberation is the Company's capital position and the affordability of the grant based on a range of stressed circumstances as well as the views of the Chairman of Allchurches Trust Limited. No grant was paid to Allchurches Trust Limited during the calendar year 2020.

**Employee engagement**

The Board recognises employees as the Group's biggest asset given their specialist skills and knowledge and propensity to go above and beyond. Members of the management team and subject matter experts are invited to Board and Committee meetings to present on items and input into discussion. Directors also visit subsidiaries and other SBUs and Project teams to gain a good understanding of employees' views. In order to engage, involve and inform employees, the following methods are used:

- Caroline Taylor was appointed as the designated Non-Executive Director for employee engagement on 4 February 2020. The designated Non-Executive Director is briefed on employee survey results and feedback and reports relevant findings to the Board;
- a variety of communication channels including intranet, all staff emails (including weekly news, results, achievements and changes), briefings, conferences and publishing of financial reports and feedback and discussion is adopted (including to make employees aware of financial and economic factors affecting the performance of the Company);

• In 2020 the Group focused on regular targeted and tailored check-in surveys (as outlined on page 81) which were focused on gathering real time feedback as the pandemic situation evolved during 2020. Adopting a targeted approach and consulting on matters directly affecting employees, enabled us to respond quickly to any concerns as they emerged. Results were monitored and reviewed by the Group's Crisis Management Team and were also disseminated throughout the Group for local action planning.

- whistleblowing policy and procedures. During 2020 the Group implemented a set of engagement actions including training and communications to improve the accessibility and understanding of our whistleblowing procedure and approach;
- direct engagement and consultation through employee representative forums including the Group's recognised Union and informal Employee Working Groups (such as 'The Explainers' and 'The Office Life Network') is encouraged;
- 'Town Hall' meetings are hosted virtually by senior management where employees can ask questions and provide feedback;
- a performance-related bonus scheme is operated, which directly links individual objectives and business performance to encourage employees to participate in the overall financial success of the Group; and
- a range of training, development and volunteering activities are available to employees, including technical courses, mentoring, coaching and community opportunities.

**Customer engagement**

Customers are the lifeblood of the Group. The Board considers that customers should be at the heart of everything we do, ensuring any actions or decisions demonstrate our passion for customers and make us first choice for customers both today and in the future. During the year, the Board received updates on customer issues via the Group Chief Executives' Report and reports on strategic initiatives.

In addition, the Board considered customers' needs, knowledge and expectations as part of the development of the transition strategy and the Group's response to the pandemic.

Meetings are held between management and key customers to understand their needs and perspectives. In addition, the Group has regular engagement with customers (including conducting listening exercises, surveys, holding focus or consultative groups, monitoring customer complaints and satisfaction data) and key outcomes are shared with the Board. Our commitment to customers and clients is further demonstrated by the tailored Customer Promises that have been developed for key SBUs.

#### Supplier engagement

The importance of the role that suppliers play in ensuring a reliable service is delivered to customers is recognised by directors. Consequently, the Group Risk Committee oversees the Procurement, Purchasing and Outsourcing Policy and receives regular updates on the Group's material outsourcing contracts.

In addition, Executive Directors hold regular meetings with key suppliers to understand their perspectives.

#### Community and environment

The Board (via the Group Risk Committee) has reviewed and challenged the approach to the management of risks associated with climate change. This included consideration of key workstreams such as communication and governance, risk management assessment, scenario analysis, business and operational risk and opportunities, strategy and disclosures. An update on the approach to the TCFD related disclosures is provided on page 84.

During the year, the Board has considered the payment of grants to Allchurches Trust Limited for charitable purposes.

#### Regulators

The Board recognises the importance of open and honest dialogue with regulators (including those in the UK, Australia, Canada and the Republic of Ireland). It has discussed outcomes and the response to the PRA's Periodic Summary Meeting. In addition, the Board (via its Committees) has received regular updates on legal, regulatory and compliance matters.

#### Whistleblowing

The Board (via the Group Audit Committee) is responsible for reviewing the Group's whistleblowing procedures and receives regular updates.

The Group's approach to whistleblowing is set out in a 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.

Group HR has responsibility for ensuring the effectiveness of internal whistleblowing arrangements, including arrangements for protecting whistleblowers against detrimental treatment (on behalf of the Whistleblowing Champion) including ownership of the associated policy and guidance documents.

More information about the Group's whistleblowing policy and arrangements is included within the Group Audit Committee Report.

#### Conflicts of Interest

A Register of Directors' Conflicts 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.

In addition, the Board oversees the procedure for managing actual and potential conflicts of interest in the trading relationship with owned brokers (Lycetts and SEIB/Lansdown) and the general insurance business. It is underpinned by the desire to put the customer interest at the forefront of their dealings and seek to deliver the best customer outcome.

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 2020, no director had any such concerns.

#### Division of responsibilities

The responsibilities of the Board, its Committees, Chairman, Group CEO and SID are set out in writing and are available on the Company's website.

#### The Chairman and the Group Chief Executive

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

#### Senior Independent Director

Chris Moulder was appointed as the Senior Independent Director (SID) on 14 January 2020. 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 with the shareholder to share and understand views.

#### Non-Executive Directors

Non-Executive Directors have a responsibility to uphold high standards of integrity and probity including acting as both internal and external ambassador of the Company. As part of their role as members of a unitary board, Non-Executive Directors should constructively challenge and help develop proposals on strategy.

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

**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 114; the Group Nominations Committee Report on page 118; the Group Risk Committee Report on page 124; the Group Audit Committee Report on page 126; and the Group Remuneration Report on page 136.

**Attendance at meetings**

Directors are required to attend all Board meetings and strategy days as well as Committee meetings where they are members. In 2020, the Board held five scheduled meetings and ten ad hoc meetings. In addition, the Board participated in regular training sessions.

David Henderson met with the Non-Executive Directors without the Executive Directors present on a number of occasions throughout the year.

Below is a record of the directors' attendance for the Board meetings during 2020:

Board attendance table		Director since	Meetings eligible to attend	Meetings attended
Executive Directors	Non-Executive Directors			
Mark Hews	David Henderson (Chairman)	June 2009	15	15
S. Jacinta Whyte	Francois-Xavier Boisseau	July 2013	15	15
Denise Cockrem	Sir Stephen Lamport	September 2019	15	15
	Neil Maidment	April 2016	15	15
	Andrew McIntyre	March 2019	15	14 <sup>1</sup>
	Chris Moulder	March 2020	13	13
	Caroline Taylor	January 2020	15	13 <sup>2</sup>
	Angus Winther	April 2017	15	14 <sup>3</sup>
	Christine Wilson	September 2017	15	15
		September 2014	15	15
		March 2019	15	15
		June 2012	10	9

<sup>1</sup> Mr Boisseau was unable to attend an ad hoc Board Meeting called at the last minute to consider an update on the FCA's test case in relation to business interruption.

<sup>2</sup> Mr Maidment was unable to attend a scheduled Board Meeting as it had been arranged prior to his appointment as a director. In addition, he was unable to attend an ad hoc meeting called at short notice to consider matters linked to Covid-19.

<sup>3</sup> Mr McIntyre was unable to attend a meeting because of a prior business commitment.

**Company Secretary**

The Company Secretary is responsible for compliance with board procedures, advising the Board on all governance matters, supporting the Chair and helping the Board and its Committees to function efficiently. All directors have access to the advice of the Company Secretary.

**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 60.

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.

Further information on internal controls is set out in the Group Audit Committee Report on page 126.

By order of the Board

**Mrs. R. J. Hall**  
Group Company Secretary  
18 March 2021

# Group Finance and Investment Committee Report

## Chairman's introduction

I am pleased to present this 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*
Angus Winther	April 2019	6	6
Caroline Taylor	March 2016	6	6
David Henderson <sup>2</sup>	June 2016	6	5

<sup>1</sup> Angus Winther was appointed to the Committee on 3 April 2019 and was appointed Chair on 1 January 2020.

<sup>2</sup> David Henderson was unable to attend a meeting called at short notice to consider a potential acquisition. His views on the proposal were relayed to the Committee by its Chair.

## Committee meetings

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

The Committee held four scheduled and two ad hoc meetings during the year, each of which were attended by the Group Chief Executive and Group Chief Financial Officer by invitation. Other people from the business were invited to attend meetings to provide insight into key matters and developments. 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 is performing as expected. The Committee also considers and approves major financial decisions including capital raisings, acquisitions and disposals on behalf of the Board. The Committee is also constituted as a committee of the Company's immediate parent Ecclesiastical Insurance Group plc and provides the same functions.

A summary of the main activities of the Committee during 2020 are set out below:

### Raising funds

The Committee supported management in developing the proposal to raise funds which culminated in issuing €30 million

of Tier 2 Capital by way of a privately placed issue of 20-year subordinated bonds in February 2021. The Committee considered the rationale for the proposed fund raising including protecting against the risk of a downturn in a period of uncertainty as well as supporting the Group's growth ambitions and strategy. The Committee also explored the advantages and disadvantages of alternative sources of capital (including preference shares and hybrid capital) and their impact on stakeholders, reviewed the product terms and structure and oversaw the appointment of key advisors for the project including financial, legal and tax advisors.

The hedging of currency and interest rate exposure and the impact on the Group's capital position (under base, adverse and favourable scenarios) was also reviewed ahead of making a recommendation to the Board.

### Finance

The Committee supported a proposal to improve the Group's Treasury Management Framework and the approach to managing working capital. The model is being implemented across all SBUs to maintain an optimal level of cash and liquidity across the Group and release cash for investment.

**Investments**

During the year, the Committee reviewed the Group's business plan investment assumptions; and the overall investment strategy. This included consideration of asset allocation and exposure (to equities, bonds, infrastructure, property and cash) and associated risk. In particular, the continued use of equity derivatives and the development of a "balanced scorecard" approach for their assessment was considered.

The Committee also reviewed the investment mandate with EdenTree Investment Management Limited to ensure that it remained fit for purpose and remained compliant with legal and regulatory requirements. The performance of the Group's investment portfolios were also reviewed. In addition the Committee considered the outlook for the financial markets in the context of the impact of the pandemic and uncertainty relating to Brexit.

**Acquisition activity**

The Committee has monitored acquisition activity, outcomes and performance, including providing guidance on the approach to making offers. A proposal for a potential acquisition by one of the Company's subsidiaries, SEIB Insurance Brokers Limited, was reviewed in detail. Updates on smaller acquisitions such as WRS Insurance Limited were also received.

In 2019, Ecclesiastical Insurance Group plc acquired a non-controlling equity interest in the speciality insurer Lloyd & Whyte. The Committee has continued to monitor various matters relating to that acquisition, including associated structural changes, Lloyd & White's acquisition pipeline, associated loan exposure and performance.

**Governance**

The Committee also reviewed its Terms of Reference, its own performance and set objectives. Historically the Committee Chair had been a member of the Group Risk and Group Audit Committees. Given Mr Winther is not a member of either of these Committees, he has regularly liaised with the Chairs of both Committees on matters relevant to the Committee's business and also attended the Group Risk Committee on a number of occasions.

By order of the Board

Angus Winther

Chairman of the Group Finance and Investment Committee

18 March 2021

*'The Committee supported management in developing the proposal to raise funds which culminated in issuing €30 million of Tier 2 Capital.'*

# Group Nominations Committee Report

## Dear Stakeholder

I am pleased to present the Group Nominations Committee's Report describing the work we have carried out during the past year. This report gives more detailed information on how we performed our duties in 2020.



## Committee Composition

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

Committee member	Member since	Meetings eligible to attend	Meetings attended
Chris Moulder <sup>1</sup>	November 2019	3	3
Christine Wilson <sup>2</sup>	March 2016	2	1
David Henderson	January 2019	3	3
Caroline Taylor <sup>3</sup>	November 2019	3	3

<sup>1</sup> Appointed as Chair of the Nominations Committee with effect from 14 January 2020.

<sup>2</sup> The Very Reverend Christine Wilson stepped down from the Board on 18 June 2020 and from Chair of the Nominations Committee on 14 January 2020.

## Meetings of the Committee

The Committee held three scheduled meetings in 2020 (February, May and September) which were attended by the Group Chief Executive and Group Company Secretary (2019: three meetings).

## Composition of the Board and senior management

The Committee considered the composition of the Board and its Committees, subsidiaries and senior management (including members of the GMB, heads of SBUs and senior functions). This included consideration of skills, knowledge, and experience, length of tenure, independence and diversity in the context of the Group's long-term strategic priorities.

## 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. Over the last few years, the Board has met the targets set out in the 'Hampton – Alexander Review' of 33% female representation on the Board, but following the retirement of a female director in June 2020, the percentage had slipped below

the target. As at 18 March 2021, the Board has appointed three female directors (including two Executive Directors) in a membership of 11. The Board is actively seeking to address this issue and will aim to meet the target by the end of 2022.

At 31 December 2020, female representation on the Group Management Board stands at 38% (2019:43%) and in the wider senior management population (GMB and BL grades) at approximately 27% (2019:32%). The Board encourages Executive Management to ensure appropriate diversity, including gender diversity, at senior levels within the organisation.

In addition, the Board will have regard to the Parker Review and has set itself a target to have at least one director from an ethnic minority background by the end of 2025. Ecclesiastical aspires to having a Board that is diverse and it encourages external search firms to identify and present candidates from all backgrounds, and with diverse skills and personal qualities. 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 the opportunity, as and when appropriate, to further improve diversity in its broadest sense (including

ethnicity, skills, regional and industry experience, background, age, gender and other distinctions) as part of its board recruitment practice. 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.

### Directors' length of service

The Committee monitors the length of tenure of all directors as shown in the table on page 97.

### Independence and time commitment

The Board believes that all the NEDs were independent throughout 2020. Independence is reviewed as part of each director's annual appraisal, considered by the Committee and agreed by the Board annually. 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 Committee evaluates the time NEDs spend on the Company's business annually and is satisfied that, in 2020, the NEDs continued to be effective and fulfilled their time commitment as stated in their letters of appointment.

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.

### Succession planning

The Committee considered the Group's Board and Leadership Succession Plan to ensure that a rigorous and phased approach is adopted, taking into account the challenges and opportunities facing the Group.

In respect of each leadership role, emergency, short-term and long-term succession plans are considered and challenged to ensure that appropriate skills are in place to support the Group's short- and long-term strategy and ensure a diverse pipeline of talent is in place.

### Appointments to the Board

#### Non-Executive Director Appointments

##### Sir Stephen Lamport

Sir Stephen Lamport had been a member of the ultimate parent company, Allchurches Trust Limited for many years and in early 2020 was appointed as a director to the Trust. On the recommendation of Allchurches Trust, he was appointed a director of the Company on 23 March 2020, becoming a 'common director', succeeding Tim Carroll.

##### Neil Maidment

In addition, Neil Maidment was appointed to the Board on 6 January 2020. An overview of the appointment process for Mr Maidment was set out in the 2019 Annual Report and Accounts.

**Non Executive Director Resignations**  
– **Dean Christine Wilson and Caroline Taylor**  
Dean Christine Wilson stood down from the Board on 18 June 2020 following an eight-year tenure.

In September 2021, Caroline Taylor will have served for more than six years and will step down from the Board.

#### Common Directors, Chris Moulder and Sir Stephen Lamport

Chris Moulder and Sir Stephen Lamport are directors on the Boards of Allchurches Trust Limited and the Company ('common directors'). The common directorship model is regarded as good practice with a charity that owns a trading subsidiary and these 'common directors' enable the Trust to gain a thorough understanding of its subsidiary company's performance and the strategic issues it faces, and for the subsidiary to understand the expectations of its parent company.

A joint Company and Allchurches Trust Limited Nominations Committee Meeting is held on an annual basis, amongst other things to consider the appointment of common directors.

### Induction and training

All new directors undertake a formal, comprehensive and tailored induction to the Group upon joining the Board. This includes sessions with the Group Company Secretary, Group Chief Risk and Compliance Officer, Director of Group Finance, Group Chief Actuary, Group Development Director, Group HR Director, Group Reinsurance Director, Chief Internal Auditor and heads of the Group's trading businesses. New directors also meet individually with the Chairman of Allchurches Trust Limited, the Group

Chairman, the Senior Independent Director, and each of the Executive Directors. This is to ensure they understand the significant risks, strategic and commercial issues affecting the Group and the markets in which it operates as well as their duties and responsibilities as a director.

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. In 2020, a number of training sessions took place including Safeguarding (covered by the Head of Claims), EIG Sustainable & Responsible Investment Policy (delivered by Head of Responsible Investment Policy and Research) and Senior Managers and Certification Regime (SMCR) (covered by the Group HR Director). In 2021, sessions have been planned on IFRS 17, Technology, Money Laundering, Anti-Bribery and Corruption, and Catastrophe and PSA Exposure Risks.

### Board evaluation

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.

It is the Board's policy for its evaluations to be facilitated every two to three years and the last external Board evaluation was carried out in 2019, facilitated by Grant Thornton. Grant Thornton acts as a co-source provider for internal audit on UK and Canada and has no other connection with the Group.

The key themes that arose from the evaluation are listed in the table below along with an update on progress made.

Theme	Evaluation Recommendations	Progress Update
Succession Plans	Refresh the approach to reviewing succession plans of GMB members and their direct reports.	Succession plans are reviewed and challenged by the Group Nominations Committee twice a year and a report considered by the Board on an annual basis.
Diversity	Further improve diversity across various Group and Subsidiary Boards (in terms of ethnicity, gender, knowledge, technology and digital representation) was highlighted.	A new Diversity Policy was agreed in 2020 and the Strategic Talent Forum will consider diversity across the Group to support the talent pipeline.
Stakeholders	Develop a stakeholder map and refine the approach to demonstrating how decisions impact on stakeholders in Boards Papers and Minutes.	A stakeholder map was included in the Governance Framework which was updated by the Board in 2020. Actions in relation to updating Board Papers and Minutes were delayed as a consequence of the pandemic.
Strategy and Direction	Review the Board agenda to ensure that it was balanced and focused on important matters.	This is regularly considered by the Chairman and the Group Company Secretary as part of the pre-meeting process.
Strategy and Direction	Consider streamlining strategic programmes.	A Transitional Strategy was launched during the year and the number of strategic initiatives reduced.
Strategy and Direction	Review Board packs to ensure focus on strategic matters, insight and impact.	Response to this has been deferred until 2021. An external consultant will be engaged to review Board Papers and observe meetings and make recommendations. Internal training will also be arranged for internal paper authors.
Culture and Values	Evidence the Board's approach to assessing and monitoring culture.	The Group Employee Survey monitors culture and engagement. The results from the survey are fed into Board discussions via Caroline Taylor (the designated NED for employee engagement – further information on employee engagement is set out on page 109).
Culture and Values	Consider how the Group's culture can be integrated into acquisitions.	Newly acquired businesses are integrated into the Group via adoption of standard processes and practices, cascade of values and regular attendance at Group events such as Conferences.

The next evaluation will be in 2022.

By order of the Board

**Chris Moulder**  
Chairman of the Group Nominations Committee  
18 March 2021

'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.'

# Group Risk Committee Report

## Chairman's introduction

I am pleased to present this report, describing the work undertaken by the Group Risk Committee during the past year. The Group has voluntarily chosen to include a Group Risk Committee Report in addition to the disclosures in the Risk Management Report and Principal Risks sections starting on page 60. We welcomed Neil Maidment as a member of the Committee in March 2020 and Sir Stephen Lamport was appointed to the Committee on 25 November 2020. Sarah Binstead was appointed Group Chief Risk and Compliance Officer in September 2020.



## 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
Chris Moulder (Chairman)	September 2017	4	4
Andrew McIntyre	August 2017	4	4
Francois-Xavier Boisseau	April 2019	4	4
Neil Maidment*	March 2020	4	4
Sir Stephen Lamport**	November 2020	0	0

\* Neil Maidment was appointed to the Committee on 2 March 2020.

\*\* Sir Stephen Lamport was appointed to the Committee on 25 November 2020. There were no Committee meetings held in 2020 after this date.

The last year was a challenging one from a risk and resilience perspective. With the onset of the Covid-19 global pandemic, the Group was required to quickly adapt its ways of working in all territories. The impact of the pandemic on the Group's risk environment was wide ranging and therefore a key consideration for the Committee in 2020. Time was committed to assessing and monitoring the Group's operational resilience; its capital and solvency position; and financial resilience in light of the global pandemic and the FCA's test case on business interruption.

## Committee meetings

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

The Committee held four meetings during the year, which were attended by the Group Chairman, Deputy Group Chief Executive, Group Chief Risk and Compliance Officer, Group Chief Financial Officer, Group Underwriting Director, Group Chief Actuary and the Group Heads of Risk and Compliance.

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; and risk management culture and framework. In addition, the Committee oversees the material risks of the Group. The Committee is also responsible for reviewing Group capital management and Internal Model scope, governance and validation.

The Group's principal risks and uncertainties are set out on pages 66 to 73. The Committee has reviewed these in detail and is comfortable that the business has addressed them appropriately within its ongoing operating model and identification of strategic priorities.

A focus of the Committee's work this year has been to assess and monitor the Group's

ongoing operational and financial resilience; and its capital and solvency position, in light of the global pandemic, receiving reports from Management. The Committee has continued to monitor the ongoing development, governance, methodology and calibration of the Internal Model; overseeing the validation cycle; recommending Model changes to the Board; agreeing Management Actions and reviewing the Profit and Loss Attribution.

Additionally, during the year, the Committee has continued to oversee the ongoing development of the Group's data management model; the Own Risk and Solvency Assessment and Control Risk Self-Assessment processes; and material outsourcing risks. The Committee has also overseen the development of the risk oversight and assurance plan and a risk appetite breach protocol. The Committee has also received other regular reports including compliance monitoring and breaches; reinsurance; climate change; business continuity; and the Money Laundering Reporting Officer's Report.

The Committee also reviewed the Group's Governance Framework and Expectations of SBUs documents, and its own Terms of Reference, culminating in recommendations to the Board, which were approved.

The Group Chief Risk and Compliance Officer reports to the Committee and has direct access to the Committee Chairman and the Non-Executive Directors. The Committee ensures that it meets with the Group Chief Risk and Compliance Officer at least annually without management present.

By order of the Board

Chris Moulder  
Chairman of the Group Risk Committee  
18 March 2021

# Group Audit Committee Report

## Chairman's overview

I am pleased to present the Group Audit Committee Report describing the work undertaken by the Committee to safeguard Ecclesiastical for the benefit of its shareholder. The Committee plays a crucial role in oversight and scrutiny of the Group's financial reporting, internal and external audit arrangements, internal control environment and the management of financial risks.



The last year turned out to be challenging for accounting and auditing judgements and required the Group to adapt its ways of working and focus on its systems of internal control. For nearly all of the Committee's work during 2020, Covid-19 has been a key consideration. In particular, time was committed to Group Internal Audit's review of internal controls impacted by Covid-19 and reviewing accounting judgements in very different economic conditions.

The Committee has reviewed the Group's financial reporting, ensuring that this year's Annual Report and Accounts are fairly presented and prepared using appropriate judgements. The significant accounting and reporting issues considered in detail by the Committee are set out on pages 130 to 132. The Committee has also monitored internal and external audit arrangements and the effectiveness of internal controls. Additionally, the Committee has monitored the external environment to ensure that reporting and controls respond to developments.

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.

Following the completion of a rigorous tender process in 2019 we welcomed PricewaterhouseCoopers LLP (PwC) as the Group's external auditor. I would like to thank PwC and our previous auditors Deloitte LLP for their mutual co-operation that ensured a smooth transition done so under challenging circumstances.

During 2020, the Committee considered the key judgements made by management in preparing the Annual Report and Accounts. The Committee has continued to prioritise the Group's control environment and other important areas of the business such as data management, cyber security and whistleblowing.

**Andrew McIntyre**  
Chair of the Group Audit Committee

## Members of the Committee

Committee members are independent non-executive directors and have been selected with the aim of providing the wide range of financial, risk, control and commercial expertise necessary to fulfil the Committee's duties. The Committee is also then able to challenge and scrutinise management's work. Further information about the experience of each member of the Committee can be found on page 94. 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 members of the Group Audit Committee who were appointed by the Board and their attendance at the 11 meetings held during the year are shown below.

Committee member	Member since	Meetings attended / (eligible to attend)
Andrew McIntyre (Chairman)	April 2017	11 / (11)
Francois-Xavier Boisseau	March 2019	11 / (11)
Neil Maidment*	March 2020	10 / (10)
Chris Moulder	September 2017	10 / (11)

\* Neil Maidment was appointed to the Committee on 2 March 2020.

### Committee meetings

In addition to the members of the Committee, the Chairman of the Board, the Group Chief Executive, the Group Chief Financial Officer, the Deputy Group Chief Executive and the Group Chief Internal Auditor attend meetings by invitation. Other relevant people from the business are invited to attend certain meetings in order to provide insight into key issues and developments. The Group's external auditor is invited to attend meetings. During the year, Deloitte attended all seven of the Committee's meetings held prior to their resignation. PwC attended three of the four meetings held following their appointment in June 2020.

During the year, the Committee met privately with the Group's external auditors without management present.

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 regulatory reports;
- reviewing tax strategy and policies;
- 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.

When the Committee discharges its responsibilities these are extended to include Ecclesiastical Insurance Office plc's immediate parent Ecclesiastical Insurance Group plc and matters related to its own subsidiary undertakings and interests.

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.

PwC has acted as the Group's external statutory auditor following appointment at the Annual General Meeting in June 2020. The Group's policy for auditor rotation follows regulatory requirements and PwC will be required to be rotated after no more than 20 years, and an audit tender held after no more than 10 years.

Sue Morling of PwC became the Group's senior statutory auditor for the financial year 2020 after PwC's appointment. Sue Morling's term as senior statutory auditor cannot exceed a maximum duration of five years. The Group's previous senior statutory auditor, Mr Paul Stephenson of Deloitte, led the Group's audit for five 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 purpose of the policy is to safeguard the independence and objectivity of the external auditor and to comply with the ethical standards of the Financial Reporting Council (FRC).

The Committee oversees the plans for the external audit to ensure it is comprehensive, risk-based and cost-effective. The plan described the proposed scope of the work and the approach to be taken, and also proposed the materiality levels to be used which are described on page 180. In order to focus the audit work on the right areas, the auditors identify particular risk issues based on various factors, including their knowledge of the business and operating environment and discussions with management. The fee for the audit was proposed during the Committee's 2019 external auditor tender.

For the year ended 31 December 2020, the Group was charged £709,000 (ex VAT) by PwC for audit services. Fees for other assurance services required by legislation and/or regulation amounted to £178,000, making total fees from PwC of £887,000. There were no non-audit services provided by Deloitte prior to their resignation as the Group's statutory auditor. There were no non-audit services provided by PwC during the financial year. More detail can be found in note 12 to the financial statements.

### Auditor transition

A key area of focus for the Committee during 2020 was the effective transition to PwC as the Group's statutory auditor to ensure the safeguarding of audit independence and quality.

During 2020, PwC commenced planning for the 2020 audit, including engaging with management, shadowing Deloitte, obtaining a detailed understanding of key areas of audit focus and management judgement, and observing Audit Committee meetings. Following their appointment in June 2020, PwC attended all Audit Committee meetings in their capacity as the Group's statutory auditor.

