Building a Movement for Good

Ecclesiastical Insurance Office plc
Annual Report & Accounts 2021

ecclesiastical

Proudly part of the BENEFACT GROUP

Trusted to protect

Proud to preserve

Committed to change

Proudly part of the BENEFACT GROUP

Building a Movement for Good

It's amazing to think that we've now given £100m to charities throughout the UK, Ireland, Canada and Australia. What's more amazing is the incredible collective effort involved.

This great act of giving has only been possible with the help of our customers, brokers, colleagues, partners and people who take part in our Movement for Good awards. And for that, I want to say a heartfelt thank you.

Thanks to you, we've been able to make such a difference to the lives of so many. And this strong charitable purpose – this desire to help others – is what unites our family of global, trusted businesses and drives us forward.

Proudly part of Benefact Group, by giving our profits to charity, we can support the causes you care about. And we're ambitious to give more. It's why we're determined to keep growing – because the more we grow, the more we can give back.

So again, thank you for helping us build a special kind of business. Thank you for helping us build a Movement for Good.

Mark Hews,
Group Chief Executive,
Ecclesiastical Insurance Office plc

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Section One

About Us

At Ecclesiastical our way of doing business is a little different to most. That's because, proudly part of Benefact Group, we give all available profits to charities and good causes. So, the more our business grows, the more we can give back. The knowledge that the more successful we become – the more we can help improve lives and communities – is what spurs us on each day.

And wanting to help others applies equally to our customers. It's why we're always looking for ways to offer them more, building on our trusted specialist expertise and unrivalled world-respected knowledge.

Together, building a Movement for Good.

Ecclesiastical at a glance

Best Ethical Investment Provider

Voted by the Financial Adviser community at the Moneyfacts Life & Pensions Awards for 13 consecutive years (2009-2021) – EdenTree Investment Management

Proudly part of Benefact Group, a specialist financial services group that gives all its available profits to charity and good causes

BENEFACT GROUP

Since the 1880s

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

Leading insurer for the Anglican church

in all our territories

Our specialist brokers provide tailored insurance products

particularly for customers in the high net worth, farming and rural estates, equine, animal trades, and specialist motor insurance sectors

A leading multi-faith insurer

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

£150m+

One of the UK's largest charitable donors. We are proud of our ambition to give more than £250m to good causes.

Since 2014 we have given over £150m in grants and donations*

*Cumulative total 2014-2021

98%+

UK overall customer satisfaction across all the sectors we measure*

*Based on FY 2021 results for Home New Business and Renewals – Ecclesiastical UK; Church Renewals; Ecclesiastical claims; Risk Management; Charity; EFAS and Funeral Directors results

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

*Ecclesiastical UK Broker survey FY2021

4th largest corporate donor to charity

Our parent, Benefact Group, is already the UK's 4th largest corporate donor* and we aim to be the largest

*DSC – The guide to UK Company Giving 2021-22

£77.0m

profit before tax
(£15.7m loss before tax in previous year)

Movement for Good

Through our Movement for Good Awards – our biggest ever giving campaign – we gave £1m to help a wide range of charitable causes

MOVEMENT FOR GOOD

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

£486.2m

gross written premium
(£437.3m in previous year)

Our businesses

This Annual Report & Accounts is for Ecclesiastical Insurance Office plc. The following terms are used throughout this report and are defined as follows:

Terms	Definition
The 'Company' or 'Parent'	Ecclesiastical Insurance Office plc (EIO)
The 'Group'	Ecclesiastical Insurance Office plc together with its subsidiaries
'Benefact Group' or 'wider group'	Benefact Group plc (formerly Ecclesiastical Insurance Group plc), the parent company of Ecclesiastical Insurance Office plc, together with its subsidiaries. This includes Ecclesiastical Planning Services Ltd (EPSL), Lycetts Insurance Brokers (Lycetts) and Lycetts Financial Services.
Benefact Trust	Benefact Trust Limited, the ultimate parent undertaking of Ecclesiastical Insurance Office plc

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.

Investment Management
EdenTree Investment Management (EdenTree)

With over 30 years of experience in responsible and sustainable investing, our investment management team manages and sells Environmental, Social and Governance 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 13th 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[1] (EPSL) / Lycetts Insurance Brokers[1] (Lycetts) / Lycetts Financial Services[1]

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

EFAS and Lycetts Financial Services offer financial advice to businesses and individual customers including Church of England clergy. EPSL markets and administers prepayment funeral plans under the Perfect Choice brand.

[1] These businesses are owned by Benefact Group plc

Section Two

Strategic Report

Chair's Statement

It is with great pleasure and pride that I reflect on a hugely successful year for Ecclesiastical in 2021.

The Group exceeded its ambitious target of donating £100m, an extraordinary achievement that has helped thousands of good causes and communities to transform lives for the better in the UK and abroad.

This was made possible thanks to our direct giving and the annual grants given to our charitable owner, Benefact Trust, over the past five years. I would like to thank our customers, brokers, partners, and colleagues for helping us achieve this milestone. Alongside this, we made significant progress on a number of strategic initiatives including the launch of the new Ecclesiastical brand and the opening of our new headquarters in Gloucestershire.

After a long period of restrictions, the latter half of 2021 started to feel like a return to normality. The official opening of our head office in June was a welcome opportunity to meet many of our talented colleagues, who have worked tirelessly through the challenges of the past two years to deliver outstanding service to our customers. Their resilience, positivity and commitment to doing the right thing is what sets Ecclesiastical apart.

At the time of writing, the war in Ukraine casts a dark cloud over the world. Many Ukrainians continue to be caught in conflict and are suffering due to the unjust actions of the Russian government. Our charitable purpose allows us to help those most in need, and I'm pleased that our charitable owner Benefact Trust is contributing £1m of grant funding to charities supporting those affected by the war. Alongside this, the Group has also pledged to triple-match employee giving to any Ukraine appeals. We send our thoughts and prayers to those affected by the conflict.

A strong set of results

Thanks to our charitable ownership, we are able to take a long-term, sustainable approach to growth. Our 2021 results demonstrate our continuing financial strength as we recovered from the challenges posed by Covid-19 the previous year. Strong investment returns and a solid underwriting result helped us report a profit before tax of £77.0m, which is a fantastic achievement. This enabled us to contribute £26.0m to our owner Benefact Trust in respect of 2021 performance , which includes £5m paid in 2022. We also gave £2.5m to good causes through our direct giving.

Since 2014, the Group has given over £150m to good causes. Already the fourth-biggest corporate donor in the UK, we now want to become the biggest and to donate a cumulative £250m to good causes by the end of 2025.

Achievements and reflections

During my three years as Chair, the Group has evolved into a modern and confident business, driven by an ambition to create a Movement for Good in society. The core insurance, broker and advisory, and investment management businesses have all demonstrated impressive growth. Alongside the launch of the new Ecclesiastical insurance brand and the opening of our head office, we continued to invest in systems and technology to improve the broker and customer experience, with a new general insurance system for the UK and Ireland launching soon.

Our commitment to innovation remains strong with the launch of the Smart Properties proposition, which provides an early-warning system for heritage properties to prevent fire and flood. This clever technology won Digital Insurance Innovation of the Year Award at the British Insurance Awards.

Underpinning all of these achievements is our commitment to first-class customer service. Our customer satisfaction and Net Promoter Scores remain high alongside a record number of external awards, and the Group achieved Best Companies two-star status, demonstrating outstanding employee engagement.

Looking ahead

While pleased with the progress made in 2021 in such challenging circumstances, we undoubtedly have the potential to develop the business even further following the launch of our next chapter strategy.

This year will see us start to realise the benefits of our long-term investments in systems and processes. Alongside this, we will continue to invest in technology and our people to drive innovation and growth to enable yet more giving to charities and communities. I'm confident this roadmap will see us become an even more successful organisation over the next five years.

We enter the next chapter with a new name for our wider group – Benefact Group. The new name better reflects our purpose to do good in society – it derives from Latin and means to do well by supporting a person or good cause. All of the trading brands in the Benefact family will continue to operate under their own names, united in a belief that better business can better lives.

As the Board looks towards the next chapter for the Group, it must respond to broader issues of sustainability and climate change. As a responsible business, we are committed to making a positive environmental impact in the world. The Group recently unveiled its plan to reach net zero carbon emissions by 2040. Over the past year, much work has gone into understanding and measuring our climate impact, in order to make meaningful commitments for the future.

Our ambition to wipe out our historic direct carbon impact by 2030 is, I believe, unique in the insurance industry, and is the right thing to do for a company with our purpose and values. The good news is we're building on strong foundations – our award-winning investment management company, EdenTree, is a pioneer in the field of ethical investing, and the Group has introduced a responsible and sustainable investment strategy that seeks to invest in markets that have positive impacts. We're also a long-term member of ClimateWise, a group of organisations ambitious about climate action. Reducing our climate impact is a key priority for the Board and we look forward to making progress on our commitments.

Board activity

It was a pleasure to be able to return to face-to-face Board meetings in 2021. While virtual meetings have provided increased flexibility, our Board members welcomed the opportunity to interact and engage in person after a long period apart.

We said goodbye to Caroline Taylor, who retired from the Board in September. I would like to thank Caroline for her contribution over the past seven years.

In July, Rita Bajaj joined us as Non-Executive Director, bringing with her over 30 years of financial markets experience. She has held senior portfolio management positions at both UK and US investment institutions as well as experience working in UK regulation.

A key priority for the Board this year will be spending more time in the business and continuing to develop relationships with senior executives and managers.

The future

It is a privilege to be a part of a business with such a special purpose of contributing to the greater good of society. With the new strategy in place, I believe we are well positioned to take the business forward, and in doing so give even more to charities and communities to help transform lives for the better.