Matter considered	Action	Matter considered	Action
<b>Valuation of investment property and unlisted equity</b> These are areas of focus for the Committee given their materiality and the subjectivity in deriving their fair value. For investment property, the Group uses real estate valuation experts who use recognised valuation techniques together with the principles of IFRS 13 Fair Value Measurement. These techniques use assumptions and estimates including investment yields. The judgements and estimates used to determine the value of the Group's interest in unlisted equity follow industry recognised fair value model techniques and the principles of IFRS 13 Fair Value Measurement. Judgements and estimates include the selection of comparable companies and setting an illiquidity discount.	The Committee received information from management on the composition of the investment property portfolio and the methodology used to determine the fair value. The Committee paid particular attention to the application of industry recognised valuation techniques and areas of the portfolio more susceptible to valuation uncertainty. When considering management's assessment of the fair value of unlisted equities, the Committee considered the fair value model and inputs used. Particular consideration was given to the suitability of comparable companies and the discount applied for illiquidity. Following consideration, the Committee concluded that the assumptions proposed were appropriate.	<b>General insurance reserves</b> The estimation of the ultimate liability arising from claims under general business insurance contracts is a critical accounting estimate. There is uncertainty as to the total number of claims 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 PwC also provided detailed reporting on these matters to the Committee. The Committee considered in detail the impact of Covid-19 across the Group on the current year and the key uncertainty surrounding the developments of the business interruption and liability claims in the next 24 months. The committee acknowledged the exceptional circumstances surrounding 2020 claims developments and was satisfied that management and the Group Reserving Actuary have considered a suitable range of outcomes. 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 and that 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 continue to hold an additional margin in respect of future PSA claims as the IICSA investigations develop. Following all of our reviews and discussions, the Committee's opinion was that the reserving process and outcomes were robust and well managed and that the overall reserves set were reasonable as disclosed in notes 9 and 28 of the financial statements.
<b>Appropriateness of the Group's external financial reporting</b> 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: <ul style="list-style-type: none"><li>• the quality and acceptability of the Group's accounting policies and practices;</li><li>• the clarity of the disclosures and compliance with financial and regulatory reporting standards, and relevant financial and governance reporting requirements;</li><li>• material areas in which significant judgements have been made by the Group or there has been discussion with the external auditor;</li><li>• 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;</li><li>• any correspondence from regulators in relation to financial reporting.</li></ul>	In respect of these annual financial statements the Committee paid particular attention to the significant judgements set out below, including a review of the corporate governance disclosures, monitoring of the external audit process and the going concern and viability statements.  The Committee concluded that it remained appropriate to prepare the financial statements on a going concern basis and recommended the viability statement to the Board for approval.  The Committee reviewed and challenged the Group's annual regulatory submissions under Solvency II in the second quarter of the year. The Committee focused on the reporting requirements of the publicly filed SFCR and QRTs and privately filed RSR Annual Update.  The significant areas of focus considered by the Committee in relation to the 2020 accounts, and how these were addressed, are outlined below. These were discussed and agreed with management during the course of the year, and also discussed with PwC. The nature of these issues and how they are mitigated is explained in more detail in the Risk Management Report on page 60, and also note 2 to the financial statements on page 200.	<b>Life insurance reserves</b> 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) (the Group's life business) which set out recommendations for the basis and methodology to apply for: <ul style="list-style-type: none"><li>• the valuation of policy liabilities for inclusion in the report and accounts for ELL at 31 December 2020, and</li><li>• the calculation of technical provisions in accordance with Solvency II regulations at 31 December 2020.</li></ul> 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 2019. 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. Following its review, and after consideration of PwC's report, the Committee was satisfied that the assumptions proposed were appropriate and overall the judgements made in respect of the reserves were reasonable. The assumptions are disclosed in note 28(b) of the financial statements.

Matter considered	Action
<b>Carrying value of goodwill</b>  This is an area of focus for the Committee given the materiality of the Group's goodwill balances (£24m as at 31 December 2020) 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.	<p>The Committee received detailed reporting from management and challenged the appropriateness of the assumptions made, including:</p> <ul style="list-style-type: none"> <li>the consistent application of management's methodology;</li> <li>the achievability of the business plans;</li> <li>assumptions in relation to long-term growth in the businesses at the end of the plan period; and</li> <li>discount rates.</li> </ul> <p>The Committee paid particular attention to the business plans and management's proposed cash flows attributable to each Cash Generating Unit, and the determination of the discount rate used in the calculation. Consideration was also given to the impact of Covid-19. Detailed support for these assumptions was provided by management.</p> <p>The Committee considered the proposal and provided robust challenge to the assumptions, notably the evidence to support the discount rate and the appropriateness of the future cashflow assumptions.</p> <p>After its reviews, the Committee concluded that the assumptions were reasonable.</p> <p>Goodwill is disclosed in note 17 of the financial statements.</p>
<b>Valuation of defined benefit pension scheme liability</b>  The Group's liabilities of the scheme are material in comparison to the Group's net liability 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 defined benefit scheme can be recognised as an asset.	<p>During 2020, the Committee received reports from management on the proposed approach to the valuation of the pension scheme. As the pension scheme is sensitive to changes in key assumptions, management completed an assessment as to the appropriateness of the assumptions used, taking advice from independent actuarial experts and including, where appropriate, benchmark data, and reported its findings to the Committee. Following this review, management concluded that a number of assumptions would align to those used in the scheme's 2019 triennial valuation, the gap between CPI and RPI reflected the outcome of a Government consultation of the future of RPI and future improvements in mortality assumptions were updated.</p> <p>Following consideration, the Committee concluded that the assumptions proposed were appropriate and in line with normal market practice.</p> <p>The impact of updating assumptions to reflect those in force at the balance sheet date on the valuation at 31 December 2020 are explained in note 19 to the financial statements.</p>

## Other matters considered by the Committee outside of the Group

The Committee is constituted as a committee of the Board of Directors of both Ecclesiastical Insurance Office plc and its immediate parent Ecclesiastical Insurance Group plc. As a result, the Committee will also consider matters that are specific to the Group, Ecclesiastical Insurance Group plc and therefore items that are not included within Ecclesiastical Insurance Office plc's financial statements within this Annual Report and Accounts. The Committee considered a number of accounting judgements and reporting matters in the preparation of Ecclesiastical Insurance Group's financial results in a manner consistent with that set out within this report. This included the carrying value of goodwill and the treatment of business combinations related to insurance broker businesses of that Group.

## Fair, balanced and understandable

The Committee considered whether in its opinion, the 2020 Annual Report and Accounts were fair, balanced and understandable and provided the information necessary for shareholders to assess the Group's position and performance, business model and strategy. The Committee has reviewed and provided feedback on early drafts of the Annual Report and Accounts, highlighting any areas where further clarity was required in the final version.

The Committee was provided with comprehensive verification of all the information and facts in the Annual Report and Accounts. When forming its opinion, the Committee reflected on information it had received and discussions throughout the year as well as its knowledge of the business and its performance. A suitably qualified employee of the Group, who does not work in a financial or actuarial area and is not involved in the production of the

Annual Report and Accounts or financial results, reviewed a near-final draft and gave their opinion on whether they consider it to be fair, balanced and understandable. Guidance on what is meant by these statements and aspects the employee might wish to consider when forming an opinion was provided.

The Committee was satisfied that the disclosures in the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and represented the results and business performance for the year ended 31 December 2020.

## 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 104.

In reviewing the effectiveness of the system of internal control and risk management during 2020, 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 Group Chief Internal Auditor;
- met with the Group Chief Internal Auditor 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 Group Chief Internal Auditor giving his assessment of the strength of the Group's internal controls based on internal audit activity 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, with the internal audit outsourced partner for Canada changed during 2020, to bring on board Ernst & Young.

The Committee has oversight responsibility for GIA and is satisfied that GIA has the appropriate resources. The Group Chief Internal Auditor is accountable to the Committee Chairman, reports administratively to the Group Chief Financial Officer and has access to the Group Chief Executive and the Chairman of the Board. The function also has an extensive stakeholder management programme across the whole of the Group.

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. In light of new and emerging risks identified in relation to Covid-19, the Committee reviewed and approved a revised plan in response to the pandemic. All proposed changes to the agreed internal audit plan are reviewed, challenged and approved by the Committee during the year. In addition to this, GIA also continued focus on the Horizon Programme and Data Management within the Company.

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

#### Whistleblowing

During the year, the Committee reviewed the development of the Group's whistleblowing arrangements which are the responsibility of the Board and overseen by Group HR. A key focus was creating an environment in which whistleblowing is well understood, openly communicated and a positive culture for raising concerns was promoted. By fostering a culture of openness we aim to ensure that every employee feels confident and safe to speak up and challenge when and if they need to.

The Whistleblowing programme included a targeted set of actions encompassing training, communication and monitoring, each designed to improve both accessibility and understanding across the Group. Online training modules were implemented for all employees in both Whistleblowing and Code of Conduct to increase awareness and emphasise an open and positive culture. Individual attestation ensured the roll out could be closely monitored and tracked and the programme was reinforced via employee communications. Further targeted training was provided for colleagues with additional responsibilities including line managers and persons named in the Whistleblowing policy. Our guidance for managers paid particular attention to both recognising and responding to potential instances of whistleblowing to ensure that incidents are correctly handled in a responsive and sensitive way and to prevent any victimisation of Whistleblowers.

Our Whistleblowing procedures, policies and guides were reviewed and updated to ensure that, in line with best practice, they are accessible, easily understood and are aimed to encourage and give confidence to potential Whistleblowers. The procedures that exist to monitor whistleblowing incidents were also improved to embed regular Group wide monitoring and oversight.

More information about the Group's whistleblowing policy and arrangements is included within the Corporate Governance Report.

#### 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.

#### The year ahead

In 2021, the Committee will continue to provide oversight of financial reporting and internal controls of the Group. A key area of focus for the Committee will be the Group's implementation of IFRS 17, effective from 1 January 2023, and the increasing maturity of the control environment.

The Committee remains committed to its vital role in overseeing the integrity of financial reporting and effectiveness of controls.

By order of the Board.

**Andrew McIntyre**  
 Chairman of the Group Audit Committee  
 18 March 2021

# Group Remuneration Report

## Group Remuneration Committee Chair's statement

As Chair of the Group Remuneration Committee (the Committee), I am pleased to introduce the Group Remuneration Report for 2020 and to highlight some of the key aspects of the Committee's work during what has been a year of unprecedented challenges for all of our stakeholders including the Group, our customers, employees and communities. I was appointed as Chair of the Committee on 21 June 2019 having been a member of the Committee since 2014. This year Neil Maidment and Sir Stephen Lamport joined the Committee on 2 March 2020 and 18 June 2020 respectively.

The Very Reverend Christine Wilson stepped down from the Committee on 18 June 2020 and I would like to take this opportunity to thank her for her contribution to the Committee's work.



## 2020 performance and incentive outcomes

2020 was uniquely challenging due to the significant impact of Covid-19. As described in the Strategic Report starting on page 14, our results were impacted by Covid-19 and in particular by the falls in investment markets. However while this affected our reported overall financial performance, resulting in a reported loss before tax of £15.7m, our underlying businesses performed well and the Group remains financially resilient going into 2021. Underwriting results across the Group have been resilient at £12.1m (2019: £20.0m) after £18.7m for Covid-19 related claims where cover is confirmed. The Group delivered Gross Written Premium growth of 11% to £437m (2019: £394m) supported by strong retention and new business. As set out in the Financial Performance Report starting on page 50, investment returns were down due to Covid-19's impact on financial markets, resulting in a net investment loss of £4.2m.

The Committee, however, note with pride and thanks the efforts of all our colleagues at Ecclesiastical in continuing to deliver what matters most to the business, overcoming their own personal challenges to support our customers and to deliver on the Group's purpose, strategy and ambition for the future. Delivery of the Group's strategic agenda remained strong, despite the unprecedented challenges of Covid-19, and its performance against its customer and conduct targets remained resilient and in line with prior years.

Performance targets applicable to the Group's annual bonus and long-term incentive plans (LTIP) were not adjusted in light of the impact of Covid-19 and remain as originally determined.

These are challenging times for Ecclesiastical, our customers and the many charities and communities that we look to support and therefore our approach to remuneration remains restrained. In considering the annual bonus outcomes for executive directors, the Committee reflected on the financial, strategic,

customer and conduct performance of the Group including the reported loss before tax of £15.7m, reduced performance against Group COR targets, and the continuing strong delivery against the Group's strategic change programme and customer and conduct targets. The Committee further considered shareholder and regulatory expectations regarding executive remuneration and the experience of the wider employee population in relation to annual bonus outcomes for 2020. In its assessment of individual performance during the year, the Committee recognised the excellent performance against executive directors' personal financial, strategic and wider objectives, in the face of the challenges brought by Covid-19.

In light of the Group's reported results and to align executive directors' awards with shareholder experience and with wider employee awards, the Committee resolved that the aggregate Group performance multiplier determined in line with the executive directors' bonus plan for 2020 should be reduced by a further 13%. Awards under the annual bonus scheme were therefore materially reduced in comparison to prior years. Annual bonus awards for 2020 are 45.0% of maximum (which is 100% of salary) for the Group Chief Executive, 46.5% for the Deputy Group Chief Executive and 43.4% for the Group Chief Financial Officer. 35% of the awards under the plan are deferred for one year and are subject to the Group returning to profit in 2021. Further details of performance against the targets set for 2020 are disclosed on page 158 of this report.

The long-term incentive plan (LTIP) granted in 2018 vested at 53.8%, reflecting the Group's performance against the financial, strategic, customer and conduct targets over the 2018-2020 period. The Committee considered that the LTIP awards were a fair reflection of the overall performance achieved and, having considered all the relevant factors, determined that no discretionary adjustment of awards was necessary.

In line with the Committee's established practice, the Committee, supported by the Group Chief Risk & Compliance Officer, considered risk management outcomes across the Group as part of its deliberations and in particular assessed whether any risk adjustment of awards was appropriate. Following this review, the Committee did not consider risk adjustment of the awards to be necessary.

#### Base salary

In light of the impact of the Covid-19 pandemic, the Committee decided that there will be no pay increases for directors or senior employees across the Group in 2021 and that there will be no increases to fees for the Chairman and non-executive directors.

#### Key Committee activities during the year

A key consideration underlying the Committee's work during the year has been the impact of Covid-19 on the Group, its customers and employees, as well as consideration of wider shareholder and regulatory expectations regarding executive remuneration. The Committee has sought to balance these perspectives throughout its deliberations, striking a balance between rewarding the exceptional hard work and resilience shown by executive directors and colleagues in continuing to deliver for our customers, and the reduced performance against the financial targets set out in the Group's variable pay schemes for the year.

The Committee reviewed 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 executive directors remain appropriately aligned with the Group's strategic objectives and reflective of the experience and track record of the executive directors and comparative benchmarking. Looking ahead to the next stage of the Group's strategic journey, the Committee explored how remuneration policy and incentive design should evolve in future

to continue to drive the Group's strategy and long-term performance, including in respect of ESG and climate change considerations.

2020 saw a number of changes within the wider leadership of the Group. In relation to these changes, the Committee considered, on their respective appointments, the remuneration packages for the Group Development Director, Chief Executive Officer of EdenTree, Group Chief Risk and Compliance Officer, Claims Director and Chief Investment Officer.

Across the wider Group, with the aim of aligning reward, the Committee continued to oversee the development and application of remuneration policy and incentive scheme design. In particular, revised incentive arrangements were reviewed for Lycetts Holdings Ltd (Lycetts) (part of the EIG Group).

The Group's gender pay report for 2020 showed a continuing improvement in the Group's gender pay gap. The actions the Group has taken have resulted in a higher proportion of women filling senior roles and this has contributed to our median gender pay gap reducing for a fourth consecutive year to 21.1%, from 22.4% in 2019 and 25.0% when first reported in 2017. The Group continues to be committed to promoting diversity and gender balance at every level in the business and ensuring that all employees have a fair and equal pay opportunity appropriate to their role.

The regulatory and corporate governance environment in which the Group operates continues to evolve. During 2020, the Committee considered the implications of the Investment Firms Directive and Regulation on remuneration policy and the changes arising from the requirements of the Shareholder Rights Directive, further details of which are set out in this report.

The Committee undertook a competitive tender process during 2020 to appoint an external adviser to the Committee.

As a result Deloitte LLP were appointed as adviser to the Committee with effect from June 2020. Following their appointment, the Committee worked with Deloitte to embed effective input and challenge by Deloitte into the Committee's deliberations.

#### Conclusion

Finally, I value the continued support and counsel of our charitable owner

and ultimate 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.

#### Caroline Taylor

Chair of the Group Remuneration Committee  
18 March 2021

Committee member	Member since	Meetings eligible to attend	Meetings attended
Caroline Taylor <sup>1</sup>	November 2014	5	5
David Henderson <sup>2</sup>	September 2016	5	5
Sir Stephen Lamport <sup>3</sup>	June 2020	2	2
Neil Maidment <sup>4</sup>	March 2020	4	4
Angus Winther <sup>5</sup>	April 2019	5	5
The Very Reverend Christine Wilson <sup>6</sup>	February 2018	3	2

<sup>1</sup> Caroline Taylor was appointed Chairman of the Committee on 21 June 2019.

<sup>2</sup> David Henderson relinquished the chairmanship of the Committee with effect from 19 March 2019 on his appointment as Group Chairman.

<sup>3</sup> Sir Stephen Lamport was appointed to the Committee on 18 June 2020.

<sup>4</sup> Neil Maidment was appointed to the Committee on 2 March 2020.

<sup>5</sup> Angus Winther was appointed to the Committee on 3 April 2019.

## 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 2020, the Committee held five meetings in total. 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. There was cross membership of the Group Risk Committee and the Committee to promote alignment of the Group's Risks and Remuneration Policies and consideration of Risk management and outcomes in setting reward.

**Remuneration Committee timetable**

The table below sets out some of the key agenda items discussed at each Committee meeting during 2020.

Meeting	Key discussion points
<b>January 2020</b>	<ul style="list-style-type: none"> <li>• 2020 annual bonus and 2020-2022 LTIP design</li> <li>• 2019 Directors' Remuneration Report</li> <li>• Material Risk Taker list</li> </ul>
<b>March 2020</b>	<ul style="list-style-type: none"> <li>• 2019 annual bonus and 2017-2019 LTIP outcomes</li> <li>• 2020 annual bonus and 2020-2022 LTIP design</li> <li>• Review of pay benchmarking and 2020 salary proposals</li> <li>• Deferral policy for EdenTree Material Risk Takers</li> <li>• 2019 Directors' Remuneration Report</li> <li>• Tender for external Remuneration Adviser to the Committee</li> </ul>
<b>July 2020</b>	<ul style="list-style-type: none"> <li>• Review of executive remuneration trends and market practice</li> <li>• Wider employee trends and policies</li> <li>• Remuneration Policy review and Remuneration Policy Statement</li> <li>• Material Risk Taker list</li> <li>• Impact of Covid-19 on remuneration</li> <li>• External Remuneration Committee evaluation results</li> </ul>
<b>November 2020</b>	<ul style="list-style-type: none"> <li>• Strategic Remuneration Policy review</li> <li>• Update on 2020 Group Management Board pay outturns</li> <li>• Wider employee remuneration trends and pay</li> <li>• 2020 Directors' Remuneration Report</li> <li>• Material Risk Taker identification process and Material Risk Taker list</li> <li>• Gender pay gap reporting</li> <li>• Annual audit of EdenTree remuneration policy</li> <li>• 2021 Lycetts annual bonus design</li> <li>• Annual review of Remuneration Committee Terms of Reference</li> <li>• External Remuneration Committee evaluation outcomes</li> </ul>

**Advisers to the Committee**

The Committee undertook a competitive tender process during 2020 to appoint an external adviser to the Committee. Deloitte were appointed as adviser to the Committee with effect from June 2020, taking over from Aon who acted as advisers to the Committee prior to this date.

As such, the Committee received external advice from both Aon and Deloitte during the year 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. Aon also act in the capacity of Actuary to EIO Trustees Ltd in respect of the Group's closed defined benefit pension scheme. 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 for professional advice to the Committee paid to Aon during 2020 were £27,970 (2019: £48,722) and fees paid to Deloitte were £99,222. The Committee is satisfied that the advice received during 2020 from both Aon and Deloitte was impartial.

Where appropriate, the Committee received input from the Group Chief Executive, Group Chief Financial Officer, Group HR Director, Group Chief Risk and Compliance Officer and Group Reward Director. Such input, however, never relates to their own remuneration.

**Remuneration 'At a Glance' – Key features of the Policy and implementation for 2021****Key Remuneration Principles**

<b>Long-term sustainable returns</b>	The performance measures will reflect and support the Group's underlying strategic goals and risk appetite and are comprised of both financial and non-financial targets.
<b>Reflecting individual and business performance</b>	Reward payments will be performance related and a prudent and considered approach adopted to determine the performance-related portion of an employee's package.
<b>Straightforward and simple</b>	Reward structures will be straightforward and simple for everyone to understand.
<b>Set by reference to levels for comparable roles</b>	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 in determining remuneration packages.
<b>An appropriate balance of fixed to variable pay</b>	Reward structures will deliver an appropriate balance of fixed to variable pay to foster a performance culture, with the proportion of 'at risk' pay typically increasing with seniority.
<b>A balance between short- and long-term incentives</b>	The balance is largely driven by role and seniority, with generally a greater contribution to reward provided by long-term incentives for more senior employees.
<b>Fair and equal pay opportunity</b>	Ecclesiastical is committed to ensuring that all employees have a fair and equal pay opportunity appropriate to their role.
<b>Best practice guidelines</b>	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.

### Remuneration 'At a Glance' – Remuneration Policy summary and implementation for 2021

The table below sets out the key features of the Policy and how it will be implemented in 2021. Looking ahead to the next stage of the Group's strategic journey, the Committee initiated a strategic review of remuneration policy and incentive design, which will continue through 2021, to ensure these continue to drive the Group's strategy and long-term performance.

Element	Operation of pay	Implementation for 2021
Base Salary	Reviewed annually with any increases normally taking effect in April.	<p>In light of the impact of the Covid-19 pandemic, the Committee decided that there will be no pay increases for directors in 2021, in line with senior employees across the Group.</p> <ul style="list-style-type: none"> <li>• CEO: £475,000</li> <li>• Deputy CEO: £386,486</li> <li>• Group Chief Financial Officer: £307,500</li> </ul>
Benefits	Benefits normally comprise a car allowance, a private healthcare scheme, income protection, life assurance, medical assessments, and other benefits cover on the same basis as the wider employee population.	No change.
Pension	<p>The employer contribution rate to the UK Defined Contribution Scheme for Executive Directors appointed prior to 2019 is 15% and for Executive Directors appointed from 2019 is 12% of basic salary, in line with the wider employee population. A cash allowance can be paid where pension contributions would be in excess of the HMRC annual and/or lifetime allowance.</p> <p>The employer contribution rate to the Canada Defined Contribution Pension plan is 12% of basic salary subject to the Government's annual contribution limits. Amounts in excess are contributed to a SERP.</p>	No change.
Annual Bonus	<p>Maximum opportunity of 100% of salary of which 50% is payable for a target level of performance.</p> <p>Targets are set annually and award levels are determined based on one-year performance against these targets.</p> <p>For 2020, these were:</p> <ul style="list-style-type: none"> <li>i) Ecclesiastical Insurance Group (EIG) PBT (including fair value investment gains/losses)</li> <li>ii) Group Combined Operating Ratio (COR)</li> <li>iii) Strategic targets</li> <li>iv) Customer and conduct targets</li> <li>v) Personal performance targets</li> </ul> <p>Any bonus earned in excess of 75% of maximum opportunity is deferred over three years. Malus and clawback provisions apply.</p>	<p>The maximum and target opportunities are unchanged for 2021, with targets for 2021 being:</p> <ul style="list-style-type: none"> <li>i) Group EIG PBT (including fair value investment gains/losses)</li> <li>ii) Group COR</li> <li>iii) Underwriting balanced scorecard</li> <li>iv) Strategic targets</li> <li>v) Customer and conduct targets</li> <li>vi) Personal performance targets</li> </ul> <p>Any bonus earned in excess of 75% of maximum opportunity is deferred over three years. Malus and clawback provisions apply.</p>
Long-term incentive plan	<p>The awards are granted annually and operate in three-year periods.</p> <p>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 other Executive Directors.</p> <p>Targets are set annually for each successive three-year LTIP period. For 2020-22, the measures were:</p> <ul style="list-style-type: none"> <li>i) Group EIG PBT (including fair value investment gains/losses);</li> <li>ii) Group EIG PBT (excluding fair value investment gains/losses);</li> <li>iii) Group COR;</li> <li>iv) Strategic targets;</li> <li>v) Customer and conduct targets.</li> </ul> <p>Malus and clawback provisions apply.</p>	<p>The size of the awards granted is unchanged for 2021, with targets for 2021 being:</p> <ul style="list-style-type: none"> <li>i) Group EIG PBT (including fair value investment gains/losses);</li> <li>ii) Group EIG PBT (excluding fair value investment gains/losses);</li> <li>iii) Group COR;</li> <li>iv) Strategic targets;</li> <li>v) Customer and conduct targets.</li> </ul> <p>Malus and clawback provisions apply.</p>

### Remuneration 'At a Glance' – variable pay outturns

#### Annual bonus outturn for the year ending 31 December 2020

Further details including information on the performance assessment of the strategic and customer and conduct metrics are set out on pages 158 to 162 in this report.

	Threshold (0.5x)	Target (1.0x)	Maximum (1.5x)	Weighted multiplier
Group COR	98.6%	92.1%	89.5%	0.31
	<b>Actual 95.1%</b>			
Group EIG PBT – including fair value investment gains/losses	£10.9m	£38.9m	£71.0m	-
	<b>Actual £(17.7m)</b>			
Strategic Targets	50%	75%	100%	0.21
	<b>Actual 94.9%</b>			
Customer and Conduct	85%	90%	100%	0.20
	<b>Actual 96%</b>			
<b>Total (before discretion)</b>				0.71
<b>Total (after discretion)</b>				<b>0.62</b>

35% of annual bonus awards for the year ending 31 December 2020 are deferred for one year and are subject to the Group returning to profit in 2021.

#### 2018-2020 LTIP Outturns

Further details including information on the performance assessment of the strategic and customer and conduct metrics are set out on pages 158 to 162 in this report.

	Threshold (20% vesting)	Target (50% vesting)	Maximum (100% vesting)	Percentage vesting
Group COR	96.9%	93.9%	90.9%	97%
	<b>Actual 91.1%</b>			
First PBT Condition – excluding fair value gains/losses	£80.8m	£110.4m	£140.7m	34%
	<b>Actual £94.8m</b>			
Second PBT Condition – including fair value gains/losses	£70.8m	£115.4m	£172.7m	-
	<b>Actual £68.6m</b>			
Strategic Targets	50%	75%	100%	85%
	<b>Actual 92.4%</b>			
Customer and Conduct	80%	90%	100%	83%
	<b>Actual 96.7%</b>			
<b>Total</b>				<b>53.8%</b>

## Directors' Remuneration Policy

The Directors' Remuneration Policy (the 'Policy') described in this part of the report is intended to apply for up to three years from January 2021. 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.

1. 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 are comprised of both financial and non-financial targets.
2. 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.
3. Reward structures will be **straightforward and simple** for everyone to understand.
4. 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.
5. 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.

6. 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.

7. Ecclesiastical is committed to ensuring that all employees have a **fair and equal pay opportunity** appropriate to their role.
8. 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.

When determining remuneration policy for Executive Directors, the Committee considers the following factors, which are embedded in our principles:

- **Clarity and simplicity** – that remuneration arrangements are straightforward and simple for everyone to understand, providing transparency for executives and our shareholder regarding the business and individual performance sought.
- **Risk** – that incentive plans are designed to manage and mitigate the reputational and other risks that can arise from excessive rewards, together with the behavioural risks.
- **Predictability** – that the range of possible values of reward for performance outcomes together with the limits and discretion applicable to the remuneration arrangements are identified and clearly explained.

- **Proportionality** – that the link between individual remuneration outcomes and the delivery of the Group's strategy and long-term performance is clear and that remuneration outcomes are proportionate and do not reward poor performance.

- **Alignment to culture** – that remuneration arrangements drive behaviours consistent with the Group's purpose, values, culture and strategy, with remuneration outcomes reflecting both what has been delivered and the way in which such deliveries have been achieved.

The Committee reviews the Group's Remuneration Policy on a regular basis to ensure that it remains aligned with the needs of the Group and its longer-term strategy and that it remains appropriately aligned with the external market.

### Balancing short- and long-term remuneration

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

## Future policy table (Executive Directors)

How the element supports the Group's strategic objectives	Operation of the element	Maximum potential value and payment at threshold	Performance measures used, weighting and time period applicable
<b>Salary</b> To support the attraction and retention of talent with the capability to deliver the Group's strategy and performance goals.	Salaries are reviewed annually with any changes normally taking effect from 1 April each year.	When the annual review is conducted various factors are taken into account, including Group and individual performance, any changes to the scope or responsibilities of the role, relevant market information and levels of pay increases in the wider UK or relevant territory population.	Group and individual performance
<b>Benefits</b> To provide a market-competitive and cost-effective benefits package and promote the wellbeing of employees.	Benefits normally comprise a car allowance, a private healthcare scheme, income protection 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 and accidental death and dismemberment 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
<b>Pension</b> To provide market-competitive and cost-effective post-retirement benefits.	<b>UK Defined Contribution Scheme:</b> UK-based executive directors are eligible to participate in the Group Personal Pension plan. Contributions are made by the employee and employer. A cash allowance can be paid where pension contributions would be in excess of the HMRC annual and/or lifetime allowance.  <b>Canadian EIO plc Defined Contribution Pension plan:</b> 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 is set at a level taking into account pension benefits offered by comparable organisations for comparable roles and benefits offered to the wider employee population.  The employer contribution rate to the UK Defined Contribution Scheme for Executive Directors appointed prior to 2019 is 15% and for Executive Directors appointed from 2019 is 12% of basic salary, in line with the wider employee population.  The employer contribution rate to the Canada Defined Contribution Pension plan is 12% of basic salary subject to the Government's annual contribution limits. Amounts in excess are contributed to a SERP.	Not applicable
<b>Group annual bonus scheme</b> To incentivise delivery of the Group's key financial and strategic targets over the year.  Deferral provides further alignment with shareholder interests and promotes retention.	This cash bonus is paid annually, normally three months after the end of the financial year to which it relates. Targets are set annually and award levels are determined by the Committee based on performance against these targets.  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 financial and non-financial metrics linked to key strategic priorities.  For 2021, these are: <ul style="list-style-type: none"><li>• Ecclesiastical Insurance Group (EIG) PBT (including fair value investment gains/losses)</li><li>• Group COR</li><li>• Underwriting balanced scorecard</li><li>• Strategic targets</li><li>• Customer and conduct targets</li><li>• Personal performance targets</li></ul>

## Future policy table (Executive Directors) continued

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
<b>Group LTIP</b>  To focus the executives and incentivise the achievement of the Group's long-term objectives; to align the executive directors' interests with those of the shareholder 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 other Executive Directors.  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 is subject to a range of challenging financial and non-financial conditions linked to key strategic priorities. For 2021 awards relating to the performance period 2021-2023, the following performance conditions will apply: <ul style="list-style-type: none"><li>• Group EIG PBT (including fair value investment gains/losses);</li><li>• Group EIG PBT (excluding fair value investment gains/losses);</li><li>• Group COR;</li><li>• Strategic targets;</li><li>• Customer and conduct targets</li></ul>
<b>Notes to policy table</b> <b>Performance measures and targets</b>  The Committee selected the performance conditions used for annual bonus and long-term incentives because they are central to the Group's overall strategy and are key metrics used in measuring the performance of the Group. The performance conditions are reviewed and set annually by the Committee, following consultation with the Group Chief Risk and Compliance Officer, including in particular regarding the extent to which the schemes operate within 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.  Performance conditions under annual bonus and LTIP schemes may be amended or substituted by the Committee if an event	occurs, or other exceptional circumstances arise, which causes the Committee to determine an amended or substituted performance condition would be more appropriate.  <b>Remuneration Committee discretion, malus and clawback provisions</b> 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) 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.	Due to the Group's ownership structure, in particular that its ultimate parent company is a charity, it is not possible to deliver variable remuneration in the form of shares. Cash awards under the Group Annual Bonus and Group LTIP arrangements are not subject to a post vesting holding period.  <b>Changes to the Policy from that operating in 2020</b> The weighting of financial performance conditions within the GMB annual bonus will be revised in the 2021 GMB annual bonus plan, in order to place more weight on the overall profitability of the Group. The weighting on Group EIG PBT (including fair value investment gains and losses) is increased to 40% (from 25%) and that of Group EIG PBT (excluding fair value investment gains and losses) is reduced to 20% (from 25%) and that of Group COR is reduced to 15% (from 25%).  These changes to the Group's Remuneration Policy will be made in 2021 and are reflected in the Future Policy table above.	All employees of the Group are entitled to a salary, benefits, pension and an annual bonus opportunity. However, remuneration for executive directors is more heavily weighted towards variable rewards, through a higher annual bonus opportunity and participation in the Group LTIP alongside other senior employees. Such variable remuneration is conditional on the achievement of performance targets that are linked to the successful delivery of the Group strategy. The greater weighting towards variable remuneration thereby aligns the interests of executive directors with those of the shareholder.  <b>Remuneration arrangements elsewhere in the Group</b> 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 142. 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.

### Remuneration scenario charts

The remuneration scenario charts below illustrate what each executive director could earn in respect of the policy for 2021, 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 plus annual bonus of 50% of basic salary and 50% vesting of the LTIP;
- Maximum: fixed pay plus maximum bonus of 100% of basic salary and 100% vesting of the LTIP.

### Notes to the charts:

- Fixed pay is base salary for 2021 plus the value of pension and benefits.
- Base salary is the salary applicable at 1 April 2021.
- The value of pension is calculated as described in the Future Policy table.
- The value of benefits in-kind is taken from the single figure table for 2020 which can be found on page 157.
- The Group operates a cash LTIP scheme for the reasons set out above. No share price appreciation has therefore been included in the remuneration scenario charts.

### Approach to recruitment remuneration

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

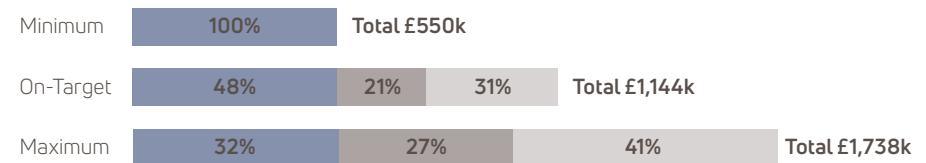
The Committee's approach is to pay a fair market value to attract appropriate candidates to the role, taking into consideration their individual skills and experience and the ethos of the Group.

Where it is thought necessary to compensate for an individual's awards resulting from previous employment, the Committee may, as far as practicable,

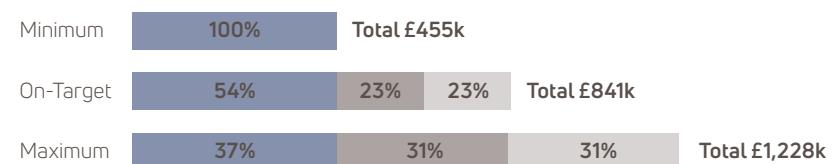
seek to match the expected value of such awards through the use of the Group's existing incentive arrangements. Where this is not possible, it may be necessary to offer some form of 'buy-out' award, the size of which will, in the normal course of events, reflect the commercial value of the award foregone (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.

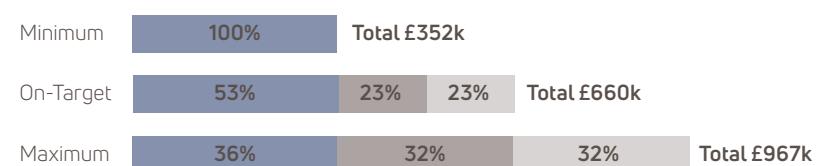
#### Mark Hews: Effect of the application of this policy in financial year 2021



#### S. Jacinta Whyte: Effect of the application of this policy in financial year 2021



#### D. Cockrem: Effect of the application of this policy in financial year 2021



### 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 in the case of the Group Chief Executive. Payable in monthly instalments over the balance of the notice period in the case of the Deputy Group Chief Executive and Group Chief Financial Officer.
Severance payment for Deputy Group Chief Executive	The Deputy Group Chief Executive's pre-existing contract of employment before her appointment as Deputy Group Chief Executive 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 £502k 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 £148k.

### Service contracts and policy on payment for loss of office continued

Standard provision	Policy	Details
Mitigation	Except in the case of the Group Chief Executive, executive directors' service contracts expressly provide for mitigation on termination by allowing 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, retirement) and other circumstances at the Committee's discretion.	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, retirement) and other reasons 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 153.	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	<p>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.</p> <p>There are no other provisions for termination payments or payments for loss of office in standard directors' service contracts.</p>	
Non-Executive Directors	<p>Each NED is appointed for an initial three year term and is subject to 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.</p> <p>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.</p>	

### NED 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.	Current fee levels are shown in the section on implementation of policy.	NEDs are not eligible to participate in any performance-related arrangements.
	NEDs take no part in the discussion relating to their own fees. The Chairman's and the SID's fees are considered and approved by the Board in the absence of the Chairman and SID.		
	Fees are typically paid in 12 equal monthly instalments during the year. Fees are normally reviewed every two years against those for NEDs in companies of a similar scale and complexity.		
	NEDs do not participate in incentive or pension plans.		
	Non-Executive Directors and the Chairman shall be entitled to have reimbursed all expenses (such as their travel to Board meetings), and any associated tax, that they reasonably incur in the performance of their duties.		

### Consideration of employment conditions elsewhere in the Group

The remuneration of employees across the Group is a key consideration when setting remuneration policy and outcomes for executive directors. The Committee is mindful of the importance of aligning executive and wider employee pay and conditions and takes internal and external measures, including internal pay relativities, into account when considering remuneration policy and outcomes for executive directors. As part of its work, the Committee has oversight of pay, incentive arrangements and conditions applicable to employees and oversees the incentive plans and material changes to employee pay and conditions across the Group's businesses.

The Group consults with its recognised Union, Unite, regarding remuneration for employees within relevant UK businesses. Additionally, employees can provide feedback via the Group's employee engagement survey and to their managers or HR. The Group HR Director attends the Committee meetings and advises the Committee on HR strategy, including the effectiveness of the Group's remuneration policies and how they are viewed by employees.

### 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. The Committee consults with the shareholder in respect of NED and the Chairman's fees.

### Annual Report on Remuneration

This section of the Directors' Remuneration Report sets out how the above Remuneration Policy was implemented in 2020 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 2020 financial year for each executive director, together with comparative figures for 2019.

Executive Director	Fixed pay				Pension		Total fixed remuneration		Variable pay				Total variable remuneration		Total remuneration	
	Salary		Benefits <sup>1</sup>		Pension benefit <sup>2</sup>		Fixed		Annual bonus <sup>3</sup>		LTIP <sup>4</sup>		Variable		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Mark Hews	472	461	14	14	61	60	547	535	214	444	355	510	569	954	1,116	1,489
S. Jacinta Whyte <sup>5</sup>	384	375	22	22	57	55 <sup>6</sup>	463	452	180	362	193	292	372	653	835	1,106
Denise Cockrem <sup>7</sup>	306	95	13	4	32	10	351	109	133	86	0	0	133	86	484	196
<b>Total</b>	<b>1,162</b>	<b>931</b>	<b>49</b>	<b>40</b>	<b>150</b>	<b>125</b>	<b>1,361</b>	<b>1,096</b>	<b>527</b>	<b>892</b>	<b>548</b>	<b>802</b>	<b>1,074</b>	<b>1,694</b>	<b>2,435</b>	<b>2,790</b>

<sup>1</sup> Benefits include car allowance and private medical insurance which are valued at their taxable value. Provision of benefits during 2020 was in line with the previous year and the Directors' Remuneration Policy, and no exceptional benefits were paid.

<sup>2</sup> The Group Chief Executive and Group Chief Financial Officer received a cash allowance in lieu of pension, in line with Company policy that a cash allowance of 15% (Group Chief Executive) or 12% (Group Chief Financial Officer) of salary (net of NI contributions) can be paid to UK-based executive directors where pension contributions would be in excess of the HMRC annual and/or lifetime allowance.

<sup>3</sup> 35% of the awards under the 2020 annual bonus plan are deferred for one year and are subject to the Group returning to profit in 2021. In 2020 the value of executive directors' annual bonuses that were deferred is: £76k (Group Chief Executive), £64k (Deputy Group Chief Executive) and £47k (Group Chief Financial Officer).

<sup>4</sup> LTIP represents the amount payable in respect of the three-year LTIP performance period 2018-2020 for 2020 and 2017-2019 for 2019. The Group operates a cash LTIP scheme, therefore no part of the award was attributable to share price appreciation. All executive directors hold unvested LTIP awards in accordance with the rules of the LTIP plan.

<sup>5</sup> An average 2020 exchange rate of 1.7315 Canadian dollars to 1 GBP has been used in respect of both 2020 and 2019.

<sup>6</sup> 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.

<sup>7</sup> Denise Cockrem was appointed to the Board on 6 September 2019. Her remuneration for the period she served as a Director during 2019 is included in the above table.

Mark Hews is a NED for MAPFRE RE and was appointed to their Board in December 2013. The fee of £34k (2019: £33k) 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.

Denise Cockrem is a NED for Skipton Building Society and was appointed to their Board in September 2015. The fee that Denise Cockrem earns in respect of this role is paid directly to the Group by Skipton Building Society and is not received by Denise Cockrem. The fee earned in respect of 2020 was £52.1k, of which £49.5k was received by the Group and £2.6k was donated to charity (2019 for period since her appointment to the Ecclesiastical Board on 6 September 2019: £16.2k).

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

**Annual bonus outcomes for 2020 (audited)**  
The annual bonuses payable to executive directors in respect of 2020 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 2020, these were Group COR (40%); Group EIG PBT (including fair value investment gains and losses) (30%); 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 table below.

Performance targets for 2020 were not adjusted as a result of the impact of the Covid-19 pandemic and remain as originally determined. In light of the Group's reported results and to align executive directors' awards with shareholder experience and with wider employee awards, the Committee resolved that the aggregate Group performance multiplier determined in line with the targets shown in the table below should be reduced by a further 13%.

The overall bonus outturn 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 and actual performance against those targets for the financial year 2020 were:

Performance Condition	Weighting	Threshold (0.5x)	Target (1.0x)	Maximum (1.5x)	Actual performance	Weighted multiplier
Group COR	40%	98.6%	92.1%	89.5%	95.1%	0.31
Group EIG PBT <sup>1</sup>	30%	£10.9m	£38.9m	£71.0m	£(17.7)m	-
Strategic Targets	15%	50%	75%	100%	94.9%	0.21
Customer and Conduct	15%	85%	90%	100%	96.0%	0.20
Aggregate Group performance multiplier (before discretion)					0.71	
Aggregate Group performance multiplier (after discretion)					0.62	

<sup>1</sup> Audited to EIO Group level

The Strategic Targets performance condition measures delivery of the Group's change programme. As set out in more detail in the Strategic Report on pages 40 to 44, the Group adapted its strategy in mid-2020, including formalising its response to Covid-19. It has continued to deliver across a wide front through its strategic change programme, delivering investment in the Group's people, systems, technologies and brand, and strengthening its commitment and approach to climate change through its 'Greater Good' initiative. In addition, 2020 saw significant delivery in response to Covid-19, supporting the Group's customers including through the launch of Fundraising Hubs, supporting those in need through 'Acts of Kindness', and supporting colleagues through the 'Supported Teams' initiative, ensuring the safety and wellbeing of colleagues throughout the pandemic and establishing of new ways of working for the future. Overall in 2020, substantial progress was made on the Group's change programme, resulting in an outturn of 94.9% being achieved against the strategic targets measure for 2020.

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 across a range of customer and conduct metrics. It was pleasing to note that despite the challenges of Covid-19, 98% of surveyed customers were satisfied with how the Group handled their claim in 2020, with a net promoter score of 84%. The Group delivered an outturn of 96.0% against the customer and conduct metrics for 2020, a result which is in line with prior years and which reflects the Group's strong customer and conduct culture and effective systems of control, even in the face of the challenges presented by Covid-19. Targets in respect of compliance with the Group's risk appetite; regulatory feedback; the Group's rolling programme of product reviews; complaints handling; data security; and timely resolution of internal audit and compliance findings were met in full. Reflecting the challenges of Covid-19, customer satisfaction and claims service outturns for some business units were slightly below target.

**Personal performance**

Personal performance was assessed taking into consideration delivery against the Group's business plans for 2020, personal objectives and performance in line with the Group's behavioural competency framework for strategic leaders. The table below provides an overview of the personal performance achieved by each executive director based on their objectives.

<p>The Covid-19 pandemic commenced after objectives had been set for 2020. The assessment of personal performance for 2020 takes account of the additional activity necessary for the business to successfully navigate this global challenge in addition to delivering strategic goals and objectives.</p>	
Mark Hews	<p>Provided exceptional leadership across the Group throughout what has been a very challenging year. Whilst overall financial performance was adversely impacted by Covid-19, underlying business performance was strong and the Group remains financially resilient going into 2021. Strong leadership through Covid-19 ensured the Group continued to deliver for customers, the health and wellbeing of employees was prioritised with employee engagement remaining high, and the Group's charitable purpose was maintained through its support for charities and communities. Specific achievements included the development and launch of an adapted strategy, guiding the Group through the IICSA inquiry and FCA court case relating to business interruption, formalising the Group's response to Covid-19 and laying strong foundations for delivery of the Group's ambitions for the future, together with continued delivery of the existing strategic change programme including major investment in core business technology platforms, brand and acquisitions.</p>
S. Jacinta Whyte	<p>Provided energetic and disciplined leadership across the Group's general insurance portfolio of businesses. Played a central leadership role in the Group's Covid-19 response ensuring that the Group's general insurance businesses continued to provide market leading products and services as well as driving continuous improvement across the core disciplines of underwriting, claims management, risk management and business development. Strengthened the leadership of the Group's businesses in Canada and the UK enabling them to continue to outperform in a competitive market.</p>
Denise Cockrem	<p>Maintained the financial strength of the Group and made a significant contribution across the Group which has been central to the delivery of the business plan. During 2020, assumed responsibility for Risk, Compliance and Audit and has taken action to strengthen the Group's assurance teams as well as to raise the profile of the Group's risk and control environment. Chaired the Group's Crisis Management Team throughout the year, providing calm and steady leadership of the Group's response to the global pandemic.</p>

Bonuses are earned in respect of the financial year and are paid in March following the end of the financial year. Under the plan rules, any proportion of a bonus outcome above 75% of the maximum bonus outcome is deferred over three years, in cash and all annual bonus outcomes are subject to malus and clawback as set out on page 148. Additionally, the Committee resolved that 35% of the awards under the annual bonus plan for 2020 are to be deferred for one year and are subject to the Group returning to profit in 2021.

**LTIP outcomes in 2020 (audited)**

The LTIP amount included in the single total figure of remuneration is the cash award resulting from the Group LTIP grant for the period 2018-2020. Vesting was dependent on performance over the three financial years ending on 31 December 2020 and continued service until March 2021.

The 2018-2020 Group LTIP is subject to the five performance conditions: Group COR (25%); Group EIG PBT (excluding fair value investment gains and losses) (25%); Group EIG PBT (including fair value investment gains and losses) (25%); delivery of Group strategic initiatives in line with the Group's strategic plan (15%); and Customer and Conduct performance (10%). Results in respect of each performance condition are assessed against the required performance levels set at threshold, target and maximum as shown below. Performance targets were not adjusted in light of the impact of the Covid-19 pandemic and remain as originally determined.

Performance condition	Threshold – 20% vesting	Target – 50% vesting	Maximum – 100% vesting	Actual	Vesting (% of maximum for performance condition)
Group COR	96.9%	93.9%	90.9%	91.1%	97%
Group PBT (excluding fair value investment gains and losses) <sup>1</sup>	£80.8m	£110.4m	£140.7m	£94.8m	34%
Group PBT (including fair value investment gains and losses) <sup>1</sup>	£70.8m	£115.4m	£172.7m	£68.6m	-
Strategic Targets	50%	75%	100%	92.4%	85%
Customer and Conduct	80%	90%	100%	96.7%	83%
<b>Total</b>					<b>53.8%</b>

<sup>1</sup> Audited to EIO Group level

The Strategic Targets performance condition measures delivery of the Group's change programme over the period 2018-2020. Considerable progress has been made by the Group towards its target of delivering more than £100m to charity: the total now stands at over £99m. Key achievements over the period include the implementation of enhanced systems and technology across the Group's businesses, welcoming new brokers into the Group's expanding broking business, investment in people and expertise, and delivery of the Group's Covid-19 response. A minority of programmes remain to be fully delivered, including the new strategic General Insurance system for UK and Ireland. Overall, substantial progress has been made on the Group's change programme, resulting in an outturn of 92.4% being achieved against the strategic targets measure for 2018-2020.

The Customer and Conduct performance condition measures delivery against the Group's customer and conduct metrics. Targets in respect of compliance with the Group's risk appetite; regulatory feedback; complaints handling; data security; and timely resolution of internal audit and compliance findings were met in full throughout the period. Reflecting the challenges of the Covid-19 pandemic, customer satisfaction and claims service outturns for some business units were slightly below target in 2020, having been met in full in prior years. Targets relating to the Group's rolling programme of product reviews was met in full in 2020 and with some business units reporting below target outturns in prior years. An overall outturn of 96.7% was achieved.

Combining the financial and non-financial performance results in an overall vesting level of 53.8%.

The Group LTIP outcome that vests in respect of each executive director in respect of 2018-2020 is shown below.

	LTIP grant	Total LTIP vesting		
		% of salary	£000	% of maximum
Mark Hews	150%		355	53.8%
S. Jacinta Whyte <sup>1</sup>	100%		193	53.8%
Ian Campbell <sup>2</sup>	100%		0	0%

<sup>1</sup> An average 2020 exchange rate of 1.7315 Canadian dollars to 1 GBP has been used in respect of 2020.

<sup>2</sup> Ian Campbell resigned from the Board on 31 August 2018.

#### Scheme interests awarded during 2020 (audited)

During 2020, awards comprising of a cash sum were granted under the 2020-2022 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 2023, to the extent that the applicable performance targets are met. The vesting date for these awards is the date on which the Group's 2022 results are announced, anticipated to be during March 2023.

Executive director	Award date	Maximum cash sum subject to the award (£000s)	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 <sup>1</sup>
<b>2020-2022 Group LTIP</b>						
Mark Hews	8 Jul 2020	150%	695	20%	31 December 2022	<ul style="list-style-type: none"> <li>Group COR 25%</li> <li>Group EIG PBT (excluding fair value investment gains/losses) 25%</li> <li>Group EIG PBT (including fair value investment gains/losses) 25%</li> <li>Strategic targets 15%</li> <li>Customers and conduct targets 10%</li> </ul>
S. Jacinta Whyte <sup>2</sup>	8 Jul 2020	100%	377	20%	31 December 2022	
Denise Cockrem	8 Jul 2020	100%	300	20%	31 December 2022	

<sup>1</sup> 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.

<sup>2</sup> An average 2020 exchange rate of 1.7315 Canadian dollars to 1 GBP has been used.

The information provided in this part of the Annual Report on Remuneration is not subject to audit

#### Chief Executive pay ratio

The Group structure means that it does not have to comply with the regulations governing the disclosure of executive remuneration to which quoted companies are subject. The Group has nonetheless chosen to disclose the ratio of the Group Chief Executive's pay to that of other UK employees<sup>1</sup> in the Group in order to provide greater transparency.

Year	Method	25 <sup>th</sup> percentile pay ratio	Median pay ratio	75 <sup>th</sup> percentile pay ratio
2020	Option A <sup>2</sup>	30:1	23:1	16:1
2019	Option A <sup>2</sup>	40:1	29:1	21:1

The total remuneration and salary values for the 25th, median and 75th percentile employees for 2020 were:

	25 <sup>th</sup> percentile	Median	75 <sup>th</sup> percentile
Total remuneration <sup>3</sup>	£37,296	£49,317	£67,952
Salary	£30,486	£41,612	£55,215

<sup>1</sup> The table sets out the ratio between the Group Chief Executive's total remuneration and that of the 25<sup>th</sup> percentile, median and 75<sup>th</sup> percentile UK-based employees of Ecclesiastical Insurance Office plc (excluding SEIB), which constitute the large majority of the UK employee population. The Committee is satisfied that the individuals identified appropriately reflect the employee remuneration profile at the lower, median and upper quartile and that the overall picture presented by the ratios is consistent with the Group's wider policies pay, reward and progression policies for the Group's UK-based employees.

<sup>2</sup> The calculation is based on Option A as set out in the regulations for listed companies, as this is considered to be the most accurate way of identifying employees at the 25<sup>th</sup> percentile, median and 75<sup>th</sup> percentile.

<sup>3</sup> Total remuneration reflects all remuneration received by the individual in the relevant year, including base salary, benefits, pension, annual bonus and, where relevant, the long-term incentive that vests, but excludes taxable company car benefits and taxable travel and accommodation expenses for administrative reasons. Calculations have been carried out on a full-time equivalent basis as at 31 December 2020.

The Group Chief Executive was paid 23 times the median employee in 2020, reduced from 29:1 in 2019. 2020 awards under the Group's annual bonus schemes and long-term incentive plans were materially reduced in comparison to the prior year in line with 2020 performance. The Group Chief Executive has a larger proportion of total remuneration linked to performance than is the case for the wider UK employee population, and hence total remuneration for the Group Chief Executive was impacted to a greater extent by the reduction in awards in respect of 2020.

#### Percentage change in remuneration of all Directors and UK-based employees

The table below shows the percentage year-on-year change in salary, benefits and annual bonus (from 2019 to 2020) for the Board Directors compared with UK-based employees<sup>1</sup>. 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 Board.

	Salary	Taxable benefits <sup>2</sup>	Annual bonus
Executive Directors			
Mark Hews	2.5%	0.2%	-52.0%
Jacinta Whyte	2.5%	-0.2%	-50.3%
Denise Cockrem <sup>3</sup>	220.9%	215.1%	55.0%
UK-based employees			
Average UK-based employees <sup>1</sup>	4.2%	2.0%	-53.4%

<sup>1</sup> UK-based employees of Ecclesiastical Insurance Office plc; excluding employees in SEIB; matched sample basis.

<sup>2</sup> Based on contractual P11D taxable benefits for the tax year ending 5 April in the relevant year. Taxable benefits include car allowance and private medical insurance for executive directors and private medical insurance for UK-based employees (taxable company car benefits and taxable travel and accommodation expenses are excluded for administrative reasons).

<sup>3</sup> Denise Cockrem was appointed to the Board on 6 September 2019. Her remuneration for the period she served as a director during 2019 only is included in comparator figure for 2019. The underlying annualised movement in remuneration as a director was 2.5% in respect of salary, 0.1% in respect of taxable benefits and -50.8% in respect of annual bonus.

<sup>4</sup> The fee paid to the Chairman was increased by 9.4% and the basic fee for NEDs was increased by 4.8% effective 1 January 2020.

#### Relative importance of spend on pay

The table below sets out for 2020 and 2019, 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. The changes are labelled in the chart below.

(£000)	2020	2019	% change
Remuneration paid to all Group employees	86,840	88,137	-1% <sup>1</sup>
Gross charitable grants to the ultimate parent company, Allchurches Trust Limited	Nil	30,000	-100%
Non-Cumulative Irredeemable Preference share dividend	9,181	9,181	Nil
(Loss)/profit before tax <sup>2</sup>	-15,746	73,263	-121%

<sup>1</sup> In light of the Group's reported results, total variable remuneration is significantly reduced compared to 2019, as set out on page 165. This is offset by the increase in number of employees and salary inflation. See note 13 to the financial statements on page 223.

<sup>2</sup> Ecclesiastical Insurance Office (EIO) Group.

**Group Chief Executive pay for performance comparison**

The table below shows the single figure of total remuneration for the incumbent, Mark Hews, and prior Group Chief Executive, Michael Tripp, for the ten years to 31 December 2020.

		Financial year ending 31 December									
Financial year	Group Chief Executive <sup>1</sup>	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total remuneration (single figure) £000	Mark Hews	N/A	N/A	569	907	1,089	1,370	1,212	1,240	1,489	1,116
	Michael Tripp	416	390	330	162	N/A	N/A	N/A	N/A	N/A	N/A
Annual bonus received (% of maximum)	Mark Hews	N/A	N/A	45%	78%	88%	97%	99%	84%	96%	45%
	Michael Tripp <sup>2</sup>	0%	0%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Long-term incentive vesting (% of maximum)	Mark Hews <sup>3</sup>	N/A	N/A	4%	60%	70%	88%	75%	88%	86%	54%
	Michael Tripp <sup>4</sup>	34%	0%	4%	47%	N/A	N/A	N/A	N/A	N/A	N/A

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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 and subsequent years represent the amounts vesting in respect of the relevant three-year LTIP performance period only.

<sup>4</sup> 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 98.

Due to the Group's ownership structure, in particular that its ultimate parent company is a charity, it is not possible to deliver variable remuneration in the form of shares.

Directors' shareholdings are not subject to post-employment shareholding requirements.

**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 Denise Cockrem have service contracts which provides for a notice period of 6 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 2020.

**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.

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 whilst being mindful that the Group is owned by a charity. This will enable the Group to attract NEDs of the calibre required to help the Group to implement its future strategy.

NED fees were last reviewed by the Board in November 2019 with increased fees becoming effective from 1 January 2020. The fees set out below are commensurate with the demands and responsibilities of the NED roles.

	Fees		Taxable Benefits <sup>1</sup>	
	2020	2019	2020	2019
Non-Executive Directors				
David Henderson <sup>2</sup>	145,000	118,327	987	1,120
Chris Moulder <sup>3</sup>	74,772	64,500	5	1,615
Andrew McIntyre <sup>4</sup>	68,000	64,500	4	19
Caroline Taylor <sup>5</sup>	68,000	58,777	2,869	4,615
Angus Winther <sup>6</sup>	66,000	41,192	144	-
Francois-Xavier Bousseau <sup>7</sup>	55,000	41,192	263	94
Neil Maidment <sup>8</sup>	54,402	-	6	-
Sir Stephen Lamport <sup>9</sup>	42,708	-	159	-
The Very Revd Christine Wilson <sup>10</sup>	26,485	65,000	1,467	4,777
Tim Carroll <sup>11</sup>	-	62,500	-	1,284
John Hylands <sup>12</sup>	-	28,708	-	9,411
<b>Total</b>	<b>600,637</b>	<b>544,969</b>	<b>5,904</b>	<b>22,935</b>

<sup>1</sup> Benefits are travel and accommodation expenses only, valued at their grossed up tax and NI value, in accordance with Group's travel and expenses policy.