David Henderson
Chair

> 'All of the trading brands in the Benefact family will continue to operate under their own names, united in a belief that better business can better lives.'

Chief Executive's Report

Over 135 years ago, our founders created a different kind of business committed to the greater good of society.

Times may have changed, but our drive and purpose remain the same. Today we are one of the biggest corporate donors in the UK, helping to transform thousands of lives for the better.

Like many businesses, we are ambitious. But our ambition is not driven by the short-term pursuit of profits at any cost. Our ambition is fuelled by a desire to support and care for our customers, their communities and society as a whole.

As a specialist insurer, we not only protect much of the nation's irreplaceable heritage, we are trusted to insure the buildings and organisations that bind our communities together – schools, charities, churches, community centres, and historic buildings. As custodians of these special places, we take great care to support our customers.

As a charity-owned business, we believe commercial success and social good can sit side by side to generate incredible social impact. By growing our business, we can give even more to charities and communities, and help even more people. By doing business with Ecclesiastical, every one of our customers, brokers, and partners is helping to support good causes and create a powerful Movement for Good in society.

It's impossible to write this report without mentioning the harrowing situation in Ukraine. The conflict is having a devastating effect on innocent civilians and, like the rest of the world, I've been shocked by the stories and pictures emerging from the war. As a business committed to the greater good of society, both in the UK and abroad, I am pleased that our charitable owner, Benefact Trust, has committed £1m of grant funding to support charities helping those affected by the conflict. The Group has also pledged to triple-match employee giving to any Ukraine appeals up to £50,000.

Continuing to build a Movement for Good

Despite the ongoing challenges of the pandemic, 2021 was a year of great achievement for our Group. We reported strong financial performance, a record number of external awards, excellent customer and employee survey feedback, and continued progress on our strategy.

Most importantly, we were able to give a total of £28.5m to charity in respect of 2021 performance. This meant we achieved our goal of giving more than £100m to good causes – meeting and exceeding the stretching goal that we set ourselves a few short years ago. This is a remarkable feat and I want to say a heartfelt thank you to all of our customers, brokers, business partners, employees and supporters who have made this happen. Thanks to you, we have made thousands of charitable donations over the past five years, making a difference to countless lives.

As a result of our performance in 2021, we were able to further the aims of our charitable owner, Benefact Trust, with a donation of £26m. This was split between £21m in cash paid in 2021, with the remainder paid in 2022. The balance of our giving was distributed via giving programmes in the UK, Australia, Canada and Ireland, such as the Movement for Good awards, which allows customers, business partners and others to help steer funds to the causes they wish.

Alongside Benefact Trust, we are very proud to have supported charities tackling so many different and important issues. Their work includes lifting people out of poverty, making society more inclusive, helping to support bereaved families and so much more. When one hears stories of how our support is making a difference, it is difficult not to feel humbled, moved and inspired.

Indeed, seeing the inspiring work of charities around us makes us determined to give even more and set our sights even higher. Already the fourth biggest corporate donor, we now have an ambition to be the largest corporate donor in the UK – not because of the position in the league table, but because of the transformative impact that such an ambition would have on lives and communities.

We step into this challenge with a new identity for our wider Group – Benefact Group. The new name for our immediate parent better reflects our diversity, breadth and charitable purpose – it originates from the verb 'benefact' which means 'to do well' which is for us the basis for our commitment to give money or help to good causes. All of the trading brands in the Benefact Group family will continue to operate under their own names, united in a belief that better business can mean better lives. All the available profits from Benefact Group will continue to benefit charity.

Delivering for our customers

2021 was another difficult year for many of us, but our colleagues rose to the challenge admirably. They embraced new ways of working while continuing to serve our customers brilliantly, whether that was from our offices or from home. I would like to thank all of our colleagues for their dedication and resilience.

I continue to be genuinely impressed at the level of service my colleagues offer. The independent research consultancy, Gracechurch, put Ecclesiastical ahead of all other insurers for claims service. In addition, an incredible 98% of customers and brokers are satisfied with the service they receive from Ecclesiastical, whether that is making a claim or experiencing our risk management service. The Net Promoter Score, which measures how likely a customer is to recommend a company's products and services, for Ecclesiastical Insurance put us ahead of well-known and respected brands such as John Lewis and Marks & Spencer.

With such a brilliant team of people, it was heartening to receive external recognition for our levels of engagement. In our first year of participation in the Best Companies assessment, the Group was awarded a two-star accreditation demonstrating 'outstanding' levels of employee engagement.

Alongside this, we won a record number of external awards. This included being named as the UK's most trusted home insurer for the 14th consecutive time by independent ratings agency Fairer Finance, and our Canadian team was named one of the Top Employers for Young People for the ninth consecutive year. Ecclesiastical UK won Digital Insurance Innovation of the Year Award at the British Insurance Awards for Smart Properties, while EdenTree was named Best Ethical Investment Provider at the 2021 Investment Life and Pensions Moneyfacts Awards for the 13th time in a row.

I was particularly pleased our UK General Insurance team received accolades for our Smart Properties proposition, which uses cutting-edge technology to protect some of the UK's most iconic properties. This clever early warning system uses wireless sensors to learn what's 'normal' for a property. An alert is then sent by email, text or phone to highlight a change in conditions, so early preventative action can be taken. This is a wonderful example of how we're using innovation to protect our customers and our nation's irreplaceable heritage.

Despite these achievements, we are not complacent and we recognise there is always more to do. Our culture means that we continually strive to do better for our customers.

I have previously highlighted the importance of managing claims for physical and sexual abuse (PSA) and we remain committed to improving the claims handling experience in these sensitive cases. The final report of the Independent Inquiry into Child Sexual Abuse (IICSA) will be published later this year and we await its recommendations on ways to better safeguard children and 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 have to 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

After a challenging year in 2020 due to the impact of the Covid-19 pandemic, I'm delighted that the Group reported a profit before tax of £77.0m in 2021 (2020: loss before tax of £15.7m). Our positive financial performance was driven by impressive investment returns, as markets bounced back, alongside a strong underlying underwriting result. I'm pleased our investment approach saw us outperform the indices for most asset classes.

Our overall underwriting result included a strengthening of reserves in our Australian business, due to an increase in PSA cases, and the impacts of adverse weather events, including Storm Arwen and the July floods in the UK, and severe flooding in Canada and Australia.

We delivered Gross Written Premium (GWP) growth of 11% to £486m (2020: £437m) supported by strong retention and new business in the UK and Canada. Our broking businesses also performed above expectation with SEIB reporting a profit before tax of £3.2m (2020: £2.4m). Our award-winning investment management firm EdenTree had another excellent year, achieving record inflows and exceeding fund benchmarks. It reported a loss before tax of £2.5m (2020: loss before tax of £1.0m) as it continued to invest in growing the business.

Strategic progress

2021 was a truly transformational year for Ecclesiastical as we made significant progress on our strategic initiatives, despite the ongoing uncertainty in the external environment. We successfully launched the new Ecclesiastical brand to positive feedback. We opened our new head office in Gloucestershire. We continued to make substantial investments in new insurance systems and technology to improve the broker and customer experience. We reinvigorated our EdenTree business, strengthening the team and introducing new funds. We continued to grow the Broking and Advisory division and transformed its financial contribution.

Many of these initiatives will have a positive impact on our carbon footprint. Our new head office was built to 'very good' BREEAM standards, a leading sustainability assessment method, and our new EdenTree funds are aimed at investors looking to contribute to a more sustainable economy.

As a socially responsible business, we are committed to making a positive environmental impact in the world and supporting customers and communities to tackle their climate challenges too.

We pioneered ethical investment over 30 years ago and our responsible and sustainable investment strategy remains amongst the most stretching in the industry. As an example, unlike many others, we do not invest in companies undertaking fossil fuel exploration or production. More generally, we look to avoid investment in businesses that cause social harm whilst proactively seeking to invest in companies that have positive impact. We consider environmental, social and governance factors in every investment case using our specialists at our award-winning subsidiary EdenTree.

We've been members of the voluntary initiative, ClimateWise, for a number of years and continue to build our response to the climate crisis using ClimateWise's framework, which is in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TFCD). We are in the process of developing an ambitious roadmap to net zero and are supporting our customers and communities to do the same.

Looking ahead

As we look to the future, we expect the needs of our beneficiaries and charities to grow substantially. And rather than look the other way, we want to play our part in rising to help meet those needs. To this end we have recently launched a new ambitious Group strategy that will see us transform our Group over the next five years. In short, we want to innovate and accelerate our growth so that we can give even more money to good causes.

Our 'next chapter' will see us invest even more in new systems and technology, helping our businesses to innovate with purpose. Over the next few months, we'll start to roll out 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.

We will invest in our dedicated and brilliant people to maximise their potential, creating a world-class and energised team.

We will seek out new opportunities and new paths to growth, with an ambition to double the size / contribution of our businesses.

...And we will **give** even more. Since 2014, the Group has given over £150m to good causes. Our parent, Benefact Group, is now aiming to donate a cumulative £250m[1] to good causes by the end of 2025.

Join our Movement for Good

After a successful 2021, we step into 2022 with more ambition and confidence than ever to build a Movement for Good. None of this would be possible, of course, without the energy and endeavour of our specialist teams worldwide. Our dedicated and talented people are at the heart of our business, driven by a desire to support our customers and united by a common purpose to contribute to the greater good of society. The Board and I would like to thank all of our colleagues for their exceptional efforts. I very much hope that they are inspired when they look back at what they have achieved. I certainly am.

As we build momentum for our movement for good, I invite anyone reading this, whether as a potential colleague, customer or business partner, to come and join us and experience a different way of doing business. Together, with your support, we can grow our giving and transform lives for the better.