<sup>2</sup> David Henderson was appointed as Chairman on 19 March 2019. Prior to this David Henderson was Chairman of the Group Remuneration Committee and a NED of EdenTree Investment Management Limited (EIM). David Henderson waived his fee as Chairman of the Group Remuneration Committee and received an additional fee of £3k in 2019 for his services as a NED of EIM.

<sup>3</sup> Chris Moulder was appointed as the SID on 14 January 2020 and a NED on 27 September 2017. He became Chairman of the Group Nominations Committee on 7 January 2020 and Chairman of the Group Risk Committee on 1 June 2018.

<sup>4</sup> Andrew McIntyre was appointed as a NED and Chairman of the Group Audit Committee on 4 April 2017.

<sup>5</sup> Caroline Taylor was appointed as Chairman of the Group Remuneration Committee on 21 June 2019.

<sup>6</sup> Angus Winther was appointed as a NED on 19 March 2019 and Chairman of the Group Finance and Investment Committee on 1 January 2020.

<sup>7</sup> Francois-Xavier Bousseau was appointed as a NED on 19 March 2019.

<sup>8</sup> Neil Maidment was appointed as a NED on 6 January 2020.

<sup>9</sup> Sir Stephen Lamport was appointed as a NED on 23 March 2020.

<sup>10</sup> The Very Revd Christine Wilson retired from the Board on 18 June 2020. Christine Wilson chose to donate her fee to charity in 2019 and 2020.

<sup>11</sup> Tim Carroll retired from the Board on 31 December 2019.

<sup>12</sup> John Hylands retired as Chairman of the Group and from the Board on 19 March 2019.

The information provided in this part of the Annual Report on Remuneration is not subject to audit

#### 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](http://www.edentreeim.com)).

#### Statement of implementation of Remuneration Policy in 2021

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 2021 are set out below.

#### Salary (Executive Directors)

Executive directors' salaries are reviewed annually in line with the Directors' Remuneration Policy. In light of the impact of the Covid-19 pandemic, the Committee has determined that there will be no pay increases for directors or senior employees across the Group in 2021 and as such the following salaries will apply from 1 April 2021:

(£000)	Salary	Salary	Percentage increase
	1 April 2021	1 April 2020	
Mark Hews	475	475	0%
S. Jacinta Whyte <sup>1</sup>	386	386	0%
Denise Cockrem	308	308	0%

<sup>1</sup> An average 2020 exchange rate of 1.7315 Canadian dollars to 1 GBP has been used.

#### Annual bonus for 2021

The annual bonus performance conditions and targets have been set in accordance with the Directors' Remuneration Policy above.

The annual bonuses payable to executive directors in respect of 2021 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 five performance conditions which together form the Group performance multiplier. For 2021, these will be as follows:

Group performance measures	Percentage weighting
Group EIG PBT (including fair value investment gains and losses)	40%
Group COR	20%
Underwriting balanced scorecard	10%
Delivery of Group strategic initiatives in line with the Group's strategic plan	15%
Customer and Conduct performance	15%

The overall bonus outturn for each executive director is the product of personal performance percentage and the aggregate Group performance multiplier. The maximum opportunity under the annual bonus plan in 2021 is unchanged at 100% of salary. Annual bonuses in respect of 2021 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 2021-2023**

The 2021-2023 LTIP performance conditions and targets have been set in accordance with the Directors' Remuneration Policy above. The 2021-2023 Group LTIP will be subject to the following performance conditions:

Group performance measures	Percentage weighting
Group EIG PBT (including fair value investment gains and losses)	40%
Group EIG PBT (excluding fair value investment gains and losses)	20%
Group COR	15%
Delivery of Group strategic initiatives in line with the Group's strategic plan	15%
Customer and Conduct performance	10%

Awards under the 2021-2023 Group LTIP will be up to 150% of salary in the case of the Group Chief Executive and 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 2021:

	Fees (£000)
All-inclusive fee for the Group Chairman	145
All-inclusive fee for the Senior Independent Director	75
Basic fee for a NED (including Committee Membership)	55
Fee for chairing the Group Audit Committee	13
Fee for chairing the Group Remuneration Committee	13
Fee for chairing the Group Risk Committee	13
Fee for chairing the Group Finance and Investment Committee	11
Fee for chairing the Group Nominations Committee <sup>1</sup>	11

<sup>1</sup> The fee for chairing the Group Nominations Committee is included within the all-inclusive fee for the Senior Independent Director for 2021.

By order of the board

**Caroline Taylor**

Chair of the Group Remuneration Committee  
18 March 2021

'The Committee reviewed the Group's Remuneration Policy and determined that it remains effective and continues to drive the sustained and long-term performance of the Group.'

Section Four

## Financial Statements

Independent auditors' report to the members of Ecclesiastical Insurance Office plc  
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# Independent auditors' report to the members of Ecclesiastical Insurance Office plc

## Report on the audit of the financial statements

### Opinion

In our opinion, Ecclesiastical Insurance Office plc's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2020 and of the group's loss and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: Consolidated and parent statements of financial position as at 31 December 2020; consolidated statement of profit or loss, consolidated and parent statements of comprehensive income, consolidated and parent statements of cash flows and consolidated and parent statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Group Audit Committee.

### Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 1 to the group financial statements, the group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group headed by Allchurches Trust Limited, of which the company is a member.

Other than those disclosed in note 12 to the financial statements, we have provided no non-audit services to the parent and its controlled undertakings in the period under audit.

## Our audit approach Context

The company is a UK headquartered general insurer. The majority of business is written in the UK however it does also have branches in Ireland and Canada and subsidiaries in Australia. The group of which it is the parent also includes insurance broking, life insurance, investment management and financial advisory subsidiaries.

## Overview

### Audit scope

- We have scoped the audit based on the financially significant components and material account balances within the group, which are described below

## Key audit matters

- Assumptions and methodology used in calculating asbestos, business interruption and Physical and Sexual Abuse "PSA" reserves and the completeness of reserves in respect of business interruption claims (group and company)
- Valuation of investment property and unlisted equity (group and company)
- Impact of Covid-19 (group and company)

## Materiality

- Overall group materiality: £10,000,000 based on 1.8% of Net assets.
- Overall company materiality: £9,500,000 based on 2.0% of Net assets.
- Performance materiality: £7,500,000 (group) and £7,125,000 (company).

## The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

## Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK, Canadian and Australian regulatory principles, such as those governed by the Prudential Regulation Authority (UK), the Financial Conduct Authority (UK), Office of the Superintendent of Financial Institutions (Canada) and the Australian Prudential Regulation Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements.

We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate

journal entries to revenue or expenditure and management bias in accounting estimates specifically investments with a judgemental valuation, being investment property and unlisted equity investments, and the valuation of specific general insurance reserves such as UK loss of profits, asbestos and Physical and Sexual Abuse ("PSA") reserves (see Key Audit Matters). The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Enquiries of compliance, risk, internal audit, and the Group's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reading key correspondence with the Prudential Regulation Authority, the Financial Conduct Authority, Office of the Superintendent of Financial Institutions and the Australian Prudential Regulation Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Group Board, Group Audit Committee and Group Risk Committee;
- Procedures relating to the valuation of investment property and unlisted equity investments, and the valuation of specific general insurance reserves such as UK loss of profits, asbestos and PSA reserves described in the related key audit matters below;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations in revenue or expenditure; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

#### Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, 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.

This is not a complete list of all risks identified by our audit.

#### Key audit matter

##### Assumptions and methodology used in calculating asbestos, business interruption and Physical and Sexual Abuse "PSA" reserves and the completeness of reserves in respect of business interruption claims (group and company)

As disclosed in the Group Audit Committee Report and notes 2, 3 and 28.

The valuation of the general insurance liabilities is a complex process involving inherent uncertainty and is one of the most significant areas of management judgement within the financial statements of the group and company. The uncertainty around claims frequency, claims severity, discount rate, future inflation and reserve margin require significant management judgement and estimation in setting the reserves. We consider the following to be the specific areas of significant judgement:

- Assumptions and methodology used in calculating the reserves for asbestos and PSA exposures, specifically in relation to the incurred but not reported ('IBNR') element of these reserves.
- The key assumptions and completeness of reserves held against business interruption claims arising as a result of the Covid-19 pandemic.

#### How our audit addressed the key audit matter

With involvement from our Actuarial specialists we have performed the following procedures:

Assumptions and methodology used in calculating the reserves for asbestos and PSA exposures

- Observed the Reserving Committee control which reviews, challenges and approves the assumptions used within the calculation of the reserves;
- Assessed the appropriateness of the methodology used in setting the reserves;
- Challenged the assumptions used by management and considered reasonable alternative assumptions and the impact of the level of reserves calculated; and
- Performed independent recalculations of the models used in the calculation of the reserves;

The methodology and assumptions used in calculating and the completeness of reserves held against business interruption claims arising as a result of the Covid-19 pandemic.

- Tested a sample of policies recorded on the policy administration systems to test management's judgement as to whether or not an exposure to business interruption claims exists (including consideration of policy wording and the result of the FCA test case);

- Tested a sample of policies where a business interruption reserve is held to ensure the methodology and assumptions used in calculating the reserves is appropriate.

Other procedures performed to address risks common across both identified key audit matters include:

- Understood management's process and controls for the calculation of the reserves including review, challenge and approval of key assumptions by the reserving committee and audit committee; and
- Reviewed disclosures within the financial statements to ensure they appropriately reflect the level of judgement and uncertainty within the reserves.

As a result of our work outlined above, we have concluded that the reserves calculated are supportable.

**Key audit matter****Valuation of investment property and unlisted equity (group and company)**

As disclosed in the Group Audit Committee report and notes 2, 4 and 21.

As at 31 December 2020, the group and company held £963m of investments. The majority of these investments do not require significant judgement in calculating their valuation in the financial statements. However, £142m of these investments are in investment properties and £59m in unlisted equity investments, which require management to use significant estimates and judgements in order to calculate the valuation at the year-end. Due to the magnitude of these balances and the level of judgement involved in their valuation, this was an area of focus for our audit.

The group outsources the valuation of investment properties to a third party, whilst unlisted equity investments are valued by the Group Finance Team.

**How our audit addressed the key audit matter**

With involvement from our Real Estate valuation experts we have performed the following procedures over investment property valuation:

- Tested the reasonableness of the valuation assumptions used by management's experts by considering them against industry benchmarks;
- Obtained and reviewed the valuation reports produced by management's experts and confirmed that the methodology adopted was appropriate;
- Compared the valuation movement and investment yield movement from 31 December 2019 and our estimated industry range and understood the reasons for valuations outside that range; and
- Assessed the competence, objectivity and independence of the third party valuers.

For a sample of investment properties, we also performed the following:

- Performed testing over the inputs used in the valuation of the investment property (e.g. lease lengths and rental amounts).

From our work carried out we found that the assumptions and methodology used in the investment property valuations were supported by the evidence we obtained.

With involvement from our insurance valuation experts we have performed the following procedures over unlisted equity valuations:

- Reviewed the methodology used by management in calculating the valuation;
- Tested the suitability of comparable companies considered by management in their valuation;
- Tested adjustments such as the illiquidity discount used by management in their valuation; and
- Performed an independent valuation of the unlisted investment and compared this valuation range with that valuation provided by management.

From our work carried out we found that the assumptions and methodology used in the unlisted equity investment valuations were supported by the evidence we obtained.

**Key audit matter****Impact of Covid-19 (group and company)**

As disclosed in the Strategic Report, the Group Audit Committee Report and notes 1 and 2, the impacts of the global pandemic due to the Coronavirus COVID-19 continue to cause significant social and economic disruption up to the date of reporting. In our audit we have identified the following key impacts of COVID-19 to consider:

**Ability of the entity to continue as a going concern**

There are a number of potential matters in relation to Covid-19 which could impact on the going concern status of the group and company. Management have produced a going concern assessment which projects the future cash position, liquidity and solvency of the group. The assessment has shown the group and entity to have sufficient liquid resources to meet payments as they fall due and not to breach their Solvency risk appetite under Solvency II.

Using downside scenarios driven by the group's and company's cash flow forecasting, the Directors have considered the ability of the group and company to remain solvent with sufficient liquidity to meet future obligations.

The Directors have also considered its requirements in respect of regulatory capital under Solvency II and the potential operational impacts on the business arising from remote working. Specific consideration has also been given to the exposure the Group faces from Business Interruption policies during the lockdowns in UK, Ireland, Canada and Australia.

The Directors' have concluded that the group and parent are a going concern.

**Impact on Estimation Uncertainty in the Financial Statements**

The pandemic has increased the level of estimation uncertainty in the financial statements. The Directors have therefore considered how COVID-19 has impacted the key estimates that determine the valuation of material balances, particularly certain Insurance Contract Liabilities (specifically in relation to Business Interruption), and the fair value of investment properties held.

**Qualitative Disclosures in the Annual Report and Accounts**

In addition, the Directors have considered the qualitative disclosures included in the Annual Report and Financial Statements in respect of COVID-19 and the impact that the pandemic has had, and continues to have, on the Group and Company.

**How our audit addressed the key audit matter**

In assessing management's consideration of the impact of COVID-19 on the Ecclesiastical Insurance Office plc and its subsidiaries we have performed the following procedures:

- Obtained and reviewed management's updated going concern assessment which included the board approved income statement, balance sheet, cash flow and solvency forecasts;
- Considered the forward looking assumptions and assessed the reasonableness of this based on recent historic performance;
- Considered information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment of the ongoing impact of COVID-19; and
- Considered our own independent alternative downside scenarios and whether these could impact the going concern assessment.

As a result of the procedures performed, we agree with the Director's conclusions in respect of going concern.

- Considered whether there has been any impacts on the design and operating effectiveness of key controls impacting the preparation of financial statement information;

- Considered the result of the FCA test case in respect of Business Interruption claims and challenged the assumptions made by management in calculating the gross and net exposure to claims (see separate key audit matter for details);

- With consideration of the impacts of the pandemic, on the portfolio of investment properties held. (see separate key audit matter for details);

We have audited the balances impacted by estimation uncertainty and believe the values presented in the Financial Statements to be reasonable.

- Reviewed the appropriateness of disclosures within the Annual Report and Financial Statements with respect to COVID-19 and where relevant checked the material consistency of other information to the audited financial statements.

We conclude that the disclosures made are appropriate.

**How we tailored the audit scope**

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The group operates a general insurance business in the United Kingdom, Ireland, Canada and Australia. It also operates a life insurance business, an investment management business and an insurance broking business within the United Kingdom. The group also includes certain non-insurance entities within the United Kingdom and Australia which are smaller and do not form part of our in scope components.

We consider the general insurance business in the United Kingdom and the consolidation adjustments to be a financially significant reporting component. We have performed a full scope audit of this component. The general insurance business in Canada and Australia as well as the life insurance business, an investment management business and an insurance broking business within the United Kingdom were noted to include specific large balances. These large balances have then been brought into the scope of our audit. Consolidation adjustments in the Group accounts have also been considered.

Together with additional procedures performed at a Group level on the consolidation, the result of the above scoping was that we achieved greater than 96% coverage of gross written premiums, 95% coverage of insurance contract liabilities and 85% of net assets.

**Materiality**

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

	Financial statements – group	Financial statements – company
Overall materiality	£10,000,000.	£9,500,000.
How we determined it	1.8% of Net assets	2.0% of Net assets
Rationale for benchmark applied	The engagement team concluded that £10.0 million is the most appropriate figure when setting an overall materiality on the 2020 engagement. The quantum of £10.0 million was determined by considering the various benchmarks available to us as auditors, our experience of auditing other insurance groups and the business performance during 2020.	The engagement team concluded that £9.5 million is the most appropriate figure when setting the company materiality on the 2020 engagement. The quantum of £9.5 million was determined by considering the various benchmarks available to us as auditors, our experience of auditing other insurance companies and the business performance during 2020.
For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £0.5 million and £9.0 million.	In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.	We agreed with the Group Audit Committee that we would report to them misstatements identified during our audit above £500,000 (group audit) and £475,000 (company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.
We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £7.5m for the group financial statements and £7.1m for the company financial statements.		

**Conclusions relating to going concern**

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Obtained and reviewed management's updated going concern assessment which included the board approved income statement, balance sheet, cash flow and solvency forecasts;
- Considered the forward looking assumptions and assessed the reasonableness of this based on recent historic performance;
- Considered information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment of the ongoing impact of COVID-19; and
- Considered our own independent alternative downside scenarios and whether these could impact the going concern assessment.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

**Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

**Strategic report and Directors' Report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

**Directors' Remuneration**

In our opinion, the part of the Group remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

**Responsibilities for the financial statements and the audit****Responsibilities of the directors for the financial statements**

As explained more fully in the Directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 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 company or to cease operations, or have no realistic alternative but to do so.

**Auditors' 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 auditors' 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

**Use of this report**

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Other required reporting****Companies Act 2006  
exception reporting**

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

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements and the part of the Group remuneration report to be audited are not in agreement with the accounting records and returns; or
- a corporate governance statement has not been prepared by the company.

We have no exceptions to report arising from this responsibility.

**Appointment**

Following the recommendation of the Group Audit Committee, we were appointed by the directors on 18 June 2020 to audit the financial statements for the year ended 31 December 2020 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

**Sue Morling**  
(Senior Statutory Auditor)  
for and on behalf of  
PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory  
Auditors  
Bristol  
18 March 2021

## Section Four

**Financial Statements**

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Consolidated statement of profit or loss  
for the year ended 31 December 2020

	Notes	2020 £000	2019 £000
<b>Revenue</b>			
Gross written premiums	5, 6	<b>437,299</b>	393,952
Outward reinsurance premiums	6	(173,074)	(152,886)
Net change in provision for unearned premiums	6	(16,562)	(15,080)
<b>Net earned premiums</b>		<b>247,663</b>	<b>225,986</b>
Fee and commission income	7	<b>69,582</b>	71,240
Other operating income		2,126	544
Net investment return	8	(4,298)	74,438
<b>Total revenue</b>		<b>315,073</b>	<b>372,208</b>
<b>Expenses</b>			
Claims and change in insurance liabilities	9	(222,794)	(157,808)
Reinsurance recoveries	9	<b>94,581</b>	52,800
Fees, commissions and other acquisition costs	10	(85,444)	(72,740)
Other operating and administrative expenses		(116,393)	(120,577)
<b>Total operating expenses</b>		<b>(330,050)</b>	<b>(298,325)</b>
Operating (loss)/profit		(14,977)	73,883
Finance costs		(769)	(620)
<b>(Loss)/profit before tax</b>		<b>(15,746)</b>	<b>73,263</b>
Tax credit/(expense)	14	<b>526</b>	(11,450)
<b>(Loss)/profit for the year (attributable to equity holders of the Parent)</b>	11	<b>(15,220)</b>	<b>61,813</b>

Consolidated and parent statement of comprehensive income  
for the year ended 31 December 2020

	Notes	2020 Group £000	2020 Parent £000	2019 Group £000	2019 Parent £000
<b>(Loss)/profit for the year</b>		<b>(15,220)</b>	<b>(19,376)</b>	61,813	70,151
<b>Other comprehensive income</b>					
<i>Items that will not be reclassified to profit or loss:</i>					
Fair value losses on property	19	(15)	(15)	-	-
Actuarial losses on retirement benefit plans		(17,318)	(17,318)	(7,049)	(7,049)
Attributable tax		3,521	3,521	1,198	1,198
		<b>(13,812)</b>	<b>(13,812)</b>	<b>(5,851)</b>	<b>(5,851)</b>
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Gains/(losses) on currency translation differences	27	1,980	(711)	(1,368)	525
(Losses)/gains on net investment hedges	27	(2,339)	279	640	(649)
Attributable tax	27	265	(64)	(19)	110
		<b>(94)</b>	<b>(496)</b>	<b>(747)</b>	<b>(14)</b>
<b>Net other comprehensive expense</b>		<b>(13,906)</b>	<b>(14,308)</b>	<b>(6,598)</b>	<b>(5,865)</b>
<b>Total comprehensive (loss)/income attributable to equity holders of the Parent</b>		<b>(29,126)</b>	<b>(33,684)</b>	<b>55,215</b>	<b>64,286</b>

## Consolidated and parent statement of changes in equity for the year ended 31 December 2020

Group	Notes	Share capital £000	Share premium £000	Revaluation reserve £000	Translation and hedging reserve £000	Retained earnings £000	Total £000
<b>At 1 January 2020</b>		<b>120,477</b>	<b>4,632</b>	<b>565</b>	<b>18,324</b>	<b>463,537</b>	<b>607,535</b>
<i>Loss for the year</i>		-	-	-	-	(15,220)	(15,220)
<i>Other net income/(expense)</i>		-	-	34	(94)	(13,846)	(13,906)
Total comprehensive income/(expense)		-	-	34	(94)	(29,066)	(29,126)
Dividends	15	-	-	-	-	(9,181)	(9,181)
<b>At 31 December 2020</b>		<b>120,477</b>	<b>4,632</b>	<b>599</b>	<b>18,230</b>	<b>425,290</b>	<b>569,228</b>
<b>At 1 January 2019</b>		<b>120,477</b>	<b>4,632</b>	<b>565</b>	<b>19,071</b>	<b>441,259</b>	<b>586,004</b>
<i>Profit for the year</i>		-	-	-	-	61,813	61,813
<i>Other net expense</i>		-	-	-	(747)	(5,851)	(6,598)
Total comprehensive (expense)/income		-	-	-	(747)	55,962	55,215
Dividends	15	-	-	-	-	(9,181)	(9,181)
Gross charitable grant	15	-	-	-	-	(30,000)	(30,000)
Tax relief on charitable grant	15	-	-	-	-	5,497	5,497
<b>At 31 December 2019</b>		<b>120,477</b>	<b>4,632</b>	<b>565</b>	<b>18,324</b>	<b>463,537</b>	<b>607,535</b>
<b>Parent</b>							
<b>At 1 January 2020</b>		<b>120,477</b>	<b>4,632</b>	<b>565</b>	<b>7,564</b>	<b>391,519</b>	<b>524,757</b>
<i>Loss for the year</i>		-	-	-	-	(19,376)	(19,376)
<i>Other net income/(expense)</i>		-	-	35	(497)	(13,846)	(14,308)
Total comprehensive income/(expense)		-	-	35	(497)	(33,222)	(33,684)
Dividends		-	-	-	-	(9,181)	(9,181)
Group tax relief in excess of standard rate		-	-	-	-	(472)	(472)
<b>At 31 December 2020</b>		<b>120,477</b>	<b>4,632</b>	<b>600</b>	<b>7,067</b>	<b>348,644</b>	<b>481,420</b>
<b>At 1 January 2019</b>		<b>120,477</b>	<b>4,632</b>	<b>565</b>	<b>7,578</b>	<b>361,595</b>	<b>494,847</b>
<i>Profit for the year</i>		-	-	-	-	70,151	70,151
<i>Other net expense</i>		-	-	-	(14)	(5,851)	(5,865)
Total comprehensive (expense)/income		-	-	-	(14)	64,300	64,286
Dividends		-	-	-	-	(9,181)	(9,181)
Gross charitable grant		-	-	-	-	(30,000)	(30,000)
Tax relief on charitable grant		-	-	-	-	4,920	4,920
Group tax relief in excess of standard rate		-	-	-	-	(115)	(115)
<b>At 31 December 2019</b>		<b>120,477</b>	<b>4,632</b>	<b>565</b>	<b>7,564</b>	<b>391,519</b>	<b>524,757</b>

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 27.

## Consolidated and parent statement of financial position at 31 December 2020

Notes	2020 Group £000	2019 Parent £000	2019 Group £000	2019 Parent £000
<b>Assets</b>				
Goodwill and other intangible assets	17	<b>54,353</b>	<b>24,265</b>	38,651
Deferred acquisition costs	18	<b>41,989</b>	<b>33,472</b>	38,199
Deferred tax assets	30	<b>1,078</b>	-	2,203
Pension assets	19	<b>1,053</b>	<b>1,053</b>	8,505
Property, plant and equipment	20	<b>38,316</b>	<b>34,726</b>	20,322
Investment property	21	<b>142,142</b>	<b>142,142</b>	148,146
Financial investments	22	<b>820,777</b>	<b>650,787</b>	857,913
Reinsurers' share of contract liabilities	28	<b>208,677</b>	<b>134,516</b>	159,556
Current tax recoverable		<b>7,986</b>	<b>5,497</b>	4,211
Other assets	24	<b>216,570</b>	<b>161,114</b>	178,358
Cash and cash equivalents	25	<b>104,429</b>	<b>59,466</b>	74,775
<b>Total assets</b>		<b>1,637,370</b>	<b>1,247,038</b>	1,530,839
<b>Equity</b>				
Share capital	26	<b>120,477</b>	<b>120,477</b>	120,477
Share premium account		<b>4,632</b>	<b>4,632</b>	4,632
Retained earnings and other reserves		<b>444,119</b>	<b>356,311</b>	482,426
<b>Total shareholders' equity</b>		<b>569,228</b>	<b>481,420</b>	607,535
<b>Liabilities</b>				
Insurance contract liabilities	28	<b>868,649</b>	<b>616,202</b>	763,977
Lease obligations	32	<b>25,450</b>	<b>22,838</b>	12,923
Provisions for other liabilities	29	<b>6,499</b>	<b>5,842</b>	4,867
Pension liabilities	19	<b>10,406</b>	<b>10,406</b>	-
Retirement benefit obligations	19	<b>6,530</b>	<b>6,530</b>	5,998
Deferred tax liabilities	30	<b>29,846</b>	<b>28,562</b>	35,649
Current tax liabilities		<b>1,293</b>	<b>1,293</b>	123
Deferred income	31	<b>25,908</b>	<b>18,858</b>	22,815
Other liabilities	31	<b>93,561</b>	<b>55,087</b>	76,952
<b>Total liabilities</b>		<b>1,068,142</b>	<b>765,618</b>	923,304
<b>Total shareholders' equity and liabilities</b>		<b>1,637,370</b>	<b>1,247,038</b>	1,199,025

The financial statements of Ecclesiastical Insurance Office plc, registered number 24869, on pages 186 to 255 were approved and authorised for issue by the Board of Directors on 18 March 2021 and signed on its behalf by:

David Henderson  
Chairman

Mark Hews  
Group Chief Executive

## Consolidated and parent statement of cash flows for the year ended 31 December 2020

	Notes	2020	2019
		Group £000	Parent £000
		Group £000	Parent £000
<b>(Loss)/profit before tax</b>		<b>(15,746)</b>	<b>(20,398)</b>
Adjustments for:			
Depreciation of property, plant and equipment		<b>5,486</b>	<b>4,620</b>
Revaluation of property, plant and equipment		<b>(10)</b>	<b>(10)</b>
Loss on disposal of property, plant and equipment		<b>172</b>	<b>172</b>
Amortisation and impairment of intangible assets		<b>1,468</b>	<b>593</b>
Impairment of shares in subsidiary undertakings		<b>-</b>	<b>58</b>
Net fair value losses/(gains) on financial instruments and investment property		<b>18,602</b>	<b>24,390</b>
Dividend and interest income		<b>(21,814)</b>	<b>(17,185)</b>
Finance costs		<b>769</b>	<b>667</b>
Adjustment for pension funding		<b>1,003</b>	<b>1,003</b>
<b>Changes in operating assets and liabilities:</b>			
Net increase in insurance contract liabilities		<b>94,180</b>	<b>59,703</b>
Net increase in reinsurers' share of contract liabilities		<b>(45,101)</b>	<b>(27,858)</b>
Net increase in deferred acquisition costs		<b>(3,352)</b>	<b>(2,405)</b>
Net increase in other assets		<b>(35,369)</b>	<b>(27,384)</b>
Net increase in operating liabilities		<b>16,642</b>	<b>10,148</b>
Net increase in other liabilities		<b>1,298</b>	<b>1,212</b>
Cash generated by operations		<b>18,228</b>	<b>7,326</b>
Purchases of financial instruments and investment property		<b>(121,754)</b>	<b>(89,260)</b>
Sale of financial instruments and investment property		<b>151,531</b>	<b>129,725</b>
Dividends received		<b>6,255</b>	<b>6,812</b>
Interest received		<b>14,519</b>	<b>9,332</b>
Tax paid		<b>(2,756)</b>	<b>(2,844)</b>
<b>Net cash from operating activities</b>		<b>66,023</b>	<b>61,091</b>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		<b>(6,028)</b>	<b>(5,881)</b>
Proceeds from the sale of property, plant and equipment		<b>1</b>	<b>1</b>
Purchases of intangible assets		<b>(15,602)</b>	<b>(12,978)</b>
Acquisition of business, net of cash acquired		<b>(822)</b>	<b>-</b>
<b>Net cash used by investing activities</b>		<b>(22,451)</b>	<b>(18,858)</b>
<b>Cash flows from financing activities</b>			
Interest paid		<b>(769)</b>	<b>(667)</b>
Payment of lease liabilities		<b>(5,090)</b>	<b>(4,432)</b>
Dividends paid to Company's shareholders		<b>(9,181)</b>	<b>(9,181)</b>
Charitable grant paid to ultimate parent undertaking		<b>-</b>	<b>(30,000)</b>
Acquisition of shares issued by subsidiary		<b>-</b>	<b>(11,086)</b>
<b>Net cash used by financing activities</b>		<b>(15,040)</b>	<b>(25,366)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>28,532</b>	<b>16,867</b>
Cash and cash equivalents at beginning of year		<b>74,775</b>	<b>42,248</b>
Exchange gains/(losses) on cash and cash equivalents		<b>1,122</b>	<b>351</b>
<b>Cash and cash equivalents at end of year</b>		<b>104,429</b>	<b>59,466</b>

## Notes to the financial statements

### 1 Accounting policies

Ecclesiastical Insurance Office plc (hereafter referred to as the 'Company', or 'Parent'), a public limited company incorporated and domiciled in England, together with its subsidiaries (collectively, the 'Group') operates principally as a provider of general insurance and in addition offers a range of financial services, with offices in the UK & 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 2020 issued by the International Accounting Standards Board (IASB) in conformity with the requirements of the Companies Act 2006 and pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (EU). The financial statements have been prepared on the historical cost basis, except for the revaluation of properties measured at fair value through other comprehensive income (FVTOCI) and certain other financial assets and derivatives measured at fair value through profit and loss (FVTPL).

As stated in the Directors' Report, the directors consider that it is appropriate to continue to adopt the going concern basis in preparing the accounts.

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

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

A number of amendments and improvements to accounting standards have been issued by the International Accounting Standards Board (IASB) with an effective date of on or after 1 January 2020, and are therefore applicable for the 31 December 2020 financial statements. None had a significant impact on the Group.

IFRS 9, *Financial Instruments*, is effective for periods beginning on or after 1 January 2018. However the Group has taken the option available to insurers to defer the application of IFRS 9 as permitted by IFRS 4, *Insurance Contracts*. The Group qualifies for the temporary exemption, which is available until annual periods beginning on or after 1 January 2023, since at 31 December 2015 greater than 90% of its liabilities were within the scope of IFRS 4. The Parent qualifies for the temporary exemption since at 31 December 2015 greater than 80% of its liabilities were within the scope of IFRS 4 and it does not engage in significant activities unconnected with insurance. Other liabilities of the Parent include employment benefit and tax liabilities which arise solely because the Parent insures, or fulfils obligations arising from insurance contracts. There has been no significant change to the Group or Parent's operations since 31 December 2015 and as a result, the Group and Parent continue to apply IAS 39, *Financial Instruments*.

Within the Group, Ecclesiastical Insurance Office plc, Ecclesiastical Life Limited and Ansvar Insurance Limited qualify for the temporary exemption from the requirements of IFRS 9.

## Notes to the financial statements

### 1 Accounting policies (continued)

The following standards were in issue but were either not yet effective or have been deferred and therefore have not been applied in these financial statements.

Standard	Key requirements	Expected impact on financial statements	Effective date
IFRS 9, <i>Financial Instruments</i>	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 eligible for, and has applied, the deferral approach, which gives a temporary exemption from applying IFRS 9 until the effective date of 'IFRS 17, <i>Insurance contracts</i> '.	Annual periods beginning on or after 1 January 2018. Although can be deferred until 2023 for insurers inline with the effective date of IFRS 17.
IFRS 17, <i>Insurance Contracts</i>	Requires insurance liabilities to be measured at a current fulfilment 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, <i>Insurance Contracts</i> and the impact of the standard on the financial statements is 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 to contracts with a coverage period of one year or less. Amendments to IFRS 17 that had been proposed by the IASB in January 2019, were been issued in June 2020. It is not currently practical to quantify the potential impact on the Group's financial position or performance. The Group expects to quantify the potential impact closer to transition.	Applicable to annual reporting periods beginning on or after 1 January 2023.

Amendments to 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. This includes estimates and assumptions related to insurance contract liabilities as a result of Covid-19. 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.

#### 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 cash flows 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)

#### 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 which are accounted for in accordance with IFRS 4, *Insurance contracts*. 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 which are accounted for in accordance with IFRS 15, *Revenue from contracts with customers*.

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 the Group's insurance broking activities is recognised at the point at which the performance obligation is satisfied, being the inception date of the insurance cover, or, where this income is variable, the point at which it is reasonably certain that no significant reversal of the amount recognised would occur. An estimate is made for the amount of fees and commission that may be clawed back as a result of policy cancellations or amendments in relation to performance obligations satisfied in the year. This is deducted from fee and commission income and recognised in provisions. Where commission or fees are received in advance of the inception date of cover, deferred income is recognised. Receivables are recognised in other debtors on inception date of cover in respect of fees or commissions that the Group has an unconditional right to receive.

Fees charged for investment management services are variable based on funds under management and are recognised over time as the services are provided, once it is reasonably certain that no significant reversal of the amount recognised would occur. 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. It is recognised when the distribution is declared.

## Notes to the financial statements

### 1 Accounting policies (continued)

#### **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.

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 uncertainty 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.

The life business provision is held in respect of funeral plans and is based on an estimate of the discounted future cash flows expected to arise from contracts in-force at the year-end date. The methods and assumptions used in calculating the provision are approved by the directors based on advice from the Chief Actuary, including assumptions relating to future interest rates, inflation, mortality, expenses and investment return. Changes in the life business provision are recognised in the statement of profit or loss.

## Notes to the financial statements

### 1 Accounting policies (continued)

#### **Reinsurance**

The Group assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance assumed are recognised as revenue in the same manner as direct business. Outwards reinsurance premiums are accounted for in the same accounting period as the related premiums for the direct or inwards reinsurance business being reinsured. Estimates are included for premiums not notified by the year end and provision is made for the anticipated lapse of renewals not yet confirmed. The proportion of premiums ceded in a year which relates to periods of risk extending beyond the current year is carried forward as unearned. The Group does not reinsurance 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.

Further details on insurance contract liabilities are included in note 28.

#### **Intangible assets**

##### **Goodwill**

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

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

##### **Computer software**

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

##### **Other intangible assets**

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

#### **Property, plant and equipment**

Owner-occupied properties are stated at fair 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 fair 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
Right-of-use assets	Over the term of the lease

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.

## Notes to the financial statements

### 1 Accounting policies (continued)

#### **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. Assets and liabilities held at fair value are disclosed according to a hierarchy that reflects the significance of observable market inputs in calculating those fair values. The three levels of the fair value hierarchy are included within note 4. 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, *Hedges of a Net Investment in a Foreign Operation*, 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.

#### **Financial investments**

The Group accounts for financial assets under IAS 39 and 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.

## Notes to the financial statements

### 1 Accounting policies (continued)

#### **(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.

#### **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**

##### **Group as a lessee**

Leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the lease asset is available for use by the Group. Each lease payment is deducted from the lease liability. Finance costs are charged to the profit and loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Lease liabilities are determined using the net present value of the payments over the lease term with the rate used to discount payments reflecting the rate implicit in the lease or, if it not readily determinable, the Group's incremental borrowing rate, and include:

- fixed payments less any lease incentives receivable;
- variable lease payments that are based on an index or rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of an option if the lessee is reasonably certain to exercise that option; and
- payments and penalties from terminating the lease, if the lease term reflects the lessee exercising that option.

## Notes to the financial statements

### 1 Accounting policies (continued)

Right-of-use assets are initially measured at cost and subsequently measured as cost less accumulated depreciation and comprises:

- the amount of the initial measurement of lease liability;
- any lease payment made at or before the commencement date, less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are presented within property, plant and equipment in the statement of financial position.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

#### **Group as a lessor**

The Group enters into lease agreements as a lessor with respect to some of its investment properties. The Group also sublets property no longer occupied by the Group.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

#### **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

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 these distributions 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 36 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 judgements 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. During 2020, the Covid-19 pandemic developed rapidly with far-reaching impacts across the global economy and the insurance industry. Management has considered the effects of Covid-19 and actions taken by Government's in its estimates and judgements. Specifically, insurance liabilities reflect management's best estimate of claims directly related to Covid-19. Valuations incorporate market conditions as at 31 December 2020 and recoverability of intangible assets has been tested where the value of these intangible assets is sensitive to prevailing economic conditions.

#### (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-employment 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 19.

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).

#### Goodwill impairment

Goodwill is allocated to a cash-generating unit (CGU) and assessed annually for impairment. The CGU is defined in accordance with IAS 36. Judgement is required when assessing which assets and liabilities form part of the CGU, particularly in assessing the level of excess cash held above the working capital requirements of the CGU.

#### Leases

In determining the lease term, consideration is given to all facts and circumstances that create an economic incentive to exercise an extension option or not exercise a termination option. Extension options are only included in the lease term if the lease is reasonably certain to be extended.

Most extension options have not been included in the lease liability because the Group could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or change in circumstances occurs, which affects this assessment and is within the control of the Group.

#### (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.

There is uncertainty as to the economic effect that Brexit and Covid-19 will have in both the short and long term. The key estimates and assumptions set out below include variables which may be impacted (either positively or negatively) by these. These include but are not limited to discount rate, inflation, long-term economic growth rate and investment market returns.

## Notes to the financial statements

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

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 28(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 28(a).

#### *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 28(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 19. 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 19.

## Notes to the financial statements

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

#### **Unlisted equity securities**

The valuation of unlisted equity securities requires estimates to be made for the 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 17.

## 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.

The table below summarises written premiums for the financial year, before and after reinsurance, by territory and by class of business:

Group	Territory	2020	General insurance			Life insurance			Total £'000
			Property £'000	Liability £'000	Miscellaneous financial loss £'000	Other £'000	Funeral plans £'000		
<b>Territory</b>									
United Kingdom and Ireland	Gross	203,921	57,634	16,273	3,328	12	281,168		
	Net	107,458	55,095	9,080	716	12	172,361		
Australia	Gross	48,665	29,279	1,332	902	-	80,178		
	Net	7,299	24,840	1,283	171	-	33,593		
Canada	Gross	51,920	24,033	-	-	-	75,953		
	Net	35,846	22,425	-	-	-	58,271		
Total	Gross	304,506	110,946	17,605	4,230	12	437,299		
	Net	150,603	102,360	10,363	887	12	264,225		
<b>Parent</b>									
United Kingdom and Ireland	Gross	203,922	57,634	16,273	4,005	-	281,834		
	Net	107,458	55,095	9,080	752	-	172,385		
Canada	Gross	51,920	24,033	-	-	-	75,953		
	Net	35,846	22,425	-	-	-	58,271		
Total	Gross	255,842	81,667	16,273	4,005	-	357,787		
	Net	143,304	77,520	9,080	752	-	230,656		

## Notes to the financial statements

### 3 Insurance risk (continued)

2019	General insurance			Life insurance		
	Miscellaneous financial loss					
Group	Property £000	Liability £000	loss £000	Other £000	Funeral plans £000	Total £000
<b>Territory</b>						
United Kingdom and Ireland	Gross	185,567	56,323	15,534	3,227	(13) 260,638
	Net	100,233	53,773	9,147	622	(13) 163,762
Australia	Gross	42,331	24,412	1,245	869	- 68,857
	Net	5,083	21,053	1,198	170	- 27,504
Canada	Gross	44,079	20,378	-	-	- 64,457
	Net	30,902	18,898	-	-	- 49,800
Total	Gross	271,977	101,113	16,779	4,096	(13) 393,952
	Net	136,218	93,724	10,345	792	(13) 241,066
<b>Parent</b>						
United Kingdom and Ireland	Gross	185,567	56,323	15,534	3,227	- 260,651
	Net	100,233	53,773	9,147	611	- 163,764
Canada	Gross	44,079	20,378	-	-	- 64,457
	Net	30,902	18,898	-	-	- 49,800
Total	Gross	229,646	76,701	15,534	3,227	- 325,108
	Net	131,135	72,671	9,147	611	- 213,564

#### (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, explosion (after fire), riot and malicious damage, subsidence, accidental damage, theft and earthquake. 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, economic environment, 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 bring business operations back to pre-loss levels 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 major spreading 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 and business interruption claims taking much longer depending on the length of the indemnity period involved.

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

##### (d) Life insurance risks

The Group provides whole-of-life insurance policies to support funeral planning products, for most of which the future benefits are linked to inflation and backed by index-linked assets. 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 Group holds a reserve to meet the costs of future expenses in running the life business and administration of the policies. There is a risk that this is insufficient to meet the expenses incurred in future periods. 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, equity price and currency risk.

There has been no change from the prior period in the nature of the financial risks to which the Group is exposed. Despite the conclusion of Brexit and the US election at the end of 2020 and Covid-19 vaccine programmes, uncertainty remains 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

##### (i) Categories applying IAS 39

Group	Financial assets				Financial liabilities				Total £000
	Designated at fair value £000	Held for trading £000	Loans and receivables £000	Hedge accounted derivatives £000	Held for trading £000	Financial liabilities* £000	Hedge accounted derivatives £000	Other assets and liabilities £000	
<b>At 31 December 2020</b>									
Financial investments	817,551	2,079	746	401	-	-	-	-	820,777
Other assets	-	-	211,475	-	-	-	-	5,095	216,570
Cash and cash equivalents	-	-	104,429	-	-	-	-	-	104,429
Lease obligations	-	-	-	-	(25,450)	-	-	-	(25,450)
Other liabilities	-	-	-	-	(80,224)	(1,244)	(12,093)	(93,561)	
Net other	-	-	-	-	-	-	(453,537)	(453,537)	
<b>Total</b>	<b>817,551</b>	<b>2,079</b>	<b>316,650</b>	<b>401</b>	<b>-</b>	<b>(105,674)</b>	<b>(1,244)</b>	<b>(460,535)</b>	<b>569,228</b>
<b>At 31 December 2019</b>									
Financial investments	848,573	3,061	5,770	509	-	-	-	-	857,913
Other assets	-	-	173,996	-	-	-	4,362	-	178,358
Cash and cash equivalents	-	-	74,775	-	-	-	-	74,775	
Lease obligations	-	-	-	-	(12,923)	-	-	(12,923)	
Other liabilities	-	-	-	-	(65,634)	-	(11,318)	(76,952)	
Net other	-	-	-	-	-	-	(413,636)	(413,636)	
<b>Total</b>	<b>848,573</b>	<b>3,061</b>	<b>254,541</b>	<b>509</b>	<b>-</b>	<b>(78,557)</b>	<b>-</b>	<b>(420,592)</b>	<b>607,535</b>

#### Parent

<b>At 31 December 2020</b>									
Financial investments	586,804	2,079	746	401	-	-	60,757	650,787	
Other assets	-	-	157,239	-	-	-	3,875	161,114	
Cash and cash equivalents	-	-	59,466	-	-	-	-	59,466	
Lease obligations	-	-	-	-	(22,838)	-	-	(22,838)	
Other liabilities	-	-	-	-	(1,244)	(44,008)	-	(9,835)	(55,087)
Net other	-	-	-	-	-	-	(312,022)	(312,022)	
<b>Total</b>	<b>586,804</b>	<b>2,079</b>	<b>217,451</b>	<b>401</b>	<b>(1,244)</b>	<b>(66,846)</b>	<b>-</b>	<b>(257,225)</b>	<b>481,420</b>
<b>At 31 December 2019</b>									
Financial investments	638,088	3,311	5,766	259	-	-	49,729	697,153	
Other assets	-	-	130,220	-	-	-	3,573	133,793	
Cash and cash equivalents	-	-	42,248	-	-	-	-	42,248	
Lease obligations	-	-	-	-	(10,328)	-	-	(10,328)	
Other liabilities	-	-	-	-	(36,543)	-	(9,023)	(45,566)	
Net other	-	-	-	-	-	-	(292,543)	(292,543)	
<b>Total</b>	<b>638,088</b>	<b>3,311</b>	<b>178,234</b>	<b>259</b>	<b>-</b>	<b>(46,871)</b>	<b>-</b>	<b>(248,264)</b>	<b>524,757</b>

\* Financial liabilities are held at amortised cost.

The carrying value of those financial assets and liabilities not carried at fair value in the financial statements is considered to approximate to their fair value.

### Notes to the financial statements

#### 4 Financial risk and capital management (continued)

##### (ii) Categories of financial assets applying IFRS 9

As disclosed in note 1, the Group has chosen to defer application of IFRS 9 and classifies and measures financial instruments using IAS 39. To facilitate comparison with entities applying IFRS 9, the table below sets out the Group's financial assets at the balance sheet date, split between those which have contractual cash flows that are solely payments of principal and interest on the principal outstanding (SPPI), other than those which are held for trading or whose performance is evaluated on a fair value basis, and all other financial assets.

Group	2020			2019		
	SPPI financial assets £000	Other financial assets £000	Total financial assets £000	SPPI financial assets £000	Other financial assets £000	Total financial assets £000
Financial investments	746	820,031	820,777	5,770	852,143	857,913
Cash and cash equivalents	104,429	-	104,429	74,775	-	74,775
Other financial assets	211,475	-	211,475	173,996	-	173,996
Total fair value	316,650	820,031	1,136,681	254,541	852,143	1,106,684

Parent	2020			2019		
	SPPI financial assets £000	Other financial assets £000	Total financial assets £000	SPPI financial assets £000	Other financial assets £000	Total financial assets £000
Financial investments	746	589,284	590,030	5,766	641,658	647,424
Cash and cash equivalents	59,466	-	59,466	42,248	-	42,248
Other financial assets	157,239	-	157,239	130,220	-	130,220
Total fair value	217,451	589,284	806,735	178,234	641,658	819,892

There has been a £62,109,000 increase (2019: £13,925,000 decrease) in the fair value of SPPI financial assets of the Group, and a £32,112,000 decrease (2019: £63,099,000 increase) in the fair value of other financial assets of the Group during the reporting period. There has been a £39,217,000 increase (2019: £17,038,000 decrease) in the fair value of SPPI financial assets of the Parent, and a £52,374,000 decrease (2019: £65,237,000 increase) in the fair value of other financial assets of the Parent during the reporting period.

## Notes to the financial statements

### 4 Financial risk and capital management (continued)

#### (b) Fair value hierarchy

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

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

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

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

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

#### Analysis of fair value measurement bases

Group	Fair value measurement at the end of the reporting period based on			
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>At 31 December 2020</b>				
<b>Financial assets at fair value through profit or loss</b>				
Financial investments				
Equity securities	262,014	185	59,687	321,886
Debt securities	493,601	1,512	552	495,665
Derivatives	-	2,079	-	2,079
Hedged accounted derivatives	-	401	-	401
<b>Total financial assets at fair value</b>	<b>755,615</b>	<b>4,177</b>	<b>60,239</b>	<b>820,031</b>
<b>At 31 December 2019</b>				
<b>Financial assets at fair value through profit or loss</b>				
Financial investments				
Equity securities	289,165	190	66,703	356,058
Debt securities	490,911	1,200	404	492,515
Derivatives	-	3,061	-	3,061
Hedged accounted derivatives	-	509	-	509
<b>Total financial assets at fair value</b>	<b>780,076</b>	<b>4,960</b>	<b>67,107</b>	<b>852,143</b>

## 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			Total £000	
	Level 1 £000	Level 2 £000	Level 3 £000		
<b>At 31 December 2020</b>					
<b>Financial assets at fair value through profit or loss</b>					
Financial investments					
Equity securities	238,150	185	59,507	297,842	
Debt securities	287,252	1,158	552	288,962	
Derivatives	-	2,079	-	2,079	
Hedged accounted derivatives	-	401	-	401	
<b>Total financial assets at fair value</b>	<b>525,402</b>	<b>3,823</b>	<b>60,059</b>	<b>589,284</b>	

Parent	Fair value measurement at the end of the reporting period based on			Total £000	
	Level 1 £000	Level 2 £000	Level 3 £000		
<b>At 31 December 2019</b>					
<b>Financial assets at fair value through profit or loss</b>					
Financial investments					
Equity securities	263,478	190	66,523	330,191	
Debt securities	306,661	832	404	307,897	
Derivatives	-	3,311	-	3,311	
Hedged accounted derivatives	-	259	-	259	
<b>Total financial assets at fair value</b>	<b>570,139</b>	<b>4,592</b>	<b>66,927</b>	<b>641,658</b>	

The derivative liabilities of the Group are measured at fair value through other comprehensive income. The derivative liabilities of the Parent in the current year were measured at fair value through profit or loss. Derivative liabilities are categorised as level 2 (see note 23).

#### 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			Total £000	
	Equity securities £000	Debt securities £000	Total £000		
<b>At 31 December 2020</b>					
Opening balance					
	66,703	404	67,107		
Total (losses)/gains recognised in profit or loss	(7,015)	147	(6,868)		
	59,688	551	60,239		
Closing balance					
Total (losses)/gains for the period included in profit or loss for assets held at the end of the reporting period	(7,015)	147	(6,868)		
<b>At 31 December 2019</b>					
Opening balance					
	44,773	261	45,034		
Total gains recognised in profit or loss	7,538	143	7,681		
Purchases	14,392	-	14,392		
	66,703	404	67,107		
Closing balance					
Total gains for the period included in profit or loss for assets held at the end of the reporting period	7,539	143	7,682		

## 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
<b>At 31 December 2020</b>			
Opening balance	66,523	404	66,927
Total (losses)/gains recognised in profit or loss	(7,015)	147	(6,868)
Closing balance	59,508	551	60,059
Total (losses)/gains for the period included in profit or loss for assets held at the end of the reporting period	(7,015)	147	(6,868)
<b>At 31 December 2019</b>			
Opening balance	44,771	261	45,032
Total gains recognised in profit or loss	7,539	143	7,682
Purchases	14,213	-	14,213
Closing balance	66,523	404	66,927
Total gains for the period included in profit or loss for assets held at the end of the reporting period	7,539	143	7,682

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.

#### **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.

The valuation is sensitive to the level of underlying net assets, the Euro exchange rate, the price-to-book ratio, an illiquidity discount and a credit rating discount applied to the valuation to account for the risks associated with holding the asset. If the illiquidity discount or credit rating discount applied changes by +/-10%, the value of unlisted equity securities could move by +/-£7m (2019: +/-£7m).

#### **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.

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.

## 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 three years (2019: three years), reflecting the relatively short-term average duration of its general insurance liabilities. The mean term of discounted general insurance liabilities is disclosed in note 28(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
<b>At 31 December 2020</b>				
<b>Assets</b>				
Debt securities	6,083	30,161	61,665	97,909
Cash and cash equivalents	4,692	-	-	4,692
	10,775	30,161	61,665	102,601
<b>Liabilities (discounted)</b>				
Life business provision	5,103	18,045	53,709	76,857
<b>At 31 December 2019</b>				
<b>Assets</b>				
Debt securities	6,066	28,732	65,093	99,891
Cash and cash equivalents	2,584	-	-	2,584
	8,650	28,732	65,093	102,475
<b>Liabilities (discounted)</b>				
Life business provision	5,517	19,223	54,472	79,212

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 Group is exposed to minimal credit risk in relation to all other financial assets.

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. Where available 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.

The following table provides information regarding the credit risk exposure of financial assets with external credit ratings from Standard & Poors or an equivalent rating from a similar agency. This includes financial assets that meet the definition of 'solely payments of principal and interest' (SPPI), as detailed in note 4(a)(ii).

Group	SPPI			Non-SPPI	
	Cash and cash equivalents*	Reinsurance debtors	Other financial assets	Total SPPI	Debt securities
	£000	£000	£000	£000	£000
<b>At 31 December 2020</b>					
AAA	-	-	-	-	128,037
AA	36,319	1,986	-	38,305	130,285
A	16,753	8,564	-	25,317	125,745
BBB	51,351	3	-	51,354	94,101
Below BBB	-	-	-	-	8,997
Not rated	6	452	201,216	201,674	8,500
	<b>104,429</b>	<b>11,005</b>	<b>201,216</b>	<b>316,650</b>	<b>495,665</b>
<b>At 31 December 2019</b>					
AAA	-	-	-	-	113,359
AA	19,760	1,286	-	21,046	138,341
A	17,269	8,856	-	26,125	132,419
BBB	42,713	3	-	42,716	89,563
Below BBB	-	-	-	-	9,537
Not rated	7	1,032	163,615	164,654	9,296
	<b>79,749</b>	<b>11,177</b>	<b>163,615</b>	<b>254,541</b>	<b>492,515</b>

\*Cash includes amounts held on deposit classified within financial investments and disclosed in note 22. Cash balances which are not rated relate to cash amounts in hand.

## Notes to the financial statements

### 4 Financial risk and capital management (continued)

#### Parent

	SPPI		Non-SPPI		
	Cash and cash equivalents*	Reinsurance debtors	Other financial assets	Total SPPI	Debt securities
	£000	£000	£000	£000	£000
<b>At 31 December 2020</b>					
AAA	-	-	-	-	72,697
AA	15,726	1,592	-	17,318	51,769
A	12,151	3,008	-	15,159	96,351
BBB	31,584	3	-	31,587	55,456
Below BBB	-	-	-	-	5,539
Not rated	5	338	153,044	153,387	7,150
	<b>59,466</b>	<b>4,941</b>	<b>153,044</b>	<b>217,451</b>	<b>288,962</b>
<b>At 31 December 2019</b>					
AAA	-	-	-	-	72,366
AA	8,540	783	-	9,323	73,979
A	14,748	2,865	-	17,613	97,184
BBB	23,927	3	-	23,930	51,712
Below BBB	-	-	-	-	4,560
Not rated	7	272	127,089	127,368	8,096
	<b>47,222</b>	<b>3,923</b>	<b>127,089</b>	<b>178,234</b>	<b>307,897</b>

\*Cash includes amounts held on deposit classified within financial investments and disclosed in note 22. Cash balances which are not rated relate to cash amounts in hand.

For financial assets meeting the SPPI test that do not have low credit risk, the carrying amount disclosed above is an approximation of their fair value.

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.

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

	2020		2019	
	Group £000	Parent £000	Group £000	Parent £000
UK	<b>276,914</b>	<b>179,003</b>	UK	301,225
Australia	<b>108,792</b>	-	Australia	84,726
Canada	<b>89,661</b>	<b>89,661</b>	Canada	86,293
Europe	<b>20,298</b>	<b>20,298</b>	Europe	20,271
Total	<b>495,665</b>	<b>288,962</b>	Total	<b>492,515</b>
				<b>307,897</b>

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 Group Reinsurance Security Committee also monitors the balances outstanding from reinsurers and maintains an approved list of reinsurers.

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 by geographical region and counterparty 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.

## Notes to the financial statements

## 4 Financial risk and capital management (continued)

## (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:

2020		2019	
Group £000	Parent £000	Group £000	Parent £000
UK		289,566	263,699
Europe		66,302	66,302
Hong Kong		190	190
Total		356,058	330,191
<b>262,414</b>	<b>238,370</b>		
<b>59,287</b>	<b>59,287</b>		
<b>185</b>	<b>185</b>		
<b>321,886</b>	<b>297,842</b>		

## (f) Currency risk

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

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

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

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

The forward foreign currency risk arising on translation of these foreign operations is hedged by the derivatives which are detailed in note 23. 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 largest currency exposures, before the mitigating effect of derivatives, with reference to net assets/liabilities are shown below, representing effective diversification of resources.

2020		2019	
Group £000	Parent £000	Group £000	Parent £000
Aus \$	<b>57,291</b>	<b>3,089</b>	Euro
Can \$	<b>39,621</b>	<b>39,621</b>	Aus \$
Euro	<b>23,932</b>	<b>23,932</b>	Can \$
USD \$	<b>2,045</b>	<b>2,045</b>	USD \$
HKD \$	<b>171</b>	<b>171</b>	HKD \$
		65,305	65,305
		41,912	2,282
		33,722	33,722
		2,028	2,028
		176	176

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 23.

## Notes to the financial statements

## 4 Financial risk and capital management (continued)

## (g) Liquidity risk

Liquidity risk is the risk that funds may not be available to pay obligations when due. The Group is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts. An estimate of the timing of the net cash outflows resulting from insurance contracts is provided in note 28. The Group has robust processes in place to manage liquidity risk and has available cash balances, other readily marketable assets and access to funding in case of exceptional need. This is not considered to be a significant risk to the Group.

Non-derivative financial liabilities consist of lease liabilities, for which a maturity analysis is included in note 32, and other liabilities for which a maturity analysis is included in note 31.