By order of the Board

Mark Hews
Group Chief Executive

[1] Cumulative giving since 2014

'As a charity-owned business, we believe commercial success and social good can sit side by side to generate incredible social impact.'

A belief that better business can better lives

Ecclesiastical Insurance Office plc is proudly part of Benefact Group and a shared desire to help others is the common thread that binds the family of businesses together. Each business is a specialist in its field, leading in everything from ethical investment and broking and advisory to specialist protection for iconic buildings and world heritage sites. Each one exists for the same purpose: to give all its available profits to good causes.

This charitable giving is at our very core and has been for over 135 years. We're even owned by a charity, Benefact Trust. So our way of doing business is different. The better we serve our customers, the more our business grows. And the more we grow, the more we can give back. It's how we're making a difference – to people's lives and to communities. And it's how, together, we're building a Movement for Good.

"The young people whom we work with have suffered due to the current Covid-19 crisis, our inspiring sailing voyages will help them to overcome their problems."

Emma Pate, Fundraising Manager, The Island Trust

The Island Trust Ltd

The Island Trust, based in Devon, is a youth sail training charity that enables disadvantaged and disabled young people to experience the benefits and challenges of sailing a traditional wooden sailing boat. As a winner of the 2021 Movement for Good awards, the charity can continue enhancing young lives – building resilience, independence and self-confidence.

"It's a privilege to welcome these children into An Garda Síochána as Honorary Garda. They love getting to wear the uniform and being involved on an ongoing basis."

Alan Keane, Secretary, Little Blue Heroes Foundation

Little Blue Heroes Foundation

Little Blue Heroes Foundation's mission is to provide practical and financial support to families of children who have serious illnesses in Ireland, while granting the wish of the children it supports to become Honorary Gardaí to empower the child and foster positive engagement with An Garda Síochána, Ireland's National Police Service. The Movement for Good awards money means they can keep making a positive difference to the lives of seriously ill children and their families.

"Watching malnourished babies growing stronger with our milk – and knowing their carers have the means to support them – makes everything worthwhile."

Forever Angels UK Ltd

Forever Angels provides life-saving nutrition to orphaned, abandoned and vulnerable babies in Tanzania, while empowering their caregivers through business creation. The Movement for Good money will provide milk for two babies, plus pay for 12 months' training for two caregivers in malaria prevention, health, hygiene, nutrition and child development. It will also pay to establish them in a sustainable business, so they can provide for their families.

Amy Hathaway, Founder and Director,
Forever Angels UK

"However different you think someone is from you, when you get talking to them, the similarities and the shared day-to-day concerns are often striking."

Rose Drew, CEO, Interfaith Glasgow

Interfaith Glasgow

Building bridges of trust and friendship between people of different beliefs is the aim of Interfaith Glasgow. By creating a welcoming space where people can meet and talk, the charity is helping to overcome prejudice and promote understanding and respect. With the Movement for Good money, Interfaith Glasgow can keep working to tackle prejudice through friendship-building initiatives and projects which bring people together to work for the common good.

"Helping to bring joy and laughter to the lives of our residents – people who have given so much – is incredibly rewarding."

Sophie Fanning-Tichborne, Partnerships Manager, Royal Star & Garter

Royal Star & Garter

Royal Star & Garter provides loving, compassionate, residential care to veterans and their partners living with disability or dementia. The Movement for Good award will fund their Wellbeing Programme which offers meaningful activities and exercise ranging from arts and crafts to gardening and tai chi, supporting individuals in feeling engaged, valued and loved.

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.

Trend	Our perspective
The conflict in Ukraine	First and foremost the unfolding conflict in Ukraine is a humanitarian catastrophe, with the UN reporting that over 2.5 million people have been displaced by the conflict at the time of writing. As an organisation with a strong caring ethos, we empathise with those facing extreme hardship and are working together with our charitable parent, Benefact Trust, to identify the best ways that we can provide financial support to them in their hour of need. The invasion of Ukraine in late February 2022 is a cause for concern around the world. Large oil and natural gas stocks are found in the region, leading to fears of supply shortages due to the imposition of sanctions and surging energy prices. Countries across Europe (including the UK) are seeking to lessen their reliance on Ukraine and Russia for oil and natural gas supplies. Disruption fears now encompass a wide range of other products that will affect both businesses and consumers. Uncertainty has spread, with volatility seen in global financial markets and adverse impacts beginning to flow through for economic growth and inflation. The most severe economic impacts are expected to be felt in Europe, which is already facing inflation in energy prices resulting in financial pressure on its businesses and households.
Global economics and trade	The outlook for the global economic landscape is cautious in 2022. Despite advances in the fight against Covid-19, countries continue to feel impacts from the pandemic, and the unfolding conflict in Ukraine continues to affect the outlook. The burden of the pandemic has been significant across all economies, particularly with national debts rising to potentially unsustainable levels. Gross Domestic Product (GDP) in advanced economies is expected to rebound to pre-pandemic levels, with the recovery expected to be fuelled by vaccination programmes and the emergence of antiviral treatments. Markets remain nervous with expectations that central banks will raise interest rates at a time when economies are emerging from the pandemic. Inflation is expected to be above targets stemming from global supply chain issues, high energy prices and skills shortages. Pressures on businesses are increasing from supply disruptions and shortages of manufacturing inputs, together with continued virus containment methods. A huge surge in demand has led to significant price rises and shortages, particularly in global consumer goods and semi-conductors. There is increasing discontent with rising energy prices, particularly in Europe, which is likely to be exacerbated by increased focus on addressing climate risks which will have associated transition costs.

Trend	Our perspective
Low trust in financial services	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 services businesses create value, act as a force for innovation and drive economic prosperity. Financial services has been the least trusted business sector and in 2021, trust fell in all subsectors of the financial services sector but particularly in property and casualty insurance, financial advisory and asset management. Benefact Group, Ecclesiastical Insurance Office plc's parent company, aims to be a beacon of responsible and sustainable business practice. This distinct positioning is supported by a business model and values. Together these target outcomes have resulted in high levels of trust placed in the Group and its businesses that are rare amongst financial services businesses. These include: • Ecclesiastical UK being recognised once again as the most trusted home insurer, retaining its accolade at the top of the Fairer Finance league table for the 14th time and; • EdenTree, our investment management business, has been recognised for its market-leading reputation and ethical approach with its 13th consecutive annual award from Moneyfacts.
Climate change response	The climate emergency continues to dominate the World Economic Forum's Global Risks Report with environmental risks dominating the global landscape over the next ten years. Average temperatures continue to rise alongside increased frequency of extreme weather events. Natural defences are coming under pressure with urbanisation and deforestation increasing global vulnerability to climate change. These pressures are likely to lead to greater concentrations of insurance losses. Society and businesses have begun to recognise that urgent action is needed. Global sentiment is showing that governments need to do more to manage their climate risks. Many countries are considering how to manage their climate risk and establishing appropriate steps to move towards a low carbon economy. Opportunities include redirecting investment away from fossil fuels and subsidising low carbon technologies, supported by building regulations that expect the use of low-carbon materials. The costs of moving to a lower carbon economy are expected to be very significant and are likely to lead to further economic and political pressures. Investors are increasingly demanding Environmental, Social and Governance (ESG) criteria. Companies are expected to have ESG as a priority (particularly given that the green recovery is playing a part in the post Covid-19 economy) and this investor demand is likely to be the key driver of increased environmental responsibility in financial services. EdenTree, our responsible investment business, has continued to be a champion for sustainability engaging with companies on the opportunities arising from ESG focused investing. This is underpinned by the intentions of our parent company, Benefact Group, which has made commitments to be a net zero group by 2040 and support our customers and partners to tackle their own impacts too.

Trend	Our perspective
Regulation	Regulatory scrutiny continues with common themes across governance, culture/accountability, and technology/data management. The world continues to face challenges from Covid-19 with a variety of economic and regulatory responses across the world. Despite some regulatory divergence, regulators are imploring financial services organisations to prioritise their financial and operational resilience to ensure that the financial system can continue to support businesses and households. As part of the continued response to the pandemic, financial services organisations are being urged to target credit and investment to where they are most critical and can have the greatest impact. Sustainability and responding to climate change is one of the key topics under consideration by regulators. Our membership of ClimateWise, the insurance industry initiative, helps us to shape our response to climate change, working within the regulatory frameworks across our geographies, while supporting our customers and business partners with their own sustainability ambitions. Other key challenges at the forefront of regulators' minds for financial services businesses are evolving their cultures to create positive outcomes for customers and society, and progressing diversity and inclusion.
Data, technology and analytics	Data continues to be seen as one of the world's most valuable assets. The pandemic accelerated the digitalisation of the majority of economic activities. The online economy has become more significant, with a continued shift towards trusted brands and dominant platforms. More customer-led propositions and tailored products are being shaped with the power of data. The increased threat and potential for harm from cyber-attacks continues to increase with expectations of further attacks fuelled by the crisis in Ukraine. The private sector and governments need to work more closely together on cyber security. Cyber security failure continues to be seen as one of the top global risks, with the threat of adverse technology advances over the next five to ten years. Our businesses continue to respond to the opportunities arising from this evolving landscape to work with current and emerging technologies through a data strategy that is overseen by senior management.
Socioeconomic trends	Global interconnectivity and digitalisation has increased over the past few years, accelerating the 'fourth industrial revolution'. Against the continued backdrop of the Covid-19 pandemic, there has been a significant shift to a more digital-enabled society underpinned by a deep shift towards remote working, particularly in the developed economies. The pace of technological change has accelerated and amplifies the increased expectations from customers and business partners seeking enhanced tailored propositions. Labour shortages have been a feature during the pandemic. This talent shortage is being seen in many countries and business sectors, making recruitment and retention challenging and creating inflationary pressures on people costs. 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, purpose-driven and trusted providers, our businesses continue to attract and retain prestigious customers across our geographies and markets. We are building a Movement for Good, with our charitable giving helping to support our communities to support those who are vulnerable in our societies.