## (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 19.

Group	Variable	Change in variable	Potential increase/ (decrease) in other equity reserves	
			2020 £000	2019 £000
	Interest rate risk	-100 basis points +100 basis points	(11,896)	(6,724)
	Currency risk	-10% +10%	6,153	4,133
	Equity price risk	+/-10%	2,833 (2,318) 26,073	6,330 (5,179) 28,841

Parent	Variable	Change in variable	Potential increase/ (decrease) in other equity reserves	
			2020 £000	2019 £000
	Interest rate risk	-100 basis points +100 basis points	(9,642)	(5,267)
	Currency risk	-10% +10%	4,909	3,028
	Equity price risk	+/-10%	2,833 (2,318) 24,125	6,331 (5,180) 26,745

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 Ecclesiastical Insurance Office plc (EIO)'s parent, Ecclesiastical Insurance Group plc (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's 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.

EIO's Solvency II Own Funds will be subject to a separate independent audit, as part of the Group's process for Solvency II reporting to the PRA. EIO's SCR is not subject to audit as it is calculated using an internal model which has been approved for use by the PRA. ELL's figures are not subject to an independent audit due to the company falling below the threshold calculation detailed in the PRA policy statement PS25/18 (Solvency II: External audit of the public disclosure requirement). The Group's regulated entities, EIO and ELL, expect to meet the deadline for submission to the PRA of 8 April 2021 and their respective SFCRs will be made available on the Group's website shortly thereafter. EIG is also expected to meet its deadline for submission to the PRA of 20 May 2021, with its SFCR also being made available on the Group's website shortly after.

	2020 (unaudited)		2019 (unaudited)*	
	Ecclesiastical Insurance Office plc Parent £000	Ecclesiastical Life Limited £000	Ecclesiastical Insurance Office plc Parent £000	Ecclesiastical Life Limited £000
Solvency II Own Funds	518,562	49,259	570,110	49,120
Solvency Capital Requirement	(262,723)	(15,394)	(264,251)	(15,976)
Own Funds in excess of Solvency Capital Requirement	255,839	33,865	305,859	33,144
Solvency II Capital Cover	197%	320%	216%	307%

\*Unaudited with the exception of EIO parent's Solvency II Own Funds.

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 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 SEIB Insurance Brokers Limited, financial advisory services through Ecclesiastical Financial Advisory Services Limited and risk advisory services through Ansvar Risk Management Services Pty Limited which operates in Australia.

#### - 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, with the exception of the investment management and broking and advisory segments. These segments do not qualify for the temporary exemption from IFRS 9 available to insurers and as a result have adopted IFRS 9. Consequently, their accounting policies for financial instruments may differ, but all other accounting policies are the same as the Group.

## 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.

Revenue is attributed to the geographical region in which the customer is based.

	2020			2019		
	Gross written premiums £000	Non-insurance services £000	Total £000	Gross written premiums £000	Non-insurance services £000	Total £000
<b>General business</b>						
United Kingdom and Ireland	276,618	-	276,618	257,135	-	257,135
Australia	80,178	-	80,178	68,857	-	68,857
Canada	75,953	-	75,953	64,457	-	64,457
Other insurance operations	4,538	-	4,538	3,516	-	3,516
<b>Total</b>	<b>437,287</b>	-	<b>437,287</b>	393,965	-	393,965
<b>Life business</b>						
Investment management	12	-	12	(13)	-	(13)
Broking and Advisory	-	12,382	12,382	-	12,795	12,795
<b>Group revenue</b>	<b>437,299</b>	<b>21,840</b>	<b>459,139</b>	393,952	21,873	415,825

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

#### Segment result

General business segment results comprise the insurance underwriting profit or loss, investment activities and other expenses of each underwriting territory. The Group uses the industry standard net combined operating ratio (COR) as a measure of underwriting efficiency. The COR expresses the total of net claims costs, commission and underwriting expenses as a percentage of net earned premiums. Further details on the underwriting profit or loss and COR, which are alternative performance measures that are not defined under IFRS, are detailed in note 36.

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

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

2020	Combined operating ratio	Insurance £000	Investments £000	Other £000	Total £000
<b>General business</b>					
United Kingdom and Ireland	92.5%	12,254	(12,123)	(479)	(348)
Australia	102.2%	(620)	1,678	(31)	1,027
Canada	91.2%	4,521	3,003	(176)	7,348
Other insurance operations	95.1%	(4,103)	-	-	(4,103)
<b>Life business</b>					
Investment management		12,052	(7,442)	(686)	3,924
Broking and Advisory		468	29	-	497
Corporate costs		-	-	(1,031)	(1,031)
<b>Profit/(loss) before tax</b>		<b>12,520</b>	<b>(7,413)</b>	<b>(20,853)</b>	<b>(15,746)</b>

## Notes to the financial statements

### 5 Segment information (continued)

#### 2019

	Combined operating ratio	Insurance £000	Investments £000	Other £000	Total £000
<b>General business</b>					
United Kingdom and Ireland	86.8%	20,412	59,433	(292)	79,553
Australia	114.1%	(3,246)	1,815	(65)	(1,496)
Canada	95.1%	2,218	1,805	(174)	3,849
Other insurance operations		634	-	-	634
<b>Life business</b>	91.1%	20,018	63,053	(531)	82,540
Investment management		335	6,486	-	6,821
Broking and Advisory		-	-	(310)	(310)
Corporate costs		-	-	2,062	2,062
<b>Profit/(loss) before tax</b>		<b>20,353</b>	<b>69,539</b>	<b>(16,629)</b>	<b>73,263</b>

#### (b) Geographical information

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

2020	2019
Gross written premiums £000	Non-current assets £000
Gross written premiums £000	Non-current assets £000
281,168	276,236
80,178	6,114
75,953	6,946
<b>437,299</b>	<b>289,296</b>
260,638	235,859
68,857	4,348
64,457	8,272
<b>393,952</b>	<b>248,479</b>

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

## 6 Net insurance premium revenue

	General business £000	Life business £000	Total £000
<b>For the year ended 31 December 2020</b>			
Gross written premiums	437,287	12	437,299
Outward reinsurance premiums	(173,074)	-	(173,074)
Net written premiums	264,213	12	264,225
Change in the gross provision for unearned premiums	(24,984)	-	(24,984)
Change in the provision for unearned premiums, reinsurers' share	8,422	-	8,422
Change in the net provision for unearned premiums	(16,562)	-	(16,562)
<b>Earned premiums, net of reinsurance</b>	<b>247,651</b>	<b>12</b>	<b>247,663</b>
<b>For the year ended 31 December 2019</b>			
Gross written premiums	393,965	(13)	393,952
Outward reinsurance premiums	(152,886)	-	(152,886)
Net written premiums	241,079	(13)	241,066
Change in the gross provision for unearned premiums	(23,829)	-	(23,829)
Change in the provision for unearned premiums, reinsurers' share	8,749	-	8,749
Change in the net provision for unearned premiums	(15,080)	-	(15,080)
<b>Earned premiums, net of reinsurance</b>	<b>225,999</b>	<b>(13)</b>	<b>225,986</b>

## Notes to the financial statements

### 7 Fee and commission income

During the year, the Group recognised £47,541,000 (2019: £49,065,000) fee and commission income in accordance with IFRS 4 Insurance Contracts and £22,041,000 (2019: £22,175,000) in accordance with IFRS 15 Revenue from contracts with customers. Fee and commission income from contracts with customers was recognised as follows:

	Recognised at a point in time £'000	Recognised over time £'000	Total £'000
<b>For the year ended 31 December 2020</b>			
General business	201	-	201
Investment management	66	12,316	12,382
Broking and advisory	9,458	-	9,458
	<b>9,725</b>	<b>12,316</b>	<b>22,041</b>
<b>For the year ended 31 December 2019</b>			
General business	302	-	302
Investment management	108	12,687	12,795
Broking and advisory	9,078	-	9,078
	<b>9,488</b>	<b>12,687</b>	<b>22,175</b>

### 8 Net investment return

	2020 £'000	2019 £'000
<i>Income from financial assets at fair value through profit or loss</i>		
- equity income	6,255	9,580
- debt income	12,631	14,221
<i>Income from financial assets calculated using the effective interest rate method</i>		
- cash and cash equivalents income	141	605
- other income received	1,887	1,795
<i>Other income</i>		
- rental income	8,786	8,519
- exchange movements	492	60
<b>Investment income</b>	<b>30,192</b>	<b>34,780</b>
Fair value movements on financial instruments at fair value through profit or loss	(13,618)	55,991
Fair value movements on investment property	(4,984)	(3,900)
Fair value movements on property, plant and equipment	10	-
Impact of discount rate change on insurance contract liabilities	(15,898)	(12,433)
<b>Net investment (loss)/return</b>	<b>(4,298)</b>	<b>74,438</b>

Included within fair value movements on financial instruments at fair value through profit or loss are gains of £2,396,000 (2019: £162,000) in respect of derivative instruments.

## Notes to the financial statements

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

	General business £'000	Life business £'000	Total £'000
<b>For the year ended 31 December 2020</b>			
Gross claims paid	164,510	6,008	170,518
Gross change in the provision for claims	59,617	-	59,617
Gross change in life business provision	-	(7,341)	(7,341)
Claims and change in insurance liabilities	224,127	(1,333)	222,794
Reinsurers' share of claims paid	(59,024)	-	(59,024)
Reinsurers' share of change in the provision for claims	(35,557)	-	(35,557)
Reinsurance recoveries	(94,581)	-	(94,581)
<b>Claims and change in insurance liabilities, net of reinsurance</b>	<b>129,546</b>	<b>(1,333)</b>	<b>128,213</b>
<b>For the year ended 31 December 2019</b>			
Gross claims paid	139,221	5,562	144,783
Gross change in the provision for claims	18,260	-	18,260
Gross change in life business provision	-	(5,235)	(5,235)
Claims and change in insurance liabilities	157,481	327	157,808
Reinsurers' share of claims paid	(40,808)	-	(40,808)
Reinsurers' share of change in the provision for claims	(11,992)	-	(11,992)
Reinsurance recoveries	(52,800)	-	(52,800)
<b>Claims and change in insurance liabilities, net of reinsurance</b>	<b>104,681</b>	<b>327</b>	<b>105,008</b>

### 10 Fees, commissions and other acquisition costs

	2020 £'000	2019 £'000
Fees paid	13	14
Commission paid	68,717	62,134
Change in deferred acquisition costs	(3,352)	(4,553)
Other acquisition costs	20,066	15,145
<b>Fees, commissions and other acquisition costs</b>	<b>85,444</b>	<b>72,740</b>

## Notes to the financial statements

## 11 (Loss)/profit for the year

	2020 £000	2019 £000
<b>(Loss)/profit for the year has been arrived at after (crediting)/charging</b>		
Net foreign exchange gains		(493)
Depreciation of property, plant and equipment	5,486	5,081
Loss on disposal of property, plant and equipment	172	171
Amortisation of intangible assets	1,433	1,000
Decrease in fair value of investment property	4,984	3,900
Employee benefits expense including termination benefits, net of recharges	<b>83,781</b>	86,065

## 12 Auditor's remuneration

	2020 £000	2019 £000
<b>Fees payable to the Company's auditor and its associates for the audit of the Company's annual accounts</b>	<b>476</b>	497
<b>Fees payable to the Company's auditor and its associates for other services:</b>		
- The audit of the Company's subsidiaries	238	179
Total audit fees	<b>714</b>	<b>676</b>
- Audit-related assurance services	178	164
- Other assurance services	-	-
Total non-audit fees	<b>178</b>	<b>164</b>
<b>Fees payable to the Company's auditor in respect of associated pension schemes</b>	-	17
<b>Total auditor's remuneration</b>	<b>892</b>	<b>857</b>

Deloitte LLP stepped down as auditor to the Group. PricewaterhouseCoopers LLP were appointed as the Group's auditor at the June 2020 AGM. The figures for 2019 relate exclusively to fees paid to Deloitte LLP. Amounts disclosed are net of services taxes, where applicable. Audit-related assurance services include Prudential Regulatory Authority (PRA) and other regulatory audit work.

In the year ended 31 December 2020, audit fees of £476,000 include £5,000 to Deloitte LLP in relation to auditor transition.

## Notes to the financial statements

## 13 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			(restated)* 2019		
	General business No.	Life business No.	Other No.	General business No.	Life business No.	Other No.
United Kingdom and Ireland	827	1	194	804	1	181
Australia	102	-	-	97	-	-
Canada	81	-	-	84	-	-
	<b>1,010</b>	<b>1</b>	<b>194</b>	<b>985</b>	<b>1</b>	<b>181</b>

	Parent			(restated)* 2019		
	General business No.	Life business No.	Other No.	General business No.	Life business No.	Other No.
United Kingdom and Ireland	827	1	92	804	1	82
Canada	81	-	-	84	-	-
	<b>908</b>	<b>1</b>	<b>92</b>	<b>888</b>	<b>1</b>	<b>82</b>

\* 2019 has been restated to include 23 full-time equivalent employees within United Kingdom and Ireland General Business for both Group and Parent which were previously omitted.

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.

	2020		2019	
	Group £000	Parent £000	Group £000	Parent £000
Wages and salaries	73,057	61,194	74,370	62,968
Social security costs	6,815	6,347	7,010	6,577
Pension costs - defined contribution plans	5,853	5,101	4,791	4,014
Pension costs - defined benefit plans	1,003	1,003	1,812	1,812
Other post-employment benefits	112	112	154	154
Total staff costs	<b>86,840</b>	<b>73,757</b>	<b>88,187</b>	<b>75,525</b>
Staff costs recharged to related undertakings of the Group	(1,743)	(9,010)	(1,340)	(8,278)
Capitalised staff costs	(1,652)	(1,652)	(1,090)	(1,090)
	<b>83,445</b>	<b>63,095</b>	<b>85,707</b>	<b>66,157</b>

The above Group figures do not include termination benefits of £476,000 (2019: £358,000) of which £56,000 (2019: £nil) was recharged to related undertakings of the group. The above Parent figures do not include termination benefits of £476,000 (2019: £135,000), of which £74,000 (2019: £33,000) was recharged to related undertakings of the Parent.

## Notes to the financial statements

### 14 Tax expense

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

		2020 £000	2019 £000
Current tax	- current year	1,027	5,893
	- prior year adjustments	(414)	808
Deferred tax	- temporary differences	(5,395)	4,749
	- prior year adjustments	-	-
	- Impact of change in deferred tax rate	4,256	-
<b>Total tax (credit)/expense</b>		<b>(526)</b>	<b>11,450</b>

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

	2020 £000	2019 £000
(Loss)/profit before tax	(15,746)	73,263
Tax calculated at the UK standard rate of tax of 19% (2019: 19%)	(2,992)	13,920
<i>Factors affecting (credit)/charge for the year:</i>		
Expenses not deductible for tax purposes	84	463
Non-taxable income	(1,391)	(3,110)
Life insurance and other tax paid at non-standard rates	90	(198)
Utilisation of tax losses for which no deferred tax asset has been recognised	(159)	(433)
Impact of change in deferred tax rate	4,256	-
Adjustments to tax charge in respect of prior periods	(414)	808
<b>Total tax (credit)/expense</b>	<b>(526)</b>	<b>11,450</b>

The 2020 Budget Resolution not to reduce the corporation tax rate to 17% from 1 April 2020 was passed on 17 March 2020 and as such the main rate of tax remained at 19%. Deferred tax has been provided at a rate of 19% (2019: 17%).

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

	2020 £000	2019 £000
Current tax (credited)/charged on:		
Fair value movements on hedge derivatives	(328)	129
Deferred tax (credited)/charged on:		
Fair value movements on property	(49)	-
Actuarial movements on retirement benefit plans	(3,472)	(1,198)
Fair value movements on hedge derivatives	63	(110)
<b>Total tax credited to other comprehensive income</b>	<b>(3,786)</b>	<b>(1,179)</b>

In the prior year, tax relief on charitable grants of £5,497,000 was taken directly to equity.

## Notes to the financial statements

### 15 Appropriations

Amounts recognised as distributions to equity holders in the period:

<b>Dividends</b>	Non-Cumulative Irredeemable Preference share dividend (8.625 pence per share)
	9,181
<b>Charitable grants</b>	Gross charitable grants to the ultimate parent company, Allchurches Trust Limited
	-
	Tax relief
	-
	Net appropriation for the year
	-
	24,503

### 16 Acquisition of business

On 30 September 2020, SEIB Insurance Brokers Limited acquired WRS Insurance Brokers Limited (WRS).

The aggregate amounts recognised in respect of the identifiable assets of the acquisition are set out in the table below.

	£000
<b>Assets</b>	
Intangible assets	406
Goodwill	918
Property, plant and equipment	7
Debtors	45
Cash	371
<b>Liabilities</b>	
Creditors	167
	167
<b>Total identified net assets</b>	<b>1,580</b>

<b>Satisfied by:</b>	
Cash	1,162
Contingent consideration	418
Total consideration	1,580
<b>Analysis of cash flows</b>	
Cash paid	1,162
Net cash acquired with subsidiary	(371)
Net cash flow on acquisition	791

The goodwill of £918,000 arising from the acquisitions consists of intangible assets not qualifying for separate recognition, such as synergies and new business opportunities. None of the goodwill is expected to be deductible for tax purposes.

The contingent consideration arrangement requires a cash payment to be made on 1 October 2021. The amount paid is determined by an income target in the 'earn-out' period which ends on 30 September 2021. The maximum and minimum payments expected are £436,000 and £400,000 respectively.

From the date of acquisition, WRS has contributed £206,989 of revenue and £80,565 to the net profit before tax from the continuing operations of the group. If the acquisition had taken place at the beginning of the year, revenue from continuing operations would have been £8,422,209 and the profit from continuing operations for the period would have been £203,818.

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

## Notes to the financial statements

## 17 Goodwill and other intangible assets

Group	Goodwill £'000	Computer software £'000	Other intangible assets £'000	Total £'000
<b>Cost</b>				
At 1 January 2020	23,779	33,069	5,376	62,224
Additions	918	15,407	611	16,936
Disposals	-	(542)	-	(542)
Exchange differences	-	201	-	201
At 31 December 2020	<b>24,697</b>	<b>48,135</b>	<b>5,987</b>	<b>78,819</b>
<b>Accumulated impairment losses and amortisation</b>				
At 1 January 2020	344	18,537	4,692	23,573
Amortisation charge for the year	-	1,219	214	1,433
Impairment losses for the year	35	-	-	35
Disposals	-	(542)	-	(542)
Exchange differences	-	(35)	2	(33)
At 31 December 2020	<b>379</b>	<b>19,179</b>	<b>4,908</b>	<b>24,466</b>
<b>Net book value at 31 December 2020</b>	<b>24,318</b>	<b>28,956</b>	<b>1,079</b>	<b>54,353</b>
<b>Cost</b>				
At 1 January 2019	23,779	23,453	5,376	52,608
Additions	-	9,613	-	9,613
Disposals	-	(4)	-	(4)
Exchange differences	-	7	-	7
At 31 December 2019	<b>23,779</b>	<b>33,069</b>	<b>5,376</b>	<b>62,224</b>
<b>Accumulated impairment losses and amortisation</b>				
At 1 January 2019	328	17,686	4,530	22,544
Amortisation charge for the year	-	838	162	1,000
Impairment losses for the year	16	-	-	16
Disposals	-	(4)	-	(4)
Exchange differences	-	17	-	17
At 31 December 2019	<b>344</b>	<b>18,537</b>	<b>4,692</b>	<b>23,573</b>
<b>Net book value at 31 December 2019</b>	<b>23,435</b>	<b>14,532</b>	<b>684</b>	<b>38,651</b>

£16,885,000 of the goodwill balance in the current and prior year relates to the 2008 acquisition of South Essex Insurance Holdings Limited. £4,392,000 of the current and prior period balance relates to the acquisition of Lansdown Insurance Brokers Limited during 2014. £918,000 of the current period balance relates to the acquisition of WRS Insurance Brokers Limited (WRS) as detailed in note 16.

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 1.8% (2019: 1.6%) as being appropriate, based on medium-term rates published in the OBR's November report. The pre-tax discount rate of 9.8% (2019: 9.2%) 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 (2019: £8.8m). If the cumulative growth rate between 2021 and 2023 was 2.9% lower than assumed in management-approved business plans, or the discount rate increased by 1.7%, then the recoverable amount would equal the carrying amount. For the investment in Lansdown Insurance Brokers Limited, the headroom above the carrying value is significant and reasonably possible changes to the key assumptions do not result in impairment.

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

Notes to the financial statements  
17 Goodwill and other intangible assets (continued)

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 (2019: one year).

## Parent

	Computer software 2020 £'000	2019 £'000
<b>Cost</b>		
At 1 January	<b>29,163</b>	21,495
Additions	<b>12,978</b>	7,615
Disposals	<b>(542)</b>	(4)
Exchange differences	<b>(71)</b>	57
At 31 December	<b>41,528</b>	<b>29,163</b>
<b>Amortisation</b>		
At 1 January	<b>17,249</b>	16,646
Charge for the year	<b>593</b>	589
Disposals	<b>(542)</b>	(4)
Exchange differences	<b>(37)</b>	18
At 31 December	<b>17,263</b>	<b>17,249</b>
<b>Net book value at 31 December</b>	<b>24,265</b>	<b>11,914</b>

## 18 Deferred acquisition costs

At 1 January  
Increase in the period  
Release in the period  
Exchange differences  
At 31 December

All balances are current.

2020	2019
Group £'000	Parent £'000
Group £'000	Parent £'000
<b>38,199</b>	<b>31,133</b>
<b>41,582</b>	<b>33,515</b>
<b>(38,230)</b>	<b>(31,110)</b>
<b>438</b>	<b>(66)</b>
<b>41,989</b>	<b>33,472</b>
33,907	27,812
38,529	31,283
(33,976)	(27,976)
(261)	14
<b>38,199</b>	<b>31,133</b>

## Notes to the financial statements

### 19 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 13.

#### Defined benefit pension plans

The Group's defined benefit plan is operated by the Parent in the UK, which includes two discrete sections, the EIO Section and Ansvar Section. The plan closed to new entrants on 5 April 2006. 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 scheme closed to future accrual on 30 June 2019. Active members in employment at this date retained certain enhanced benefits after the plan closed to future accrual, including benefits in relation to death in service and ill health retirement. They also retain the link to final salary whilst they remain employed by the Parent. From 1 July 2019, active members in employment joined one of the Group's defined contribution plans. With effect from 1 January 2021, the two discrete sections of the scheme have been combined. This has no impact on the financial statements.

The assets of the defined benefit 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 2019. As the scheme is closed to future accrual, no contribution is expected to be paid by the Group in 2021.

Actuarial valuations were reviewed and updated by an actuary at 31 December 2020 for IAS 19 purposes. The Parent has an unconditional right to a refund of the surplus in the Ansvar Section of the Fund, which has been recognised in full in accordance with IFRIC 14. The EIO Section was in a deficit position on an IAS 19 basis at the year end.

In the current year, actuarial losses arising from changes in financial assumptions of £53.6m (2019: actuarial losses of £59.7m) have been recognised in the statement of other comprehensive income. These losses resulted from a 0.6% decrease in the discount rate combined with inflationary increases arising from a reduction in the gap between RPI and CPI following the announcement of the outcome of the UK Government's consultation on the future measure of RPI.

The demographic assumptions used in the IAS 19 valuation were reviewed and updated, informed by the 2019 triennial valuation process. This resulted in an actuarial gain of £6.0m (2019: £13.2m actuarial gain) being recognised in the current year. Updating for actual member experience since the previous triennial valuation and for other financial assumption experience resulted in a gain of £14.5m in the current year (2019: £0.1m loss arising from financial assumption experience).

In the current year, the High Court issued a ruling relating to Guaranteed Minimum Pensions (GMP) equalisation for historic transfers values. This ruling, and the previous High Court ruling on GMP equalisation in 2018, relates to the Lloyds Bank pension scheme, and has implications for the EIO section of the Group's defined benefit plan. The impact of the ruling in the current year is estimated at £32,000 and is presented as a past service cost in the statement of profit and loss.

The defined benefit 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 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 defined benefit 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 defined benefit 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 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

#### 19 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. Key factors addressed in setting strategy include the Fund's liability profile, funding level and strength of employer covenant. Their key objectives are to ensure the Fund can meet members' guaranteed benefits as they fall due, reduce the risk of assets failing to meet its liabilities over the long term and manage the volatility of returns and overall funding level.

A blend of diversified growth assets (equities and property) and protection assets (bonds, gilts and cash) are deployed to balance the level of risk to that required to provide, with confidence, a sufficient return and liquidity to continue to meet members' obligations as they fall due. The Trustees have identified the key risks faced by the Fund in meeting this objective to be equity price risk, falls in bond yields and rising inflation.

Assets include an LDI ('Liability Driven Investments') portfolio, structured to increase in value with decreases in interest rates and grow in line with inflation expectations. This is estimated currently to hedge 60% of the interest rate and 40% of the inflation rate risk of the guaranteed benefits of the Fund. 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, but not eliminated, volatility in the funding position.

The Trustees monitor investment performance and strategy over time to ensure the structure adopted continues to meet their objectives and to highlight opportunities to reduce investment risk and volatility where practical and affordable. Their aim is to establish a Long Term Funding Target in line with guidance from the Pensions Regulator. The Trustees intend that this long term target will be reached through investment performance only and without requiring further contributions from the Parent.

#### Group and Parent

##### The amounts recognised in the statement of financial position are determined as follows:

Present value of funded obligations  
Fair value of plan assets

Restrictions on asset recognised  
Net defined benefit pension scheme asset in the statement of financial position

##### Movements in the net defined benefit pension scheme asset recognised in the statement of financial position are as follows:

At 1 January  
Expense charged to profit or loss\*  
Amounts recognised in other comprehensive income  
Contributions paid  
At 31 December

##### The amounts recognised through profit or loss are as follows:

Current service cost  
Administration cost  
Interest expense on liabilities  
Interest income on plan assets  
Past service cost  
Total, included in employee benefits expense

##### The amounts recognised in the statement of other comprehensive income are as follows:

Return on plan assets, excluding interest income  
Experience gains/(losses) on liabilities  
Gains from changes in demographic assumptions  
Losses from changes in financial assumptions  
Total included in other comprehensive income

\* Charge to profit or loss includes £nil (2019: £289,000) in respect of member salary sacrifice contributions.

2020 £'000	2019 £'000
(403,709)	(371,179)
394,356	379,684
(9,353)	8,505
-	-
(9,353)	8,505
8,505	16,131
(1,003)	(2,101)
(16,855)	(6,811)
-	1,286
(9,353)	8,505
575	2,130
557	433
6,971	8,628
(7,132)	(9,090)
32	-
1,003	2,101
16,150	39,780
14,543	(91)
6,017	13,192
(53,565)	(59,692)
(16,855)	(6,811)

## Notes to the financial statements

### 19 Retirement benefit schemes (continued)

The following is the analysis of the defined benefit pension balances:

#### Group and Parent

Pension assets  
Pension liabilities

	2020 £000	2019 £000
	1,053	8,505
	(10,406)	-
	(9,353)	8,505

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

Discount rate  
Inflation (RPI)  
Inflation (CPI)  
Future salary increases  
Future increase in pensions in deferment  
Future average pension increases (linked to RPI)  
Future average pension increases (linked to CPI)

	%	%
	1.30	1.90
	2.90	3.00
	2.50	2.30
	4.50	4.30
	3.40	2.35
	2.80	2.80
	1.70	1.50

Mortality rate

The average life expectancy in years of a pensioner retiring at age 65, at the year-end date, is as follows:

Male  
Female

Male	22.9	22.4
Female	24.1	23.9
The average life expectancy in years of a pensioner retiring at age 65, 20 years after the year-end date, is as follows:		
Male	24.0	24.1
Female	25.6	25.7

Plan assets are weighted as follows:

	£000	£000
	36,657	21,945
	83,040	93,519
	552	270
	80,704	78,282
	164,296	172,071
Liability driven investments	57,519	41,781
Debt instruments		
UK public sector quoted - fixed interest	243	2,411
UK non-public sector quoted - fixed interest	68,500	71,189
UK quoted - index-linked	24,383	24,232
	93,126	97,832
Derivative financial instruments	885	2,396
Property	41,873	43,659
	394,356	379,684

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

The actual return on plan assets was a gain of £23,282,000 (2019: a gain of £48,870,000).

The underlying assets of the LDIs 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

### 19 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:

#### Plan assets

At 1 January  
Interest income

Actual return on plan assets, excluding interest income

Pension benefits paid and payable

Contributions paid

At 31 December

#### Defined benefit obligation

At 1 January

Current service cost

Administration cost

Past service cost

Interest cost

Pension benefits paid and payable

Experience (gains)/losses on liabilities

Gains from changes in demographic assumptions

Losses from changes in financial assumptions

At 31 December

#### History of plan assets and liabilities

Present value of defined benefit obligations

Fair value of plan assets

Restrictions on asset recognised

(Deficit)/surplus

	2020 £000	2019 £000	2018 £000	2017 £000	2016 £000
(403,709)		(371,179)	(325,738)	(343,143)	(349,570)
394,356		379,684	341,869	363,179	329,394
(9,353)		8,505	16,131	20,036	(20,176)
					(144)
		(9,353)	8,505	16,131	20,036
					(20,320)

The weighted average duration of the defined benefit obligation at the end of the reporting period is 21 years (2019: 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

	Discount rate	Increase by 0.5%
		Decrease by 0.5%
	Inflation	Increase by 0.5%
		Decrease by 0.5%
	Salary increase	Increase by 0.5%
		Decrease by 0.5%
	Life expectancy	Increase by 1 year
		Decrease by 1 year

	2020 £000	2019 £000
(39,500)		(40,500)
46,000		47,700
33,600		33,300
(29,100)		(27,500)
6,800		5,600
(6,300)		(5,400)
20,100		15,700
(20,000)		(15,600)

## Notes to the financial statements

### 19 Retirement benefit schemes (continued)

#### Post-employment medical benefits

The Parent operates a post-employment medical benefit plan, for which it chooses to self-insure. The method of accounting, assumptions and the frequency of valuation are similar to those used for the defined benefit pension plans.

The provision of the plan leads to a number of risks as follows:

- Interest rate risk: The reserves are assessed using market rates of interest to discount the liabilities and are therefore subject to volatility in the movement of the market rates of interest. A reduction in the market rate of interest would lead to an increase in the reserves required to be held.
- Medical expense 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:

	2020 £000	2019 £000
<b>Group and Parent</b>		
Present value of unfunded obligations and net obligations in the statement of financial position	<b>6,530</b>	<b>5,998</b>
<b>Movements in the net obligations recognised in the statement of financial position are as follows:</b>		
At 1 January	5,998	5,813
Total expense charged to profit or loss	112	154
Net actuarial losses during the year, recognised in other comprehensive income	463	238
Benefits paid	(43)	(207)
At 31 December	<b>6,530</b>	<b>5,998</b>
<b>The amounts recognised through profit or loss are as follows:</b>		
Interest cost	112	154
Total, included in employee benefits expense	<b>112</b>	<b>154</b>

The weighted average duration of the net obligations at the end of the reporting period is 13.1 years (2019: 13.3 years).

The main actuarial assumptions for the plan are a long-term increase in medical costs of 6.9% (2019: 7.0%) and a discount rate of 1.3% (2019: 1.9%). An actuarial loss of £513,000 has been recognised in the current year due to the 0.6% fall in discount rate. This has been partially offset by an actuarial gain of £88,000 arising from a fall in medical cost inflation. A small actuarial loss has been recognised due to changes in mortality assumptions. Benefits paid in the year fell due to the suspension of routine treatment as private facilities supported the NHS during the Covid-19 pandemic. 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	
		2020 £000	2019 £000
Discount rate	Increase by 0.5%	(404)	(371)
	Decrease by 0.5%	445	409
Medical expense inflation	Increase by 1.0%	851	782
	Decrease by 1.0%	(721)	(662)
Life expectancy	Increase by 1 year	576	529
	Decrease by 1 year	(527)	(484)

## Notes to the financial statements

### 20 Property, plant and equipment

Group	Land and buildings £000	Motor vehicles £000	Furniture, fittings and equipment £000	Computer equipment £000	Right of use asset £000	Total £000
<b>Cost or valuation</b>						
At 31 December 2019	2,445	146	9,841	10,748	14,595	37,775
Additions	-	-	5,142	892	17,599	23,633
Disposals	-	-	(10)	(300)	(535)	(845)
Revaluation	(5)	-	-	-	-	(5)
Exchange differences	-	-	(2)	23	107	128
At 31 December 2020	2,440	146	14,971	11,363	31,766	60,686
<b>Depreciation</b>						
At 31 December 2019	-	87	6,536	7,539	3,291	17,453
Charge for the year	-	20	712	1,481	3,273	5,486
Disposals	-	-	(6)	(300)	(342)	(648)
Exchange differences	-	-	5	18	56	79
At 31 December 2020	-	107	7,247	8,738	6,278	22,370
<b>Net book value at 31 December 2020</b>	<b>2,440</b>	<b>39</b>	<b>7,724</b>	<b>2,625</b>	<b>25,488</b>	<b>38,316</b>
<b>Cost or valuation</b>						
At 31 December 2018	2,445	2,227	9,058	7,914	-	21,644
IFRS 16 transition adjustment*	-	(2,095)	74	-	12,402	10,381
At 1 January 2019	2,445	132	9,132	7,914	12,402	32,025
Additions	-	14	1,459	2,921	3,142	7,536
Disposals	-	-	(730)	(76)	(843)	(1,649)
Revaluation	-	-	-	-	-	-
At 31 December 2019	2,445	146	9,841	10,748	14,595	37,775
<b>Depreciation</b>						
At 31 December 2018	-	843	6,082	6,328	-	13,253
Transition to IFRS 16	-	(781)	28	-	781	28
At 1 January 2019	-	62	6,110	6,328	781	13,281
Charge for the year	-	25	981	1,296	2,779	5,081
Disposals	-	-	(559)	(76)	(252)	(887)
Exchange differences	-	-	4	(9)	(17)	(22)
At 31 December 2019	-	87	6,536	7,539	3,291	17,453
<b>Net book value at 31 December 2019</b>	<b>2,445</b>	<b>59</b>	<b>3,305</b>	<b>3,209</b>	<b>11,304</b>	<b>20,322</b>

\*The Group adopted IFRS 16 from 1 January 2019.

## Notes to the financial statements

### 20 Property, plant and equipment (continued)

Parent	Land and buildings £000	Motor vehicles £000	Furniture, fittings and equipment £000	Computer equipment £000	Right of use asset £000	Total £000
<b>Cost or valuation</b>						
At 31 December 2019	2,045	53	9,315	9,846	11,362	32,621
Additions	-	-	5,138	742	16,994	22,874
Disposals	-	-	(10)	(298)	(535)	(843)
Revaluation	(5)	-	-	-	-	(5)
Exchange differences	-	-	(4)	(7)	(19)	(30)
At 31 December 2020	2,040	53	14,439	10,283	27,802	54,617
<b>Depreciation</b>						
At 31 December 2019	-	29	6,270	6,964	2,658	15,921
Charge for the year	-	11	654	1,329	2,626	4,620
Disposals	-	-	(6)	(300)	(342)	(648)
Exchange differences	-	-	4	(4)	(2)	(2)
At 31 December 2020	-	40	6,922	7,989	4,940	19,891
<b>Net book value at 31 December 2020</b>	<b>2,040</b>	<b>13</b>	<b>7,517</b>	<b>2,294</b>	<b>22,862</b>	<b>34,726</b>
<b>Cost or valuation</b>						
At 31 December 2018	2,045	2,135	8,470	7,237	-	19,887
IFRS 16 transition adjustment*	-	(2,095)	74	-	9,181	7,160
At 1 January 2019	2,045	40	8,544	7,237	9,181	27,047
Additions	-	13	1,422	2,680	3,038	7,153
Disposals	-	-	(633)	(76)	(814)	(1,523)
Exchange differences	-	-	(18)	5	(43)	(56)
At 31 December 2019	2,045	53	9,315	9,846	11,362	32,621
<b>Depreciation</b>						
At 31 December 2018	-	799	5,874	5,842	-	12,515
IFRS 16 transition adjustment*	-	(781)	28	-	781	28
At 1 January 2019	-	18	5,902	5,842	781	12,543
Charge for the year	-	11	893	1,192	2,126	4,222
Disposals	-	-	(528)	(75)	(244)	(847)
Exchange differences	-	-	3	5	(5)	3
At 31 December 2019	-	29	6,270	6,964	2,658	15,921
<b>Net book value at 31 December 2019</b>	<b>2,045</b>	<b>24</b>	<b>3,045</b>	<b>2,882</b>	<b>8,704</b>	<b>16,700</b>

\*The Parent adopted IFRS 16 from 1 January 2019.

All properties of the Group and Parent were last revalued at 31 December 2020. Valuations were carried out by Cluttons LLP, an independent professional firm of chartered surveyors who have recent experience in the location and type of properties. Valuations were carried out using standard industry methodology to determine a fair value. All properties are classified as level 3 assets.

Movements in fair 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 fair 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 of the Group on a historical cost basis is £2,444,000 (2019: £2,444,000). The value of land and buildings of the Parent on a historical cost basis is £2,044,000 (2019: £2,044,000).

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

## Notes to the financial statements

### 21 Investment property

#### Group and Parent

Fair value at 1 January  
Additions - subsequent expenditure  
Disposals  
Fair value losses recognised in profit or loss  
Fair value at 31 December

2020 £000	2019 £000
148,146	152,182
-	191
(1,020)	(327)
(4,984)	(3,900)
<b>142,142</b>	<b>148,146</b>

The Group's investment properties were last revalued at 31 December 2020 by Cluttons LLP, an independent professional firm of chartered surveyors who have recent experience in the location and type of properties. Valuations were carried out using standard industry methodology to determine a fair 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 £8,786,000 (2019: £8,519,000) and is included in net investment return.

### 22 Financial investments

Financial investments summarised by measurement category are as follows:

2020 Group £000	2019 Group £000	2019 Parent £000	2019 Parent £000
<b>Financial investments at fair value through profit or loss</b>			
Equity securities			
- listed	262,598	238,555	289,754
- unlisted	59,288	59,287	66,304
Debt securities			
- government bonds	160,381	71,199	154,244
- listed	334,732	217,211	338,001
- unlisted	552	552	270
Derivative financial instruments			
- options	1,407	1,407	1,562
- forwards	672	672	1,499
	<b>819,630</b>	<b>588,883</b>	<b>851,634</b>
<b>Financial investments at fair value through other comprehensive income</b>			
Derivative financial instruments			
- forwards	401	401	509
Total financial investments at fair value	<b>820,031</b>	<b>589,284</b>	<b>852,143</b>
<b>Loans and receivables</b>			
Cash held on deposit	-	-	4,974
Other loans	746	746	796
	<b>746</b>	<b>746</b>	<b>4,974</b>
<b>Parent investments in subsidiary undertakings</b>			
Shares in subsidiary undertakings	-	60,757	-
Total financial investments	<b>820,777</b>	<b>650,787</b>	<b>857,913</b>
Current	335,916	298,036	383,578
Non-current	484,861	352,751	474,335
	<b>484,861</b>	<b>352,751</b>	<b>350,173</b>

All investments in subsidiary undertakings are unlisted.

## Notes to the financial statements

### 23 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 loss of £2,339,000 (2019: gain of £640,000) in respect of these 'hedge' derivatives has been recognised in the hedging reserve within shareholders' equity, as disclosed in note 27. 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	2020			2019		
	Contract/ notional amount £000	Fair value asset £000	Fair value liability £000	Contract/ notional amount £000	Fair value asset £000	
<b>Non-hedge derivatives</b>						
<i>Equity/Index contracts</i>						
Futures	-	-	-	-	-	
Options	40,597	1,407	-	58,588	1,562	
<i>Foreign exchange contracts</i>						
Forwards (Euro)	96,000	672	-	116,603	1,499	
<b>Hedge derivatives</b>						
<i>Foreign exchange contracts</i>						
Forwards (Australian dollar)	75,000	-	1,244	45,411	250	
Forwards (Canadian dollar)	52,000	401	-	30,456	259	
	<b>263,597</b>	<b>2,480</b>	<b>1,244</b>	<b>251,058</b>	<b>3,570</b>	

Included with Equity/Index contracts are options with a contract/notional value of £nil (2019: £17,997,000), and fair value asset of £nil (2019: £734,000), 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.

All contracts designated as hedging instruments were fully effective in the current and prior year.

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 22) and derivative fair value liabilities are recognised within other liabilities (note 31).

## Notes to the financial statements

### 24 Other assets

#### Receivables arising from insurance and reinsurance contracts

- due from contract holders
- due from agents, brokers and intermediaries
- due from reinsurers

#### Other receivables

- accrued interest and rent
- other prepayments and accrued income
- amounts owed by related parties
- debtors arising from broking activities
- net investment in finance leases
- other debtors

2020	2019
Group £000	Parent £000
50,285	49,981
66,232	39,796
11,005	4,941
<b>19,856</b>	<b>2,428</b>
<b>216,570</b>	<b>161,114</b>
162,085	105,076
54,485	56,038

The Group has recognised a net charge of £759,000 (2019: net credit of £31,000) in other operating and administrative expenses in the statement of profit or loss for the impairment and reversal of impairment of its trade and other receivables during the year. The Parent has recognised a net charge of £693,000 (2019: net credit of £15,000).

There has been no significant change in the recoverability of the Group's or Parent's other assets, 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 £2,920,000 (2019: £2,744,000) pledged as collateral in respect of an insurance liability.

Included within other receivables of the Group is £1,201,000 (2019: £1,255,000) classified as contract assets, and £1,410,000 (2019: £1,151,000) classified as receivables in accordance with IFRS 15. Included within other receivables of the Parent is £nil (2019: £nil) classified as contract assets, and £nil (2019: £nil) classified as receivables in accordance with IFRS 15.

2020	2019
Group £000	Parent £000
145	69
578	505
723	574
168	69
(23)	-
145	69

Included within other assets of the Group is £13,767,000 (2019: £8,162,000) overdue but not impaired, of which £11,754,000 (2019: £7,253,000) is not more than three months overdue at the reporting date. Included within trade receivables of the Parent is £5,238,000 (2019: £3,688,000) overdue but not impaired, of which £4,245,000 (2019: £3,485,000) is not more than three months overdue at the reporting date.

### 25 Cash and cash equivalents

#### Cash at bank and in hand

2020	2019
Group £000	Parent £000
78,643	43,713
25,786	15,753
104,429	59,466
47,155	23,781
27,620	18,467
74,775	42,248

Included within short-term bank deposits of the Group and Parent are cash deposits of £1,960,000 (2019: £1,007,000) pledged as collateral by way of cash margins on open derivative contracts to cover derivative liabilities.

Included within Group cash at bank and in hand are cash deposits of £4,131,000 (2019: £3,821,000) pledged as collateral by way of cash calls from reinsurers, and £3,765,000 (2019: £3,464,000) of restricted cash held on an agency basis.

## Notes to the financial statements

## 26 Called up share capital

	Issued, allotted and fully paid	
	2020 £000	2019 £000
Ordinary shares of 4p each	14,027	14,027
8.625% Non-Cumulative Irredeemable Preference shares of £1 each	106,450	106,450
	<b>120,477</b>	<b>120,477</b>
<b>The number of shares in issue are as follows:</b>		
Ordinary shares of 4p each		
At 1 January and 31 December	<b>350,678</b>	<b>350,678</b>
8.625% Non-Cumulative Irredeemable Preference shares of £1 each		
At 1 January and 31 December	<b>106,450</b>	<b>106,450</b>

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.

## 27 Translation and hedging reserve

Group	Translation reserve £000	Hedging reserve £000	Total £000
<b>At 1 January 2020</b>			
Gains on currency translation differences	13,572	4,752	<b>18,324</b>
Losses on net investment hedges	1,980	-	<b>1,980</b>
Attributable tax	-	(2,339)	<b>(2,339)</b>
	-	265	<b>265</b>
<b>At 31 December 2020</b>	<b>15,552</b>	<b>2,678</b>	<b>18,230</b>
<b>At 1 January 2019</b>			
Losses on currency translation differences	14,940	4,131	19,071
Gains on net investment hedges	(1,368)	-	(1,368)
Attributable tax	-	640	640
	-	(19)	(19)
<b>At 31 December 2019</b>	<b>13,572</b>	<b>4,752</b>	<b>18,324</b>
<b>Parent</b>			
<b>At 1 January 2020</b>			
Losses on currency translation differences	7,130	434	<b>7,564</b>
Gains on net investment hedges	(712)	-	<b>(712)</b>
Attributable tax	-	279	<b>279</b>
	-	(64)	<b>(64)</b>
<b>At 31 December 2020</b>	<b>6,418</b>	<b>649</b>	<b>7,067</b>
<b>At 1 January 2019</b>			
Gains on currency translation differences	6,605	973	7,578
Losses on net investment hedges	525	-	525
Attributable tax	-	(649)	(649)
	-	110	110
<b>At 31 December 2019</b>	<b>7,130</b>	<b>434</b>	<b>7,564</b>

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

## 28 Insurance liabilities and reinsurance assets

	2020 Group £000	2020 Parent £000	2019 Group £000	2019 Parent £000
<b>Gross</b>				
Claims outstanding	560,992	434,583	481,669	391,268
Unearned premiums	230,800	181,619	203,096	165,004
Life business provision	76,857	-	79,212	-
Total gross insurance liabilities	<b>868,649</b>	<b>616,202</b>	<b>763,977</b>	<b>556,272</b>
<b>Recoverable from reinsurers</b>				
Claims outstanding	129,284	78,450	89,982	56,174
Unearned premiums	79,393	56,066	69,574	50,527
Total reinsurers' share of insurance liabilities	<b>208,677</b>	<b>134,516</b>	<b>159,556</b>	<b>106,701</b>
<b>Net</b>				
Claims outstanding	431,708	356,133	391,687	335,094
Unearned premiums	151,407	125,553	133,522	114,477
Life business provision	76,857	-	79,212	-
Total net insurance liabilities	<b>659,972</b>	<b>481,686</b>	<b>604,421</b>	<b>449,571</b>
<b>Gross insurance liabilities</b>				
Current	412,200	315,863	354,977	282,020
Non-current	456,449	300,339	409,000	274,252
<b>Reinsurance assets</b>				
Current	142,466	94,662	115,082	78,432
Non-current	66,211	39,854	44,474	28,269

## (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. From time to time, the management may elect to select an additional margin to reflect short-term uncertainty driven by specific events that are not in data. 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

## 28 Insurance liabilities and reinsurance assets (continued)

## (iv) Discounting

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

Geographical territory	Discount rate		Mean term of discounted liabilities (years)		2020	2019
	2020	2019	2020	2019		
UK and Ireland	0.5% to 1.5%	1.3% to 2.2%	17	17		
Canada	0.4% to 1.7%	1.9% to 2.0%	12	12		
Australia	0.7%	1.2%	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 £585,635,000 for the Group (2019: £516,068,000), and £456,912,000 for the Parent (2019: £422,531,000).

The impact of discount rate changes on the outstanding claims liability is presented within net investment return (note 8).

At 31 December 2020, it is estimated that a fall of 1% in the discount rates used would increase the Group's net outstanding claims liabilities by £20,715,000 (2019: £17,065,000). Financial investments backing these liabilities are not hypothecated across general insurance classes of business. The sensitivity of Group profit or loss and other equity reserves to interest rate risk, taking into account the mitigating effect on asset values is provided in note 4(h).

## (v) Assumptions

The Group follows a process of reviewing its reserves for outstanding claims on a regular basis. This involves an appraisal of each portfolio with respect to ultimate claims liability for the recent exposure period as well as for earlier periods, together with a review of the factors that have the most significant impact on the assumptions used to determine the reserving methodology. The work conducted on each portfolio is subject to an internal peer review and management sign-off process.

The most significant assumptions in determining the undiscounted general insurance reserves are the anticipated number and ultimate settlement cost of claims, and the extent to which reinsurers will share in the cost. Factors which influence decisions on assumptions include legal and judicial changes, significant weather events, other catastrophes, subsidence events, exceptional claims or substantial changes in claims experience and developments in older or latent claims. Significant factors influencing assumptions about reinsurance are the terms of the reinsurance treaties, the anticipated time taken to settle a claim and the incidence of large individual and aggregated claims.

## (vi) Changes in assumptions

There are no significant changes in assumptions.

## (vii) Sensitivity of results

The ultimate amount of claims settlement is uncertain and the Group's aim is to reserve to at least the 75th percentile confidence level.

If final settlement of insurance claims reserved for at the year end turns out to be 10% higher or lower than the undiscounted reserves included in these financial statements, the following pre-tax Group loss or profit will be realised:

	2020		2019		
	Gross £000	Net £000	Gross £000	Net £000	
Liability	- UK	20,200	19,000	19,700	18,500
	- Overseas	14,900	12,200	12,100	10,200
Property	- UK	10,300	5,600	7,900	4,800
	- Overseas	7,200	2,600	4,900	1,900
Motor	- UK	200	200	200	200

## Notes to the financial statements

## 28 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.

Group	Estimate of ultimate gross claims											Total £000
	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	2019 £000	2020 £000		
At end of year	82,095	100,612	81,725	61,901	46,464	51,738	50,736	48,759	47,945	50,134		
One year later	76,371	88,046	80,027	50,571	43,582	46,073	46,885	40,461	42,467			
Two years later	71,543	78,196	69,860	48,327	40,337	41,041	41,883	34,680				
Three years later	68,587	72,516	66,192	45,495	33,804	38,468	38,648					
Four years later	60,841	67,980	60,174	37,064	29,436	37,044						
Five years later	59,914	62,712	56,912	34,606	28,211							
Six years later	57,950	61,213	54,901	34,962								
Seven years later	57,939	60,560	55,516									
Eight years later	57,790	62,025										
Nine years later	59,079											
Current estimate of ultimate claims	59,079	62,025	55,516	34,962	28,211	37,044	38,648	34,680	42,467	50,134	442,766	
Cumulative payments to date	(51,823)	(54,716)	(46,905)	(25,553)	(17,590)	(19,540)	(13,547)	(9,264)	(5,342)	(1,410)	(245,690)	
Outstanding liability	7,256	7,309	8,611	9,409	10,621	17,504	25,101	25,416	37,125	48,724	197,076	
Effect of discounting											(6,824)	
Present value											190,252	
Discounted liability in respect of earlier years											159,442	
Total discounted gross liability (for liability classes) included in insurance liabilities in the statement of financial position											349,694	

Parent	Parent											Total £000
	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	2019 £000	2020 £000		
At end of year	66,864	84,511	71,798	52,350	34,769	37,981	34,210	32,992	33,719	35,690		
One year later	63,770	77,629	60,950	40,153	31,941	32,541	33,353	28,181	30,285			
Two years later	62,587	69,580	54,792	39,015	30,129	29,538	31,463	24,212				
Three years later	60,653	63,068	50,492	37,158	27,287	28,622	29,557					
Four years later	52,985	56,225	43,910	31,530	23,620	27,899						
Five years later	50,355	51,872	42,289	30,024	23,068							
Six years later	49,127	50,791	40,698	30,063								
Seven years later	48,927	50,092	40,041									
Eight years later	49,040	50,367										
Nine years later	49,272											
Current estimate of ultimate claims	49,272	50,367	40,041	30,063	23,068	27,899	29,557	24,212	30,285	35,690	340,454	
Cumulative payments to date	(43,627)	(45,478)	(34,010)	(22,432)	(14,232)	(14,408)	(10,132)	(6,130)	(3,007)	(786)	(194,242)	
Outstanding liability	5,645	4,889	6,031	7,631	8,836	13,491	19,425	18,082	27,278	34,904	146,212	
Effect of discounting											(5,299)	
Present value											140,913	
Discounted liability in respect of earlier years											126,082	
Total discounted gross liability (for liability classes) included in insurance liabilities in the statement of financial position											266,995	

## Notes to the financial statements

## 28 Insurance liabilities and reinsurance assets (continued)

## Estimate of ultimate net claims

Group	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	2019 £000	2020 £000	Total £000
At end of year	75,302	88,247	76,729	59,633	42,739	47,402	45,920	44,053	44,230	45,459	
One year later	72,336	79,272	66,475	47,690	40,397	41,631	41,706	37,456	39,842		
Two years later	68,057	73,735	60,075	47,428	37,740	37,740	37,797	32,867			
Three years later	66,822	69,837	55,710	41,494	32,297	36,337	34,818				
Four years later	60,314	65,872	51,482	35,164	28,506	35,217					
Five years later	59,521	60,800	49,196	33,233	27,418						
Six years later	57,641	59,338	47,518	33,309							
Seven years later	57,591	59,061	47,443								
Eight years later	57,439	60,056									
Nine years later	58,462										
Current estimate of ultimate claims	58,462	60,056	47,443	33,309	27,418	35,217	34,818	32,867	39,842	45,459	414,891
Cumulative payments to date	(51,448)	(53,318)	(39,244)	(24,373)	(17,590)	(19,482)	(13,547)	(9,262)	(5,333)	(1,406)	(235,003)
Outstanding liability	7,014	6,738	8,199	8,936	9,828	15,735	21,271	23,605	34,509	44,053	179,888
Effect of discounting											(6,824)
Present value											173,064
Discounted liability in respect of earlier years											142,764
Total discounted net liability (for liability classes) included in insurance liabilities in the statement of financial position											315,828
Parent	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	2019 £000	2020 £000	Total £000
At end of year	59,011	74,361	67,690	50,025	33,122	35,882	33,134	31,981	32,688	33,502	
One year later	59,873	69,805	57,538	38,944	31,041	30,906	30,965	27,208	29,509		
Two years later	59,997	65,297	51,828	38,215	29,494	28,199	28,854	23,787			
Three years later	59,352	61,795	47,942	34,393	26,981	27,493	26,774				
Four years later	52,850	55,686	43,568	30,252	23,229	26,894					
Five years later	50,189	51,766	42,126	28,825	22,806						
Six years later	49,029	50,762	40,587	28,865							
Seven years later	48,858	50,079	39,930								
Eight years later	48,977	50,356									
Nine years later	49,208										
Current estimate of ultimate claims	49,208	50,356	39,930	28,865	22,806	26,894	26,774	23,787	29,509	33,502	331,631
Cumulative payments to date	(43,569)	(45,474)	(33,906)	(21,253)	(14,232)	(14,349)	(10,132)	(6,128)	(2,998)	(782)	(192,823)
Outstanding liability	5,639	4,882	6,024	7,612	8,574	12,545	16,642	17,659	26,511	32,720	138,808
Effect of discounting											(5,299)
Present value											133,509
Discounted liability in respect of earlier years											118,934
Total discounted net liability (for liability classes) included in insurance liabilities in the statement of financial position											252,443

## Notes to the financial statements

## 28 Insurance liabilities and reinsurance assets (continued)

## (b) Life insurance contracts

## (i) Assumptions

The most significant assumptions in determining life reserves are as follows:

**Mortality**

An appropriate base table of standard mortality is chosen depending on the type of contract. Where prudent, an allowance is made for future mortality improvements based on trends identified in population data.

**Investment returns**

Projected investment returns are based on actual yields for each asset class less an allowance for credit risk, where appropriate. The risk-adjusted yields after allowance for investment expenses for the current valuation are as follows:

2020	2019
-0.28%	0.61%
-2.72%	-2.18%
-2.23%	-1.64%

UK and overseas government bonds: non-linked  
UK and overseas government bonds: index-linked  
Corporate debt instruments: index-linked

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 in-force business is £2.50 per annum (2019: £2.50 per annum). Additionally, now the in-force policy volumes are expected to fall, much of the expenses of the company have been reserved for in a separate exercise. A reserve for these expenses is held at £5.8m (2019: £5.7m).

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 4.07% per annum (2019: 4.08%).

**Tax**

It has been assumed that current tax legislation and rates applicable at 31 December 2020 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 £5.0m (2019: £2.5m).

The assumed future expenses of running the business have been revised based on expenses that are expected to be incurred by the company. The effect on insurance liabilities of the changes to renewal expense assumptions (described above) was a £0.7m increase (2019: £0.4m).

The assumptions underlying the calculation of the fixed expense reserve have been revised to reflect updated views on the expenses that would be incurred as the portfolio reduces in scale. The effect of this one-off change is a reduction in liabilities of £0.7m.

There has been no material change in the mortality assumptions.