'Benefact Group, Ecclesiastical Insurance Office's parent company, aims to be a beacon of responsible and sustainable business practice.'

Born to give

Charitable giving is at the very heart of our business. It's what defines us and what drives us forward. For us, giving isn't something new, it's what we set out to do when we first started over 135 years ago.

Back in 1887, our founders created a different kind of business based on a powerful vision: to contribute to the greater good of society. We do this by giving all our available profits to charity. Since 2016, we've donated over £100m – a target we set ourselves and which we're delighted to have reached.

We're delighted too that Benefact Group (formerly the Ecclesiastical Insurance Group) has again been named the fourth biggest corporate giver to charity[1] in The Guide to UK Company Giving. Far from making us feel satisfied it's made us hungry to give more, to be the largest corporate donor, making the greatest difference to more. That's why we've set ourselves a new, ambitious giving target of £250m by 2025. And given the energy and enthusiasm of our people, we're confident we'll hit it.

Every Ecclesiastical colleague has the opportunity to give to good causes through personal grants and matched donations for fundraising and payroll giving as part of our 'My Giving' scheme. And so far, we've donated to over 10,000 charities throughout the UK, Ireland, Canada and Australia – charities that are tackling the big issues, like poverty, disability, education, health and heritage. We also give our time, sharing our knowledge and expertise, as well as offering voluntary hands-on help. In short, we don't give up giving.

[1] Directory for Social Change – The Guide to UK Company Giving 2021-2022

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Our business model and strategy

Benefact Group, our wider group, is a diverse family of specialist financial services businesses, driven by our shared ambition to do right by our customers and clients, and united by a common purpose to give all available profits to charity and good causes.

Being owned by a charity – Benefact Trust – places good intentions at the foundations of our businesses. Whether in specialist insurance, investment management, broking or advisory, every business that makes up Benefact Group is a specialist in their respective field. Together we provide responsible and sustainable investment, protection of iconic buildings and world heritage sites, and trusted advice to people and businesses.

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.

Section Two

Strategic Report

Strategy in action

Ecclesiastical Insurance Office plc is a member of Benefact Group, a diverse family of specialist financial services businesses. Benefact Group is driven by a shared ambition to do right by our customers and clients, and united by a common purpose to give all available profits to charity and good causes.

The Group is delighted to continue to make significant contributions to good causes with a further £21m grant to its charitable owner, Benefact Trust, in the year. This accomplishment has been made possible through the significant efforts of all the businesses across Benefact Group, which have focused on meeting the needs of their customers, clients and business partners.

Our refreshed strategy demonstrates our ambitions for the future, responding to global trends and the external market context, building on our distinctive position in our chosen markets and our intent to have a positive impact on all communities that are important to us.

Throughout 2021, we continued to deliver the key elements of our ambitious strategy enabling further investment in our businesses and the delivery of value to our customers. At a wider group level, our strategic actions include reflecting our purpose and distinctive positioning with the renaming to Benefact Group, and making commitments to being a net zero group by 2040 and supporting our customers and partners to tackle their carbon emissions. Highlights of this strategy are shown here:

Most trusted specialist insurer

We achieve this by being

Trusted – Operating with the highest ethical standards and living our customer and 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

- Strong business growth, attracting and retaining prestigious customers across all our segments in all our geographies with ongoing recognition of our valued and trusted approach
- Launched a new visual identity in our Ecclesiastical brand across UK, Ireland and Canada geographies
- Won 17 awards in general insurance for various categories including innovation, service quality, products, claims, people and corporate social responsibility
- Helped customers to manage their strategic risks, providing an expert and specialist voice, publishing insights such as the Education Risk Barometer and strengthened our enterprise risk management offering across the UK and Australia
- Reflected the local needs of our customers sharing operational risk management advice including the use of electric vehicles, protecting buildings against arson, storm and flood readiness, safeguarding and business resilience
- Continued to invest in innovation including the launch of the Ecclesiastical Smart Properties sensor system to provide early warning to help prevent fire and water risks
- Continued our targeted support for broker partners including wellbeing and mental health guidance
- Established the Ecclesiastical Specialist School in Canada to offer specialised training modules, webinars and workshops to customers and brokers across underwriting, claims and risk disciplines
- Offered a local point of contact for UK church customers through our team of Church Insurance Consultants (CICs) who have an in-depth toolkit to address key insurance, risk management and fundraising concerns
- Helped customer communities with tailored fundraising advice including digital content, interactive webinars and a church-focused Fundraising in a Box toolkit

Customer satisfaction

- 98% overall satisfaction for the Ecclesiastical UK claims service (of which 93% are extremely or very satisfied) with an 84% Net Promoter Score
- 98% of church customers are satisfied with our service, with 86% extremely or very satisfied
- 99% of customers are satisfied with the knowledge, efficiency and friendliness of our customer service team
- 100% of customers are satisfied with the service provided by our team of risk surveyors
- 97% of brokers that place business with Ecclesiastical UK are satisfied with our service

Most trusted specialist insurer

Awards and accreditations

Ecclesiastical UK

- **#1 for Home Insurance** for 13th and 14th consecutive times, Fairer Finance
- **Top for Trust, Happiness, Transparency and Complaint Handling**, Fairer Finance
- **Digital Insurance Innovation of the Year**, British Insurance Awards
- **Insurance Claims Team of the Year**, Insurance Post Claims and Fraud Awards
- **Service Quality Marque** for mid-market claims, Gracechurch
- **Best Overall Completion of the Advanced Diploma**, Cheltenham and Gloucester Chartered Institute of Insurance
- **Best Paper in Advanced Claims**, Cheltenham and Gloucester Chartered Institute of Insurance
- **Customer Service Champion Award** (Kay Short), Plymouth and Cornwall Chartered Institute of Insurance

Ecclesiastical Canada

- **Canada's Top 100 Employer for Young People** for 9th consecutive year
- **Greater Toronto Top Employer** for 3rd consecutive year
- **Five Star Carrier Award** for 2nd consecutive year, Insurance Business Canada
- **Excellence in Corporate Social Responsibility**, Insurance Business Canada
- **Caring Company,** Imagine Canada
- **Fellow Chartered Insurance Professional** (FCIP) Top Graduate Award, Insurance Institute of Canada
- **Norman Bortnick Memorial Gold Medal Award** for FCIP top marks in British Columbia, Insurance Institute of Canada

Ecclesiastical Ireland

- **Specialist Lines Best Product Producer**, Brokers Ireland Excellence Awards

Ansvar UK

- **Corporate Community Local Involvement Award** with The Hygiene Bank, The Charity Times Awards

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 and providing innovative solutions

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 while seeking to have a positive impact on society
- Acknowledged as a pioneer and thought leader in our markets with a strengthened team with even more expertise
- Launched three new multi-asset funds with different risk objectives and investment goals to complement our responsible and sustainable portfolio of funds
- Sixth year of carbon footprinting of EdenTree's funds portfolio, with an overall reduction in the amount of CO_2 in the investments portfolio since our footprinting began. Funds are aligned to the targeted outcomes from the Paris Agreement (COP26)
- 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)
- Reinforced our thought leadership position with acclaimed responsible investment research and briefings on topics such as Climate change and net zero, Oppressive regimes, Antimicrobial resistance, and Conflict minerals
- Established partnership with British swimmer Alice Dearing, the first Black woman to represent Team GB in open water swimming who embodies EdenTree's approach to Performance with Principles

Awards and accreditations

- **Best Ethical Investment Provider** for 13th consecutive year, Investment Life & Pensions Moneyfacts Awards
- **Boutique Investment Management Award**, The Charity Times Awards
- **Retained Tier I Status** under the Stewardship Code
- **Sustained A+ rating for Strategy and Governance** in the PRI Transparency Report
- **Gained ninth 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 clients and insurer partners

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

- Continued to grow the Broking and Advisory division, sharing expertise and capabilities, working together to develop even stronger relationships with suppliers and carriers
- Continued to offer supportive and responsive service that meets customer needs including insurance broking, risk management and claims solutions, and financial advice
- Leveraged deep understanding of client and customer needs and monitored trends to evolve product offerings and innovative solutions, for example reflecting medical advances in veterinary diagnostics and new schemes such as a forestry and estates scheme that included carbon credits in sums insured
- Offered knowledge and insights on specialist areas such as an interactive guide for professional drivers, equine topics including field safety and preventing heat stress, risk advice for funeral directors, fortifying against flooding, underinsurance in farming, and the impact of climate uncertainty on crop yield
- Ecclesiastical Planning Services[1] (EPSL) launched a new distribution channel, enabling our funeral director customers to buy plans online
- Ecclesiastical Financial Advisory Services (EFAS) continued to meet the key financial concerns of clergy and church-related people, offering online and face-to-face financial support seminars in a number of dioceses as the pandemic restrictions eased
- Supported our specialist communities including:
  - Rewarding excellence in horse care for the third consecutive year with the SEIB Yard Awards and for racehorse training with the Lycetts Leadership & Team Champion Awards
  - Recognising long-standing relationship with first ever joint SEIB and National Association of Funeral Directors Lifetime Achievement Award and launched a thank you campaign to appreciate the efforts of funeral directors on the frontline of the Covid-19 pandemic
- Expanded our specialist broking footprint with the acquisition of six specialist businesses through our investment in Lloyd & Whyte[2]
- Celebrated 60 years of broking with our Lycetts[1] business

Customer satisfaction

Strong customer satisfaction scores and excellent Net Promoter Scores across the division:

- 96% EPSL[1] funeral director customers are extremely or very satisfied, with 100% satisfied for the second year running. EPSL achieved a Net Promoter Score of 96
- 96% EFAS customers are extremely or very satisfied, with 100% satisfied. EFAS achieved a Net Promoter Score of 89
- 92% Lycetts[1] customers are extremely or very satisfied with 98% satisfied. Lycetts achieved a Net Promoter Score of 76

Awards and accreditations

- EPSL[1]: Funeral Plan Experts of the Year – South West, Southern Enterprise Awards
- Lloyd & Whyte[2]: Growth Company of the Year, National Insurance Awards
- Lloyd & Whyte[2]: Commercial Lines Broker of the Year (for Business Choice Direct), National Insurance Awards

[1] part of Benefact Group
[2] part-owned by Benefact Group

Section Two

Strategic Report

Key Performance Indicators
Financial

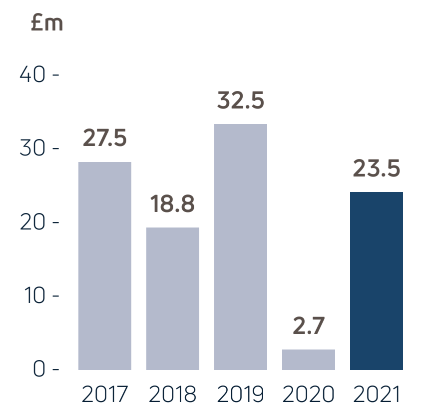
Measure	Performance

Donations

The amount donated by Ecclesiastical to charities, including our charitable owner, each year. This is the main measure of our ambition, which was to exceed £100m in charitable giving by September 2021.

Strong investment returns and a robust underwriting performance[1] enabled us to increase our charitable giving to £23.5m. This includes grants of £21.0m to our charitable owner, Benefact Trust, and a further £2.5m to good causes.

We achieved our £100m target, set in 2016, and have set a new target of reaching £250m[1] by the end of 2025.



Regulatory capital[2]

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 Benefact Group plc, the following refers to the regulatory capital of Ecclesiastical Insurance Office plc (Ecclesiastical Insurance Office Group's parent company).

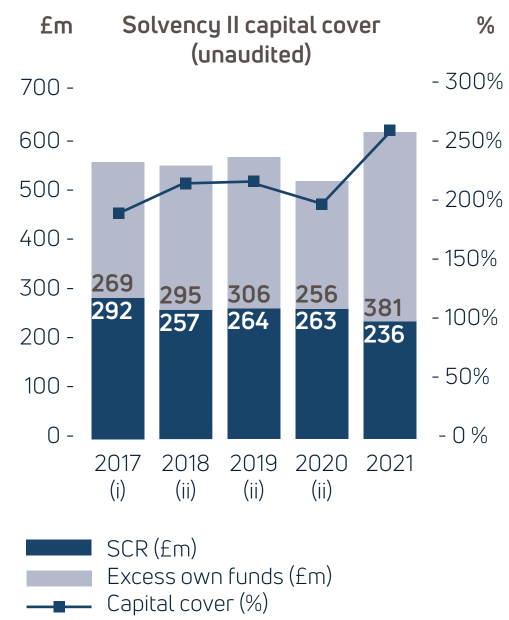
The Solvency Capital Requirement (SCR) is a risk-based statistical calculation that quantifies risks specific to our business. The Group sets a target level of capital that is in excess of the SCR to ensure ongoing compliance.

Ecclesiastical's capital cover under Solvency II has improved.

During 2021, own funds have increased with the favourable performance of financial investment assets, pension surplus and the issuance of €30m subordinated debt in February 2021. The €30m subordinated debt is classed as tier 2 capital. Our Solvency II regulatory capital position remains above regulatory requirements and risk appetite. The solvency coverage has decreased due to an increase in the Loss Absorbing Capacity of Deferred Taxes.

The figures for 2021 are based on the information provided to the Board as part of its 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.



(i) the 2017 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, 2019 and 2020 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

[1] Cumulative giving since 2014.

[2] Alternative performance measure, refer to note 37 to the financial statements for further explanation.

Measure	Performance

Profit or loss before tax

The Group's profit before deduction of tax.

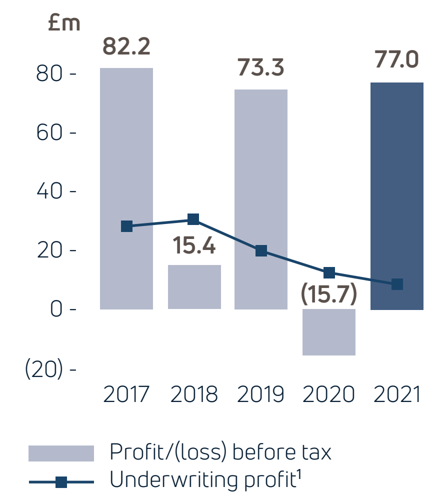
Each year, refreshed targets are set in relation to the Group's business plans for profit before tax. Details of the target that was set for 2021 can be found in the Group Remuneration Report. Our short-term target is to generate sufficient profit to enable us to meet our targets for charitable donations.

The Group reported a profit before tax in 2021 of £77.0m (2020: loss before tax £15.7m) driven by strong investment returns and a solid insurance result.

Increased profits from our Broking and Advisory business contributed to the Group result, while our Investment Management business reported a loss as it continued to invest in growing the business.

More information on underwriting performance[1] is given below.

See the Financial Performance Report within the Strategic Report for more details.



Combined operating ratio[1] (COR)

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

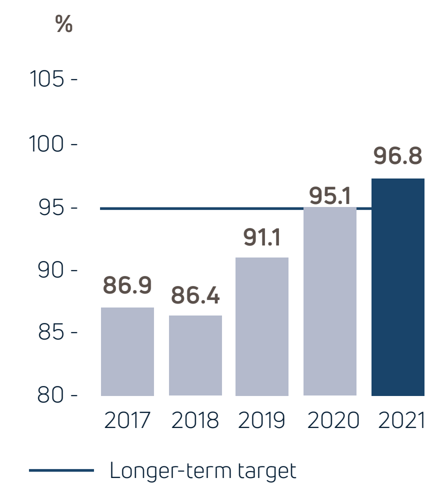
Each year, refreshed targets are set in relation to the Group's business plans for the Group COR. Details of the target that was set for 2021 can be found in the Group Remuneration Report. Our target over the longer term is to achieve a 95% COR.

Our COR increased in 2021. This reflects liability reserve strengthening in Australia, adverse weather events in the UK and more modest prior year claim releases compared with previous financial years.

The Group continues to keep underwriting and pricing discipline at the centre of its strategy, prioritising profit over growth in the competitive business environment.

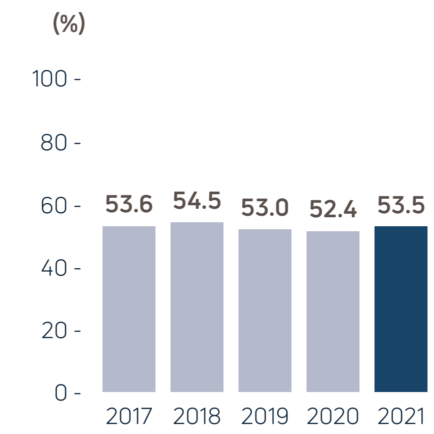
For a breakdown of how COR is calculated, see note 37 to the financial statements.

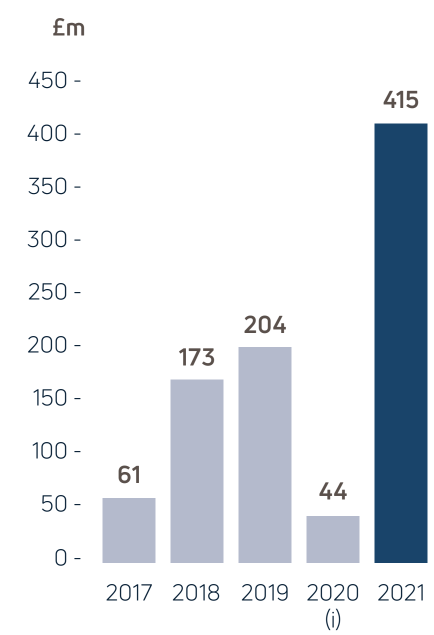
See the Financial Performance Report within the Strategic Report for more details.



[1] Alternative performance measure, refer to note 37 to the financial statements for further explanation.

Measure	Performance
Net expense ratio[1] (NER) Total expenses as a proportion of the net premium earned in the year. These expenses include acquisition costs, administration costs, the movement in deferred acquisition costs and commission paid less commission received. Our aim is to make year-on-year improvements in the NER. However, in the short term, we expect the NER to reflect a planned increase in strategic investment.	Our NER increased in 2021 to 53.5% reflecting a 10.2% increase in net earned premium and 12.6% increase in net expenses. Expenses include our continuing programme of strategic investment in technology to support business growth and customers' needs. For a breakdown of how NER is calculated, see note 37 to the financial statements.
Net inflows[1] (Investment Management) 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.	Investment markets were more optimistic in 2021 as the world learned to live with Covid-19. Economies reopened and stimulus packages bolstered growth. The Group's investment management business, EdenTree, increased its distribution capacity and widened its product range. Against this backdrop, record net new inflows of £415m were reported, with the previous high being £204m in 2019.





[1] Alternative performance measure, refer to note 37 to the financial statements for further explanation.

(i) 2020 figures have been updated to exclude certain net flows managed at Benefact Group level

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 and our Responsible Business Report.

Section Two

Strategic Report

Financial Performance Report

Profit before tax of £77.0m[1] (2020: loss before tax £15.7m) has been driven in particular by strong investment returns, as markets rebounded strongly from 2020.