## Notes to the financial statements

## 28 Insurance liabilities and reinsurance assets (continued)

## (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.

Variable	Change in variable	Potential increase/(decrease) in the result	
		2020 £000	2019 £000
Deterioration in mortality	+10%	1,300	1,000
Improvement in mortality	-10%	(1,600)	(1,100)
Increase in fixed interest/cash yields	+1% pa	200	500
Decrease in fixed interest/cash yields	-1% pa	(700)	(600)
Worsening of base renewal expense level	+10%	(200)	(700)
Improvement in base renewal expense level	-10%	300	600
Increase in expense inflation	+1% pa	(600)	(900)
Decrease in expense inflation	-1% pa	500	700

## (c) Movements in insurance liabilities and reinsurance assets

Group	Gross £000	Reinsurance £000	Net £000
<b>Claims outstanding</b>			
At 1 January 2020	481,669	(89,982)	391,687
Cash (paid)/received for claims settled in the year	(164,510)	59,024	(105,486)
Change in liabilities/reinsurance assets			
- arising from current year claims	240,868	(97,272)	143,596
- arising from prior year claims	(16,741)	2,691	(14,050)
- change in discount rate	11,810	(898)	10,912
Exchange differences	7,896	(2,847)	5,049
At 31 December 2020	560,992	(129,284)	431,708
<b>Provision for unearned premiums</b>			
At 1 January 2020	203,096	(69,574)	133,522
Increase in the period	228,361	(78,170)	150,191
Release in the period	(203,377)	69,748	(133,629)
Exchange differences	2,720	(1,397)	1,323
At 31 December 2020	230,800	(79,393)	151,407
<b>Life business provision</b>			
At 1 January 2020	79,212	-	79,212
Effect of claims during the year	(5,549)	-	(5,549)
Changes in assumptions	(1,077)	-	(1,077)
Changes in methodology	(708)	-	(708)
Change in discount rate	4,986	-	4,986
Other movements	(7)	-	(7)
At 31 December 2020	76,857	-	76,857
<b>Total insurance contract liabilities and reinsurance assets</b>			
	868,649	(208,677)	659,972

## Notes to the financial statements

## 28 Insurance liabilities and reinsurance assets (continued)

Group	Gross £000	Reinsurance £000	Net £000
<b>Claims outstanding</b>			
At 1 January 2019	457,319	(78,731)	378,588
Cash (paid)/received for claims settled in the year	(139,221)	40,808	(98,413)
Change in liabilities/reinsurance assets			
- arising from current year claims	189,646	(58,688)	130,958
- arising from prior year claims	(32,165)	5,888	(26,277)
- change in discount rate	10,549	(599)	9,950
Exchange differences	(4,459)	1,340	(3,119)
At 31 December 2019	481,669	(89,982)	391,687
<b>Provision for unearned premiums</b>			
At 1 January 2019	180,766	(61,615)	119,151
Increase in the period	204,691	(70,165)	134,526
Release in the period	(180,862)	61,416	(119,446)
Exchange differences	(1,499)	790	(709)
At 31 December 2019	203,096	(69,574)	133,522
<b>Life business provision</b>			
At 1 January 2019	81,964	-	81,964
Effect of claims during the year	(5,733)	-	(5,733)
Changes in assumptions	364	-	364
Change in discount rate	2,483	-	2,483
Other movements	134	-	134
At 31 December 2019	79,212	-	79,212
Total insurance contract liabilities and reinsurance assets	763,977	(159,556)	604,421
<b>Parent</b>			
<b>Claims outstanding</b>			
At 1 January 2020	391,268	(56,174)	335,094
Cash (paid)/received for claims settled in the year	(136,184)	34,368	(101,816)
Change in liabilities/reinsurance assets			
- arising from current year claims	191,326	(66,322)	125,004
- arising from prior year claims	(21,916)	9,579	(12,337)
- change in discount rate	9,567	-	9,567
Exchange differences	522	99	621
At 31 December 2020	434,583	(78,450)	356,133
<b>Provision for unearned premiums</b>			
At 1 January 2020	165,004	(50,527)	114,477
Increase in the period	181,778	(56,074)	125,704
Release in the period	(164,992)	50,555	(114,437)
Exchange differences	(171)	(20)	(191)
At 31 December 2020	181,619	(56,066)	125,553
<b>Claims outstanding</b>			
At 1 January 2019	381,631	(54,357)	327,274
Cash (paid)/received for claims settled in the year	(112,589)	24,498	(88,091)
Change in liabilities/reinsurance assets			
- arising from current year claims	140,367	(27,217)	113,150
- arising from prior year claims	(25,030)	807	(24,223)
- change in discount rate	7,862	-	7,862
Exchange differences	(973)	95	(878)
At 31 December 2019	391,268	(56,174)	335,094
<b>Provision for unearned premiums</b>			
At 1 January 2019	149,808	(45,881)	103,927
Increase in the period	165,625	(50,631)	114,994
Release in the period	(150,384)	45,926	(104,458)
Exchange differences	(45)	59	14
At 31 December 2019	165,004	(50,527)	114,477

## Notes to the financial statements

### 29 Provisions for other liabilities and contingent liabilities

	Regulatory and legal provisions £'000	Contingent consideration £'000	Other provisions £'000	Total £'000
<b>Group</b>				
At 31 December 2019	2,565	23	2,279	4,867
Acquisitions	-	418	-	418
Additional provisions	5,644	-	1,465	7,109
Used during year	(5,859)	(22)	-	(5,881)
Not utilised	(21)	-	-	(21)
Exchange differences	-	-	7	7
At 31 December 2020	2,329	419	3,751	6,499
Current	2,329	419	1,669	4,417
Non-current	-	-	2,082	2,082
<b>Parent</b>				
At 31 December 2019	2,565	-	2,130	4,695
Additional provisions	5,644	-	1,380	7,024
Used during year	(5,859)	-	-	(5,859)
Not utilised	(21)	-	-	(21)
Exchange differences	-	-	3	3
At 31 December 2020	2,329	-	3,513	5,842
Current	2,329	-	1,669	3,998
Non-current	-	-	1,844	1,844
<b>Regulatory and legal provisions</b>				
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.				
<b>Contingent consideration</b>				
Acquisitions included within the provision for contingent consideration relates to the acquisition of WRS Insurance Brokers Limited as disclosed in note 16.				
<b>Other provisions</b>				
The provision for other costs relates to costs in respect of dilapidations.				

## Notes to the financial statements

### 30 Deferred tax

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

	Unrealised gains on investments £'000	Net retirement benefit assets £'000	Equalisation reserve £'000	Other differences £'000	Total £'000	
<b>Group</b>						
At 1 January 2019	27,566	1,753	2,204	(1,607)	29,916	
Charged/(credited) to profit or loss	6,500	(130)	(770)	(851)	4,749	
Credited to other comprehensive income	-	(1,198)	-	(110)	(1,308)	
Exchange differences	15	-	-	74	89	
At 31 December 2019	34,081	425	1,434	(2,494)	33,446	
(Credited)/charged to profit or loss	(6,569)	(204)	(790)	2,168	(5,395)	
Charged/(credited) to profit or loss	4,050	232	145	(171)	4,256	
- Impact of change in deferred tax rate	-	(3,291)	-	(9)	(3,300)	
Credited to other comprehensive income	(Credited)/charged to other comprehensive income	-	-	-	-	
- Impact of change in deferred tax rate	-	(182)	-	24	(158)	
Exchange differences	(4)	-	-	(77)	(81)	
At 31 December 2020	31,558	(3,020)	789	(559)	28,768	
<b>Parent</b>						
At 1 January 2019	27,274	1,755	2,204	(163)	31,070	
Charged/(credited) to profit or loss	5,875	(130)	(770)	(318)	4,657	
(Credited)/charged to other comprehensive income	-	(1,198)	-	(110)	(1,308)	
Exchange differences	-	-	-	9	9	
At 31 December 2019	33,149	427	1,434	(582)	34,428	
(Credited)/charged to profit or loss	(6,489)	(204)	(790)	971	(6,512)	
Charged/(credited) to profit or loss	3,900	232	145	(165)	4,112	
- Impact of change in deferred tax rate	-	(3,290)	-	(9)	(3,299)	
Credited to other comprehensive income	(Credited)/charged to other comprehensive income	-	-	-	-	
- Impact of change in deferred tax rate	-	(182)	-	24	(158)	
Exchange differences	At 31 December 2020	30,560	(3,017)	789	230	28,562

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.

Certain deferred tax assets and liabilities have been offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2020		2019	
	Group £'000	Parent £'000	Group £'000	Parent £'000
Deferred tax liabilities	29,846	28,562	35,649	34,428
Deferred tax assets	(1,078)	-	(2,203)	-
	<b>28,768</b>	<b>28,562</b>	<b>33,446</b>	<b>34,428</b>

The Group has unused tax losses of £12,954,000 (2019: £13,361,000) 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 in respect of these losses due to the unpredictability of future profit streams.

## Notes to the financial statements

### 31 Other liabilities and deferred income

	2020		2019	
	Group	Parent	Group	Parent
	£'000	£'000	£'000	£'000
Creditors arising out of direct insurance operations	3,055	1,556	2,215	1,418
Creditors arising out of reinsurance operations	39,190	24,539	26,652	14,567
Derivative liabilities	1,244	1,244	-	-
Creditors arising from broking activities	4,343	-	4,258	-
Other creditors	24,020	12,304	18,085	10,109
Amounts owed to related parties	3	45	4	24
Accruals	21,706	15,399	25,738	19,448
	<b>93,561</b>	<b>55,087</b>	<b>76,952</b>	<b>45,566</b>
Current	93,011	55,087	76,533	45,566
Non-current	550	-	419	-

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

Deferred income of the Group and Parent is a current liability in both the current and prior year.

Included within deferred income of the Group is £308,000 (2019: £278,000) classified as contract liabilities in accordance with IFRS 15.

Included within deferred income of the Parent is £nil (2019: £nil) classified as contract liabilities in accordance with IFRS 15.

### 32 Leases

#### Group as a lessee

The Group has lease contracts for various items of property, motor vehicles and other equipment used in its operations. Leases of property generally have terms of up to 15 years, while motor vehicles and other equipment generally have lease terms between 2 and 6 years. Lease terms are negotiated on an individual basis and contain different terms and conditions, but do not impose any covenants other than security interests. The Group's obligations under its leases are secured by the lessor's title to the leased assets, and leased assets may not be used as security for borrowing purposes.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period.

Group	Land and buildings £'000	Motor vehicles £'000	Other equipment £'000	Total £'000
At 31 December 2019	9,961	1,038	305	11,304
Additions	17,125	474	-	17,599
Disposals	-	(193)	-	(193)
Depreciation expense	(2,901)	(254)	(118)	(3,273)
Exchange differences	46	3	2	51
At 31 December 2020	<b>24,231</b>	<b>1,068</b>	<b>189</b>	<b>25,488</b>
At 31 December 2018	-	-	-	-
Transition to IFRS 16	9,962	1,362	297	11,621
At 1 January 2019	9,962	1,362	297	11,621
Additions	2,864	128	150	3,142
Disposals	(442)	(128)	(21)	(591)
Depreciation expense	(2,336)	(323)	(120)	(2,779)
Exchange differences	(87)	(1)	(1)	(89)
At 31 December 2019	<b>9,961</b>	<b>1,038</b>	<b>305</b>	<b>11,304</b>

### Notes to the financial statements 32 Leases (continued)

Parent	Land and buildings £'000	Motor vehicles £'000	Other equipment £'000	Total £'000
At 31 December 2019	7,449	1,028	227	8,704
Additions	16,617	377	-	16,994
Disposals	-	(193)	-	(193)
Depreciation expense	(2,310)	(219)	(97)	(2,626)
Exchange differences	(18)	-	1	(17)
At 31 December 2020	<b>21,738</b>	<b>993</b>	<b>131</b>	<b>22,862</b>
At 31 December 2018	-	-	-	-
Transition to IFRS 16	6,865	1,315	220	8,400
At 1 January 2019	6,865	1,315	220	8,400
Additions	2,805	128	105	3,038
Disposals	(442)	(128)	-	(570)
Depreciation expense	(1,741)	(287)	(98)	(2,126)
Exchange differences	(38)	-	-	(38)
At 31 December 2019	<b>7,449</b>	<b>1,028</b>	<b>227</b>	<b>8,704</b>

Set out below are the carrying amounts of lease obligations:

2020	2019		
Group	Parent	Group	Parent
£'000	£'000	£'000	£'000
3,502	2,725	2,985	2,460
21,948	20,113	9,938	7,868
<b>25,450</b>	<b>22,838</b>	<b>12,923</b>	<b>10,328</b>

Group profit for the year has been arrived at after charging the following amounts in respect of lease contracts:

2020	2019
£'000	£'000
3,273	2,779
773	581
9	-
<b>4,055</b>	<b>3,360</b>

The Group had total cash outflows for leases, including interest paid, of £5,872,000 (2019: £3,371,000). The Parent had total cash outflows for leases, including interest paid, of £5,103,000 (2019: £2,653,000). The future cash outflows relating to leases that have not yet commenced are disclosed in note 33.

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised, as disclosed in note 2.

## Notes to the financial statements

### 32 Leases (continued)

#### Group as a lessor

##### Finance leases

The Group has a finance leasing arrangement as a lessor to sublease a commercial office space no longer occupied by the Group. The remaining term of the finance lease is 2 years. The contract does not include an extension or early termination option.

	2020		2019	
	Group £000	Parent £000	Group £000	Parent £000
Year 1	131	131	134	134
Year 2	110	110	134	134
Year 3	-	-	111	111
Undiscounted lease payments	241	241	379	379
Less: unearned finance income	(5)	(5)	(13)	(13)
Net investment in the lease	236	236	366	366

Net investment in the lease is recognised in other assets as shown in note 24.

Group profit for the year has been arrived at after crediting the following amounts in respect of finance lease contracts:

	2020 £000	2019 £000
Selling profit for finance leases	-	21
Finance income on the net investment in finance leases	7	8
	7	29

#### Operating leases

The Group has entered into operating leases on its investment property portfolio. These leases have terms of up to 50 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions. The lessee is also required to provide a residual value guarantee on the properties. Rental income on these properties recognised by the Group during the year is disclosed in note 21.

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

	2020		2019	
	Group £000	Parent £000	Group £000	Parent £000
Year 1	8,150	8,150	8,220	8,220
Year 2	7,290	7,290	7,643	7,643
Year 3	6,773	6,773	6,850	6,850
Year 4	6,390	6,390	6,455	6,455
Year 5	5,441	5,441	6,160	6,160
After 5 years	22,163	22,163	29,065	29,065
	56,207	56,207	64,393	64,393

## Notes to the financial statements

### 33 Commitments

At the year end, the Group and Parent had no capital commitments relating to computer software (2019: £2,559,000) and £2,506,000 capital commitments (2019: £nil) relating to furniture, fittings and equipment.

The Group has lease contracts for right of use assets that had not commenced at 31 December 2020. These leases will commence in 2021. The lease for other equipment has a term of 6 years with expected cash outflow of £12,000 per annum. The lease for motor vehicles has a term of 4 years with an expected cash outflow of £23,000 per annum.

### 34 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 258. 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 2020 is as follows:

Company	Company Registration Number	Share Capital	Holding of shares by Company	Group	Activity
<b>Subsidiary undertakings</b>					
<i>Incorporated in the United Kingdom</i>					
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
SEIB Insurance Brokers Limited *	6317314	Ordinary	-	100%	Insurance agents and brokers
South Essex Insurance Holdings Limited *	6317313	Ordinary	100%	-	Investment holding company
WRS Insurance Brokers Limited *	0878984	Ordinary	-	100%	Dormant company
<i>Incorporated in Australia</i>					
Ansva Insurance Limited **	007216506	Ordinary	100%	-	Insurance
Ansva Risk Management Services Pty Limited**	623695054	Ordinary	100%	-	Risk management services
Ansva Insurance Services Pty Limited ** †	162612286	Ordinary	-	100%	Dormant company

\* Registered office: Benefact House, 2000, Pioneer Avenue, Gloucester Business Park, Brockworth, Gloucester, GL3 4AW, 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

## Notes to the financial statements

### 35 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
<b>2020</b>			
<b>Group</b>			
Trading, investment and other income, including recharges, and amounts received	480	-	1,880
Trading, investment and other expenditure, including recharges, and amounts paid	13,525	-	4,534
Amounts owed by related parties	50,991	-	1,692
Amounts owed to related parties	-	-	57,427
<b>Parent</b>			
Trading, investment and other income, including recharges, and amounts received	480	3,238	535
Trading, investment and other expenditure, including recharges, and amounts paid	13,525	20,980	1,467
Amounts owed by related parties	50,991	3,873	1,649
Amounts owed to related parties	-	2,265	-
<b>2019</b>			
<b>Group</b>			
Trading, investment and other income, including recharges, and amounts received	461	-	1,790
Trading, investment and other expenditure, including recharges, and amounts paid	8,590	-	2,481
Amounts owed by related parties	37,900	-	1,144
Amounts owed to related parties	-	-	57,222
<b>Parent</b>			
Trading, investment and other income, including recharges, and amounts received	461	15,249	529
Trading, investment and other expenditure, including recharges, and amounts paid	8,590	3,743	867
Amounts owed by related parties	37,900	4,205	1,134
Amounts owed to related parties	-	1,612	-

During the year, the Company received premiums, commission and reinsurance recoveries via a related party insurance agency amounting to £38,000 (2019: £116,000) and paid reinsurance protection, commission and claims amounting to £34,000 (2019: £299,000).

Trading, investment and other expenditure, including recharges, and amounts paid in the current year includes loans totalling £13.1m (2019: £8.5m) and acquisition of shares totalling £11.1m (2019: £nil).

Amounts owed to related parties by the Group and by the Parent include insurance liabilities which are included in note 28.

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.

## Notes to the financial statements

### 35 Related party transactions (continued)

The total aggregate remuneration of the directors in respect of qualifying services during 2020 was £2,344,000 (2019: £2,446,000). After inclusion of amounts receivable under long-term incentive schemes and pension benefits, the total aggregate emoluments of the directors was £3,043,000 (2019: £3,379,000). The key management personnel is defined as the Group Management Board (Ecclesiastical's leadership team), Executive and Non-executive directors. The remuneration is shown below.

	2020 Group £000	2020 Parent £000	2019 Group £000	2019 Parent £000
<b>Key management personnel</b>				
Wages and salaries	3,645	3,645	4,713	4,713
Social security costs	558	558	443	443
Pension costs - defined contribution plans	241	241	213	213
Fees and benefits for non-executive directors	606	606	568	568
	5,050	5,050	5,937	5,937

Charitable grants paid to the Group's ultimate Parent undertaking are disclosed in note 15. Contributions paid to and amounts received from the Group's defined benefits schemes are disclosed in note 19.

## Notes to the financial statements

## 36 Reconciliation of Alternative Performance Measures

The Group uses alternative performance measures (APM) in addition to the figures which are prepared in accordance with IFRS. The financial measures included in our key performance indicators are set out on page 46: regulatory capital, combined operating ratio (COR), net expense ratio (NER) and net inflows are APM. These measures are commonly used in the industries the Group operates in and are considered to provide useful information and enhance the understanding of the 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 COR and NER 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. Net inflows are the difference between the funds invested (gross inflows) less funds withdrawn (redemptions) during the year by third parties in a range of funds EdenTree Investment Management Limited offers. Regulatory capital is covered in more detail in note 4(i).

Group	2020								
	Insurance		Inv'mnt return £000	Inv'mnt mngt £000	Broking and Advisory £000	Corporate costs £000	Total £000		
	General £000	Life £000							
<b>Revenue</b>									
Gross written premiums	437,287	12	-	-	-	-	437,299		
Outward reinsurance premiums	(173,074)	-	-	-	-	-	(173,074)		
Net change in provision for unearned premiums	(16,562)	-	-	-	-	-	(16,562)		
<b>Net earned premiums</b>	<b>[1]</b>	<b>247,651</b>	<b>12</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>247,663</b>		
Fee and commission income	[2]	47,742	-	12,382	9,458	-	69,582		
Other operating income		2,126	-	-	-	-	2,126		
Net investment return		-	(484)	(4,600)	(25)	811	-	(4,298)	
<b>Total revenue</b>		<b>297,519</b>	<b>(472)</b>	<b>(4,600)</b>	<b>12,357</b>	<b>10,269</b>	<b>-</b>	<b>315,073</b>	
<b>Expenses</b>									
Claims and change in insurance liabilities	(224,127)	1,333	-	-	-	-	(222,794)		
Reinsurance recoveries	94,581	-	-	-	-	-	94,581		
Fees, commissions and other acquisition costs	[3]	(84,852)	(13)	-	(939)	360	-	(85,444)	
Other operating and administrative expenses	[4]	(71,069)	(380)	(2,813)	(12,449)	(8,149)	[5]	(21,533)	(116,393)
<b>Total operating expenses</b>		<b>(285,467)</b>	<b>940</b>	<b>(2,813)</b>	<b>(13,388)</b>	<b>(7,789)</b>	<b>(21,533)</b>	<b>(330,050)</b>	
Operating profit	[6]	12,052	468	(7,413)	(1,031)	2,480	(21,533)	(14,977)	
Finance costs		(686)	-	-	-	(83)	-	(769)	
<b>Profit before tax</b>		<b>11,366</b>	<b>468</b>	<b>(7,413)</b>	<b>(1,031)</b>	<b>2,397</b>	<b>(21,533)</b>	<b>(15,746)</b>	
Underwriting profit	[6]	12,052							
<b>Combined operating ratio</b>								95.1%	
Net expenses (= [2] + [3] + [4] + [5])	[7]	(129,712)							
<b>Net expense ratio</b>								52%	

The underwriting profit of the Group is defined as the operating profit of the general insurance business.

The Group uses the industry standard net 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. It is calculated as  $([1] - [6]) / [1]$ .

The NER expresses total underwriting and corporate expenses as a proportion of net earned premiums. It is calculated as  $- [7] / [1]$ .

Notes to the financial statements  
36 Reconciliation of Alternative Performance Measures (continued)

Group	2019					
	Insurance General £000	Insurance Life £000	Inv'mnt return £000	Inv'mnt mngt £000	Broking and Advisory £000	Corporate costs £000
<b>Revenue</b>						
Gross written premiums	393,965	(13)	-	-	-	-
Outward reinsurance premiums	(152,886)	-	-	-	-	(152,886)
Net change in provision for unearned premiums	(15,080)	-	-	-	-	(15,080)
<b>Net earned premiums</b>	<b>[1]</b>	<b>225,999</b>	<b>(13)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fee and commission income	[2]	49,368	-	-	12,795	9,077
Other operating income		544	-	-	-	-
Net investment return		-	989	72,596	19	834
<b>Total revenue</b>		<b>275,911</b>	<b>976</b>	<b>72,596</b>	<b>12,814</b>	<b>9,911</b>
<b>Expenses</b>						
Claims and change in insurance liabilities	(157,481)	(327)	-	-	-	-
Reinsurance recoveries	52,800	-	-	-	-	52,800
Fees, commissions and other acquisition costs	[3]	(72,383)	(14)	-	(819)	476
Other operating and administrative expenses	[4]	(78,829)	(300)	(3,057)	(12,305)	(8,236)
<b>Total operating expenses</b>		<b>(255,893)</b>	<b>(641)</b>	<b>(3,057)</b>	<b>(13,124)</b>	<b>(7,760)</b>
Operating profit	[6]	20,018	335	69,539	(310)	2,151
Finance costs		(531)	-	-	(89)	-
<b>Profit before tax</b>		<b>19,487</b>	<b>335</b>	<b>69,539</b>	<b>(310)</b>	<b>2,062</b>
Underwriting profit	[6]	20,018				
<b>Combined operating ratio</b>						91.1%
Net expenses (= [2] + [3] + [4] + [5])	[7]	(119,694)				
<b>Net expense ratio</b>						53%

## 37 Events after the balance sheet date

In February 2021 the Company raised EUR 30m in nominal amount of Tier 2 Capital by way of a privately-placed issue of 20-year subordinated bonds, callable after year 10. The rate of interest until the call date is fixed at 6.3144%.

## Section Five

## Other Information

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## Directors, executive management and company information (unaudited)

### Directors

- \* R. D. C. Henderson FCA *Chairman*
- \* F. X. Boisseau MSc
- D. P. Cockrem, MA, FCA *Group Chief Financial Officer*
- M. C. J. Hews BSc (Hons), FIA *Group Chief Executive*
- \* Sir S. M. J. Lampert GCVO, DL
- \* N. P. Maidment MA, FCII
- \* A. J. McIntyre MA, ACA, FRCo
- \* C. J. G. Moulder MA, FCA *Senior Independent Director*
- \* C. H. Taylor BSc (Hons) Banking and International Finance
- S. J. Whyte MC Inst. M, ACII *Deputy Group Chief Executive*
- \* A. Winther BA

### Company Secretary

Mrs R. J. Hall FCG

### Registered and Head Office

Benefact House,  
2000 Pioneer Avenue,  
Gloucester Business Park,  
Brockworth,  
Gloucester, GL3 4AW  
Tel: 0345 777 3322

### Company Registration Number

00024869

### Investment Management Office

24 Monument Street  
London EC3R 8AJ  
Tel: 0800 358 3010

### Legal advisers

Charles Russell Speechlys LLP  
London

DAC Beachcroft LLP  
Leeds, London and Bristol

Harrison Clark Rickerbys LLP  
Cheltenham

Matheson  
Dublin

William Fry  
Dublin

PinSENT Masons LLP  
Birmingham and London

Burges Salmon LLP  
Bristol and London

CMS Cameron McKenna with Nabarro and Olswang LLP  
London, Leeds and Bristol

Fieldfisher Capital LLP  
Dublin

Wynne-Jones IP Limited  
Cheltenham

Eversheds Sutherland LLP  
Cardiff

## Directors, executive management and company information (unaudited)

### Auditor

PricewaterhouseCoopers LLP  
Bristol

### Registrar

Computershare Investor Services plc  
The Pavilions  
Bridgwater Road  
Bristol BS13 8AE

## United Kingdom regional centres (unaudited)

### 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 (unaudited)

### Ansvar Insurance Business Division

Managing Director:  
Office:  
Tel:

S. Cox ACII Chartered Insurer  
Ansvar House  
31 St. Leonards Road  
Eastbourne, East Sussex BN21 3UR  
0345 60 20 999

### Canada Branch

Deputy Group Chief Executive,  
Ecclesiastical Insurance and  
General Manager and Chief Agent:  
Chief Office:

S. J. Whyte MC Inst M, ACII  
2200-100 Wellington St W, TD West Tower  
P.O. Box 307  
Toronto, Ontario M5K 1K2

### - 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:

R. Jordan BBA, CRM, FCIP  
2200-100 Wellington St W, TD West Tower  
P.O. Box 307  
Toronto, Ontario M5K 1K2

### Ireland Branch

Managing Director:  
Office:

D. G. Lane B.Comm (Hons), Certified Insurance Director  
2nd Floor, Block F2  
Eastpoint  
Dublin 3, D03 T6P8

## Insurance subsidiaries and agencies (unaudited)

### Ansvvar Insurance Limited

Chief Executive Officer: W. R. Hutcheon MBA, GAICD, Fellow ANZIIF (CIP)  
Head Office: Level 5  
1 Southbank Boulevard  
Southbank  
Melbourne VIC 3006

### Ecclesiastical Life Limited

Head Office: Benefact House,  
2000 Pioneer Avenue,  
Gloucester Business Park,  
Brockworth,  
Gloucester,  
GL3 4AW

### Ecclesiastical Underwriting Management Limited

Office: Benefact House,  
2000 Pioneer Avenue,  
Gloucester Business Park,  
Brockworth,  
Gloucester,  
GL3 4AW

### SEIB Insurance Brokers Limited

Director: B. W. Fehler  
Office: South Essex House, North Road  
South Ockendon  
Essex RM15 5BE  
Tel: 01708 850000

## Notice of meeting (unaudited)

NOTICE is hereby given that the Annual General Meeting of Ecclesiastical Insurance Office plc will be held at Benefact House, 2000 Pioneer Avenue, Gloucester Business Park, Brockworth, Gloucester, GL3 4AW on Thursday, 15th July 2021 at 11:30am for the following purposes:

### Ordinary business (unaudited)

1. To receive the Report of the Directors and Accounts for the year ended 31st December 2020 and the report of the auditors thereon.
2. To re-elect Mr F. X. Boisseau as a director.\*
3. To re-elect Mr R. D. C. Henderson as a director.\*
4. To re-elect Mr M. C. J. Hews as a director.\*
5. To re-elect Mr A. J. McIntyre as a director.\*
6. To re-elect Mr C. J. G. Moulder as a director.\*
7. To re-elect Mrs C. H. Taylor as a director.\*
8. To re-elect Mrs S. J. Whyte as a director.\*
9. To re-elect Mr A. Winther as a director.\*
10. To elect Mrs D. Cockrem as a director.\*
11. To elect Mr N. Maidment as a director.\*
12. To elect Sir S. Lampert as a director.\*
13. To consider the declaration of a dividend.
14. To appoint PricewaterhouseCoopers LLP as auditors and authorise the directors to fix their remuneration.

### By order of the Board

**Mrs R. J. Hall, Secretary**  
18 March 2021

\* Brief biographies of the directors seeking re-election are shown on pages 94 to 96 of the 2020 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



#### Annual Report & Accounts 2020

Ecclesiastical Insurance Office plc  
Benefact House  
2000 Pioneer Avenue  
Gloucester Business Park  
Brockworth  
Gloucester  
GL3 4AW