The Group's general insurance businesses reported profit before tax of £8.8m (2020: £12.1m) representing another robust performance. This result includes areas where we have strengthened reserves and the impacts of some adverse weather events. Our underwriting result is also reflective of our continued strategic investment across our insurance technology platforms to ensure that our businesses are well positioned to deliver sustainable and profitable growth. 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 the 11% growth in gross written premiums (GWP).

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 year. Our Solvency II regulatory capital position remains above regulatory requirements and risk appetite and was 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 performed in line with expectations in most territories, resulting in a Group Combined Operating Ratio[2] (COR) of 96.8% (2020: 95.1%). We have delivered steady underwriting profits despite liability reserves strengthening in Australia and adverse weather events in the UK. Our strategy to focus on profitable growth opportunities has continued to deliver, with new business of £42.2m contributing to our overall GWP growth of 11% to £486m (2020: £437m) which also reflects targeted rate increases as well as strong retention.

Our programme of investment has continued, particularly across our technology platforms. The customisation and development of the software that underpins these platforms made up 2.8 points of our Group COR for the year. Our investment in these platforms are an important part in supporting the growth of our business and our customers' needs for the long term.

United Kingdom and Ireland

In the UK and Ireland, underwriting profits increased to £25.0m (2020: £12.3m) giving a COR of 85.3% (2020: 92.5%). GWP grew by 7.5% to £297.2m (2020: £276.6m). The current year underwriting performance was strong with prior year claim releases contributing to a more modest proportion of the result compared with previous financial years. Despite a series of weather events and large claims, current year loss ratios were slightly ahead of expectations as a result of rate changes and portfolio management. Both property and casualty accounts generated underwriting profits.

Heritage, Education and Real Estate were particularly strong growth areas in 2021 despite the competitive trading conditions. We expect trading conditions to remain competitive but the outlook is becoming increasingly unpredictable. Inflationary pressures in the economy, Covid-19 uncertainty, and the potential for more frequent and intense weather events due to climate change all contribute to this uncertainty. However, our Net Promoter Scores across brokers and customers are robust, have improved and provide resilience, enabling us to carry positive rate change where needed and contribute to the high levels of retention experienced. Market hardening in certain areas of our property and casualty portfolios enabled us to write

[1] Further details can be found in note 5 to the financial statements.
[2] Alternative performance measure, refer to note 37 to the financial statements for further information.

new business at profitable levels. GWP in respect of our Faith business remained in line with prior year reflecting a good result in challenging conditions.

Our strategy over the medium term is to deliver 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, specialism, and excellent service that our customers value.

Ansvar Australia

Our Australian business reported an underwriting loss of AUD$24.4m resulting in a COR of 156.9% (2020: AUD$1.2m loss, COR of 102.2%). GWP grew by 14.2% in local currency to AUD$171.2m (2020: AUD$149.9m) with strong new business growth, retention and rate increases. The performance of the business written in the current year has been good and continues to improve in light of positive underwriting actions. However, the overall underwriting result includes the adverse impact of reserves strengthening in the liability account for historic physical and sexual abuse (PSA) claims. The underwriting loss also reflects our significant investment in a new underwriting system which will benefit the business over the longer term.

The Group made a further underwriting loss of £10.0m (2020: £4.7m) within its internal reinsurance portfolio as a result of reserves strengthening in respect of historic PSA claims in Ansvar Australia.

Canada

Our Canadian business continued its track record of delivering premium growth, reporting GWP of CAD$158.0m (2020: CAD$131.5m), a 20.1% increase, which was supported by strong retention and rate increases as well as new business.

Canada reported an underwriting profit of CAD$12.2m resulting in a COR of 88.6% (2020: CAD$7.8m profit, COR of 91.2%). Despite an increase in the number of large losses, the property book performed well due to benign weather, lighter than expected attritional losses, and favourable development on prior year net losses. The performance of the liability book was impacted by some adverse development on prior year claims and the strengthening of the reserves provision.

Investments

2021 saw optimism return as Covid-19 vaccines allowed economies to reopen, with unprecedented stimulus packages from governments and central banks bolstering growth, but also stoking inflation. The Group's net investment return of £101.1m (2020: loss of £4.3m) can be largely attributed to the continued recovery in equities, both within our directly-held portfolio, and via holdings in EdenTree's Responsible and Sustainable OEIC funds, whilst our investment property portfolio also experienced strong gains.

Investment income of £30.9m reflects a more optimistic market as the world learns to live with Covid-19 (2020: £30.2m). A recovery from the initial impact of the pandemic was also reflected in fair value gains on financial instruments of £38.1m, reversing the impact of fair value losses of £13.6m seen in 2020. The past two years highlight the impact economic and political uncertainty can have on the performance of our investments, with the recent conflict in Ukraine leading to an increased level of market volatility. Notwithstanding this, we remain confident in our long-term investment philosophy, and are well-diversified and relatively defensively positioned.

Within our UK equity portfolio, small-cap exposure proved beneficial as the FTSE Small-Cap outperformed the FTSE All-Share by a significant margin over the course of the year.

Our directly-held sterling bond portfolio outperformed the FTSE Gilts benchmark by 5.3% in 2021, as the longer duration index was impacted by rising yields to a greater extent than our shorter-dated bond portfolio.

Our investment properties delivered fair value gains of £20.2m (2020: losses of £5.0m) driven by increased market demand for commercial property where the portfolio is well-represented.

The upward movement in bond yields led to an increase in the discount rate applied to long-tail insurance liabilities. The change in discount rate on those liabilities resulted in a profit of £11.9m recognised within net investment return (2020: £15.9m loss).

Investment Management

The Group's investment management business, EdenTree, was pleased to report record net inflows of £415m, excluding Group flows. The previous high was £204m in 2019 (2020: £44m). EdenTree incurred a loss before tax for the year of £2.5m (2020: loss before tax £1.0m) as it invested in growing the business through its distribution capacity and with a widening of its product range.

Assets under management (AUM) increased by 25% in the year. Half of this asset growth was attributable to new money into the business, and half to markets as funds performed well across the fund range. AUM were £3.7bn (2020: £3.1bn) and £2.8bn (2020: £2.3bn) excluding assets managed for the Group.

Net income at £14.9m was up by 20% year on year (2020: £12.4m). This is due to both client inflows in the year and increasing market value of assets, however maintaining margins on fees earned continues to be challenging, a trend which is seen across the industry.

Long-term business

Our life business, Ecclesiastical Life Limited, reopened to business during the year, launching a new product providing guaranteed returns for funeral planning products sold by Ecclesiastical Planning Services, a business within the wider Benefact group. The legacy book within our life insurance business remains closed to new business. Profit before tax grew to £1.1m for the year (2020: £0.5m). Assets and liabilities in relation to the life insurance business remain well matched.

Broking and Advisory

Overall, Broking and Advisory performance has been strong, reporting a profit before tax of £3.0m (2020: £2.4m). 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 £3.2m (2020: £2.8m), whilst EFAS reported a small loss of £0.2m in the year (2020: £0.3m loss).

In addition to these Broking and Advisory businesses our immediate parent company, Benefact Group plc 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 Group, they are managed together as part of the Group's wider Broking and Advisory group of businesses. The broker businesses were profitable in 2021 but the prepaid funeral plan business made a small loss in the year.

Outlook

Although the easing of most pandemic-related restrictions means we entered 2022 in a very different place to the start of last year, we are still living with Covid-19, and some remaining level of uncertainty from the pandemic will likely persist. The recent devastating events in Ukraine, and the consequences of previously unthinkable international economic sanctions, has led to heightened market volatility, an increased risk of inflation and risks to the supply chain. We will continue to manage these risks and remain alert to changes in them across all of our businesses. Despite the increased level of uncertainty, we remain optimistic about the future and are fully committed to our ethical and long-term investment strategy. The Group continues to take a long-term view of risk, remains well capitalised and is capable of withstanding potential future volatility.

As part of Benefact Group, we have many exciting opportunities ahead. We'll continue to grow, innovate and build a sustainable business that can continue to generate profitable growth and help achieve our ambition of giving £250m to charity and good causes by the end of 2025.

Denise Cockrem
Group Chief Financial Officer

'As part of Benefact Group, we have many exciting opportunities ahead. We'll continue to grow, innovate and build a sustainable business.'

Benefact. One family. One vision.

We're proud to be part of Benefact Group, a global family of specialist financial services businesses. Like us, each business in the Group is a trusted expert in its market and has a strong charitable purpose. And it's this powerful desire to help others that binds us together.

Our desire to help others – to support the causes you care about – is why we give all available profits to charities and good causes. It's also why we're so ambitious to keep on growing – because quite simply, the more we grow, the more we can give back. Besides our charitable donations, one of the other key ways in which we support charities is through fundraising.

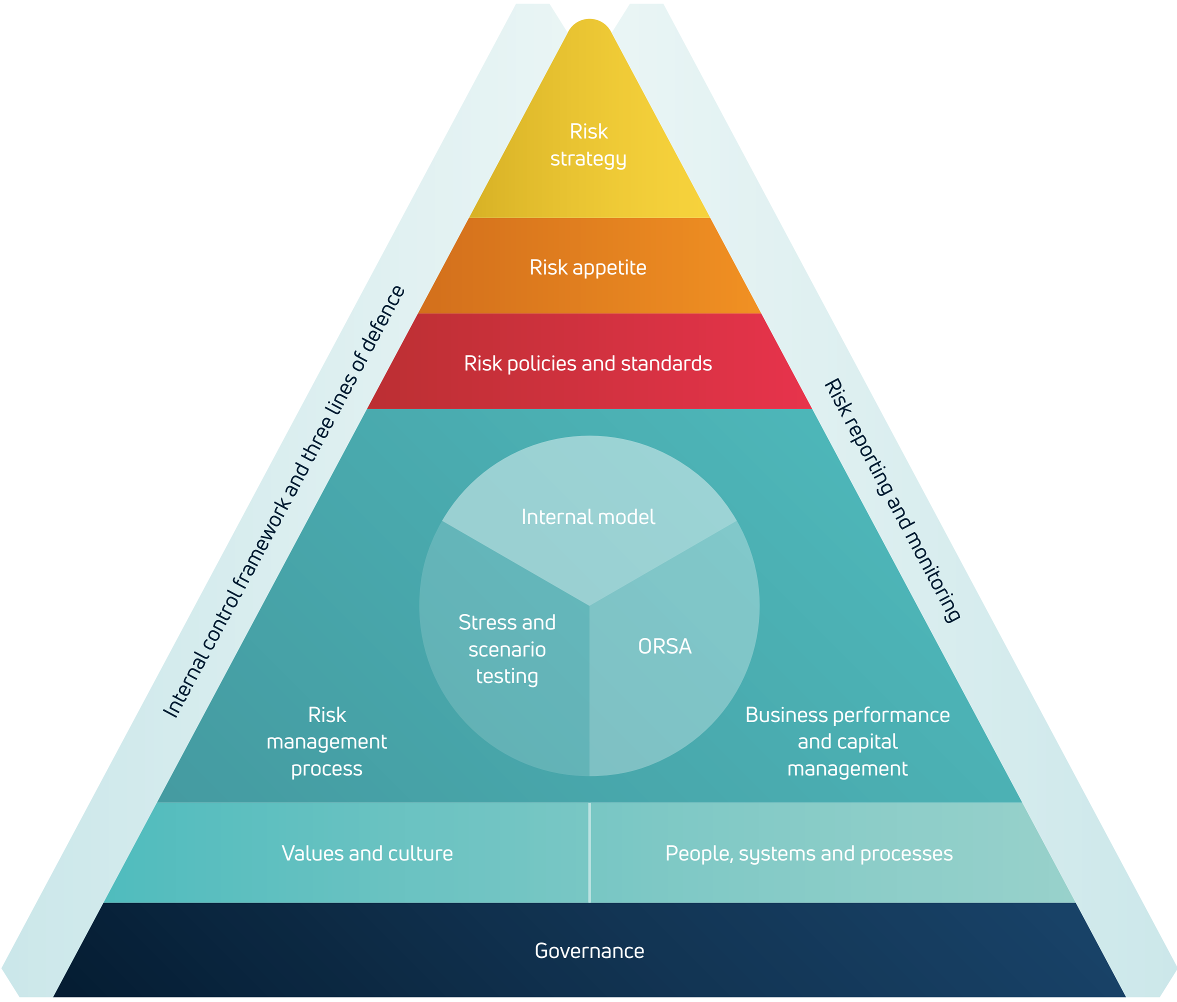
In 2021, we continued to build on our fundraising support. We ran a series of successful webinars, following which 95% of charity attendees said they would recommend the sessions. And with church, as well as charity, incomes being hit hard by the pandemic, we also produced a tailored toolkit 'Fundraising in a Box', which was sent to all Anglican church customers in January.

These fundraising activities complement our online church and charity fundraising hubs, which we launched in 2020. Featuring a range of resources, developed in conjunction with fundraising specialists, they offer easy-to-use support, tools and guidance, including advice on researching and applying to possible donors and grant funders. Practical help that goes hand-in-hand with our financial support.

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 that enable us to achieve our strategy and objectives, whilst ensuring 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, which includes 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, Statement of Responsibilities 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 GRC.

The impacts of the conflict in Ukraine are being closely monitored as the range of measures being taken in response by the UK government and other countries grow. We remain alert to the changing external environment and the impact it could have on our business and risk profile.

The Covid-19 pandemic continues to have 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 continuing 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) continued to operate for the first part of 2021, using the Group's Business Continuity Plans, and to oversee the ongoing management of operational elements. The primary focus of the CMT was oversight of the continued effectiveness of remote working, with particular emphasis on people and technology.

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

Investment markets recovered well during 2021, as economies recovered from the effects of the global pandemic leading to growth in the value of our investment assets throughout the year. We maintained our existing investment approach and made no material changes to our asset mix, holding a diversified portfolio of assets including equities and property held for prospects of long-term returns. Consequently, we continue to choose to take a relatively high level of market risk, which is well understood and closely monitored and managed. We have seen market volatility in 2022 that has persisted with the unfolding conflict in Ukraine and this continues to be monitored.

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 2021 was no exception. Our strategy remains to achieve controlled and profitable growth within our defined specialist markets. During 2021 we obtained improvements in rate strength across all territories in which we operate 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. New claims volumes emerging during 2021 in Australia and Canada had led to increases in levels of reserves held. We continue to monitor the experience and claims environment in all of the territories in which we operate.

The Covid-19 pandemic was the trigger for a high volume of regulatory guidance issued in all territories during the prior year. Consequently, some other elements of regulatory change have been delayed, though we expect the pace of change to increase again as we move forward into 2022. 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 and with the unfolding conflict in Ukraine. 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, together with regulations such as GDPR, results in increased scrutiny and prominence. External attackers view the disruption arising from a more hybrid working environment as an exploitable opportunity, and there continues to be 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 for its staff.

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 that additionally affects the insurance risks that we cover.

Committed to tackling climate change

As a company dedicated to making a positive impact on society – and therefore our environment – we're committed to making big changes to protect our planet.

By 2030, instead of just aiming for net zero emissions, we've set ourselves a target to wipe out our historic carbon impact. And we're working with independent bodies to help us achieve this across all our businesses.

Through our investment management business, EdenTree – a pioneer in Environmental, Social and Governance, and a signatory to the Montréal Carbon Pledge in June 2016 – our responsible and sustainable investment strategy is a bold step forward. It not only avoids investment in businesses that cause social harm but actively seeks to invest in markets that have positive impacts. We've already disposed of the most carbon-intensive holdings by excluding fossil fuels, mining and high emitting polluters such as automotive, aviation, and heavy industry – directing capital to sustainable solutions.

We support our customers and communities to reduce their carbon emissions through our innovation and advice, and we support climate change reduction through our giving. So, when we talk about being committed to tackling climate change we're talking about effecting real change through carefully-thought-out strategies backed up by a 135 year commitment to the world around us.

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
Underwriting risk[1] 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.	· A robust pricing process is in place · The Underwriting Licencing process has been refreshed · A documented underwriting strategy and risk appetite is in place together with standards and guidance and monitored by SBUs · This is supported by formally documented authority levels for all underwriters which must be adhered to. Local checking procedures ensure compliance · Monitoring of rate strength compared with technical rate is undertaken on a regular basis within SBUs · There are ongoing targeted underwriting training programmes in place · A portfolio management framework is in place to ensure clear understanding and allow targeted actions to be taken	There have been no material changes to this risk during the year and minimal impacts as a result of the conflict in Ukraine.
Reserving risk[1] 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.	· Claims development and reserving levels are closely monitored by the Group Reserving team · For statutory and financial reporting purposes, prudential margins are added to a best estimate outcome to allow for uncertainties · Claims reserves are reviewed and signed-off by the Board acting on the advice and recommendations of the Group Chief Actuary following review by the Reserving Committee · An independent review is also conducted by the Actuarial Function Director with reporting to the Board	This risk is not considered to have changed materially during the year. A rise in numbers of Physical and Sexual Abuse claims in the Australian and Canadian businesses over the past year has led to an increase in reserves.

Risk detail	Key mitigants	Change from last year
Catastrophe risk[1] 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.	· Modelling is undertaken to understand the risk profile and inform the purchase of reinsurance · There is a comprehensive reinsurance programme in place to protect against extreme events. All placements are reviewed and approved by the Group Reinsurance Board · Exposure monitoring is undertaken on a regular basis · A Catastrophe Risk Management Group provides oversight and sign off of reinsurance modelling · The Group Risk Appetite specifies the reinsurance purchase levels and retention levels for such events · Local risk appetite limits have been established to manage concentrations of risk and these are monitored by SBUs	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.
Reinsurance risk The risk of failing to access and manage reinsurance capacity at a reasonable price. Reinsurance is a central component of our business model, enabling us to insure a portfolio of large risks in proportion to our capital base.	· We take a long-term view of reinsurance relationships to deliver sustainable capacity · A well-diversified panel of reinsurers is maintained for each element of the programme · A Group Reinsurance Board approves all strategic reinsurance decisions	The level of this risk has remained broadly similar since last year. Reinsurance markets have experienced challenges in recent years due to the impact of Covid-19 claims and global catastrophe events. This has resulted in tightening of criteria and capacity in certain areas. We continue to take a long-term approach to our reinsurance relationships.

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

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
Market and investment risk[1] 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.	· An investment strategy is in place which is reviewed at least annually and signed off by the Finance and Investment Committee (F&I). This includes consideration of the Group's liabilities and capital requirements · 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&I in place · 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 · Derivative instruments are used to hedge elements of market risk, notably equity and currency. Their use is monitored to ensure effective management of risk · There is tracking of risk metrics to provide early warning indicators of changes in the market environment The Pension Scheme Trustee Board has an Investment Committee that oversees the market risks in the pension fund. The Company, as employer sponsor of the fund maintains regular communication with this Committee. Further information on this risk is given in note 4 to the financial statements.	Overall the market risk profile has not materially changed and we remain invested for the long term. We continue to monitor market conditions and the socio-political environment. We have seen increased stock market volatility in 2022 in response to the conflict in Ukraine and continue to monitor this. However, the impact has been minimal to date given the assets we hold and our investment strategy.
Credit risk[1] 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.	· Strict ratings criteria are in place for the reinsurers that we contract with and a Reinsurance Security Committee approves all of our reinsurance partners · Group Reinsurance monitors the market to identify changes in the credit standing of reinsurers · There are risk appetite limits in place in respect of reinsurance counterparties which are agreed by the Board · Strong credit control processes are in place to manage broker and policyholder exposures Further information on this risk is given in note 4 to the financial statements.	The level of this risk has remained broadly similar to the previous year.

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

Risk detail	Key mitigants	Change from last year
Liquidity risk The risk that the Group, although solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure them only at excessive cost. 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.	· We hold a high proportion of our assets in readily realisable investments to ensure we could respond to such a scenario · We maintain cash balances that are spread over several banks · We have arrangements within our reinsurance contracts for reinsurers to pay recoverables on claims in advance of the claim settlement	There have been no material changes to this risk since last year.
Climate change 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.	· Catastrophe risk is managed through reinsurance models · We consider flood risk and other weather-related risk factors in insurance risk selection · There is an ESG overlay on the Investment Strategy	The Group has effected changes to its investment policy to: · Exclude investment in companies that are wholly or mainly involved in fossil fuel exploration and production and thermal coal · 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 · Seek opportunities to invest in areas that are leading the transition to a low carbon economy, where these also meet robust investment criteria

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
Systems risk 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.	· A defined IT Strategy is in place · Systems monitoring is in place together with regular systems and data backups · A strategic systems programme is underway to deliver improved systems, processes and data · Business recovery plans are in place for all critical systems and are tested according to risk appetite	This level of risk remains stable, as the Group continues to invest in IT infrastructure to maintain and improve future stability.
Cyber risk The risk of criminal or unauthorised use of electronic information, either belonging to the Group or its stakeholders, for example customers, employees etc. Cyber security threats from malicious parties continue to increase in both number and sophistication across all industries.	· A number of security measures are deployed to ensure protected system access · Security reviews and assessments are performed on an ongoing basis · There is ongoing maintenance and monitoring of our systems and infrastructure in order to prevent and detect cyber security attacks · There is an ongoing Information Security training and awareness programme	Cyber risk remains a constantly evolving threat, with malicious threat attackers continuing to seek to exploit Covid-19 related business disruption including a more hybrid approach to working. Employee awareness and vigilance is therefore highly important at this time, especially with the unfolding conflict in Ukraine, which is continuing to be proactively managed.
Change risk 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.	· We have a clearly articulated Group Strategic Programme, identifying areas of priority across the Group · We ensure that there is adequate resourcing for change projects using internal and external skills where appropriate · A Change Board and change governance processes are in place and operate on an ongoing basis · The GMB undertakes close monitoring and oversight of the delivery of the strategic initiatives and key Group change programmes	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, relating to both IT systems and to meet the ever changing regulatory landscape. Appropriate strengthening of expertise has continued in the year to reflect and meet this volume of change.

Risk detail	Key mitigants	Change from last year
Operational resilience 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.	· A recovery and resilience framework is in place aligned to the delivery of customer services · Recovery exercises including IT systems are regularly performed across the Company with actions identified addressed within an agreed timescale · All suppliers are subject to ongoing due diligence · There is ongoing maintenance and monitoring of our systems and infrastructure in order to prevent and detect issues	Operational Resilience continues to have been successfully tested during the year, with the continued need to meet the needs of our customers, alongside working in a new hybrid environment. Focus in 2021, and into 2022, remains on meeting the enhanced Regulatory requirements around Resilience.
Data management and governance 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.	· A Group Data Governance and Management Committee is in place · Group Data Governance and Group Data Management and Information Security Policies are in place · 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	Enhancements continue to be made to the governance, management, use and control of data, in order to meet the evolving requirements. It continues to be monitored and managed within the context of major change programmes.

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
Regulatory risk 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.	· We undertake close monitoring of regulatory developments and use dedicated project teams, supported by in-house and external legal experts, to ensure appropriate actions are taken to achieve compliance · An ongoing compliance monitoring programme is in place across all our SBUs · Regular reporting to the Board of regulatory compliance issues and key developments is undertaken	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. We also remain vigilant with our financial crime/sanction controls in response to the unfolding conflict in Ukraine.
Conduct risk 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.	· There is ongoing staff training to ensure that customer outcomes are fully considered in all business decisions · Customer charters have been implemented in all SBUs · Conduct Risk Reporting to relevant governing bodies is undertaken on a regular basis · Customer and conduct measures are used to assess remuneration	The probability of such risks crystallising have increased due to the on-going Covid-19 pandemic. However, we remain committed to placing customers at the centre of our practices and decision making, demonstrated by our wide-ranging industry awards and customer satisfaction scores. Overall the level of this risk is unchanged from last year.

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
Brand and reputation risk 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. Whilst we aim to consistently meet and, where possible, exceed these expectations, increasing consumer awareness and increased regulatory scrutiny across the sector exposes the Group to an increased risk of reputational damage should we fail to meet them, for example as a consequence of poor business practices and behaviours.	· There is ongoing training of core customer-facing staff to ensure high skill levels in handling sensitive claims · We adopt a values led approach to ensure customer-centric outcomes · There is a dedicated Marketing and PR function responsible for the implementation of the marketing and communication strategy · Ongoing monitoring of various media is in place to ensure appropriate responses	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. The external environment continues to drive a high inherent probability of reputational issues across all financial services companies. We continue to focus on serving our customers and ensuring fair treatment and clear communication, and are proud of the volume of Industry Awards we continue to win.

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 2024 and is underpinned by management's 2022-24 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; and
- The political, economic and regulatory environment, including uncertainties on the geopolitical outlook, which have been heightened following the recent conflict in Ukraine, market volatility, inflation, the Covid-19 pandemic and the impact on supply chain of 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, with the principal risks documented on pages 68 to 75. 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.

Risks arising from the Ukraine conflict, in particular investment market volatility and supply chain/inflationary pressures, have been considered. Scenario testing showed that, at this stage, there is no perceived material risk to the Group's viability resulting from the conflict.

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 and subordinated debt borrowing and the expectations of its ultimate charitable owner, Benefact Trust Limited. The Group has fixed annual dividend payments of £9.2m in respect of its non-cumulative irredeemable preference shares and quarterly interest payments in respect of its 6.3144% €30m subordinated debt. The Group makes regular grants to its ultimate charitable owner, Benefact Trust Limited. There is a regular cycle of discussion with Benefact 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

Trusted for our specialist protection

For more than 135 years, we've been trusted to protect some of the country's most iconic buildings and places. We've worked hard to earn that trust and work even harder to keep it. That means constantly honing our specialist knowledge and coming up with innovative new ways to protect our customers' assets.

Two of the most serious and common risks to properties are fire and escape of water. In 2020, 25% of all the property claims we handled were for water damage. And according to Home Office figures for 2019/20, nearly 11,900 property fires were caused by electrical systems or specific appliance failures.

To help combat this, we've joined forces with property performance specialists Shepherd to create an innovative, technology-based solution called Ecclesiastical Smart Properties. This software-based, wireless sensor system works by detecting abnormal changes in the property – sudden spikes in temperature or moisture levels – and sends a real-time alert via email, SMS or phone, so early preventative action can be taken.

Soon after launching the new solution at Kenwood House in London a flood was averted. Sensors identified water ingress in the staff room, an instant alert meant that the leak could be located and rectified before it could cause damage to the building or the priceless artworks in the room below.

One of the first insurers to offer this new way of managing risk, Ecclesiastical Smart Properties was awarded Digital Insurance Innovation of the Year 2021 at the British Insurance Awards. We were also delighted to have picked up many other awards last year including Commercial Lines Broker of the Year at the National Insurance Awards and Best Ethical Investment Provider at the 2021 Investment Life & Pensions Moneyfacts Awards.

Responsible Business Report highlights

Socially-positive

74%
suppliers paid within 30 days

£2.5m
to charity direct; £23.5m from the Group overall

2 Star Company
demonstrating outstanding levels of employee engagement – judged by Best Companies

Award-winning
across the Group including Best Ethical Investment Provider for thirteen consecutive years

100%
sign-up to employee Code of Conduct

Top 4
Corporate Giver – according to the DSC's 2021/22 Guide to UK Company Giving

Signatory to the ABI's Making Flexible Work Charter

>150
virtual development sessions organised to keep connected despite Covid-19

Environmentally-positive

£250,000
Nearly £250,000 of charitable funding for climate-related projects

'Very good' BREEAM sustainability standard achieved for new build head office

1.5° potential temperature
– Group business fund alignment with the Sustainable Development Scenario compared to 3.6 degree benchmark

> 1,600
desktop surveys completed in the UK which reduced environmental impact

0.23 tonnes
carbon footprint; or 0.23 tonnes – carbon intensity per employee

ClimateWise
member of voluntary industry initiative

Net Zero
commitment by 2023 for direct impact, 2040 for the Group

Overview

Our charitable ownership and commitment to our customers and communities means we have a unique opportunity to create a positive social and environmental impact in the world.

This means using our unique business model to give to charities and communities everywhere, reaching out to help our customers tackle their climate challenges and being a beacon of best practice for responsible business.

An expectation to uphold responsible business standards is 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 and the ABI's Making Flexible Work Charter. 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.

In particular, in 2021, we continued to support our colleagues, customers and communities through difficult times and developed our climate strategy. Read on to find out more.

Socially-positive

Charitable giving

Social impact is central to the purpose of the Group. Its unique business model enables it to give millions of pounds to hundreds of charities every year. 2021 was another year of sustained giving affirmed by a fourth-place ranking in the Directory of Social Change's Guide to UK Company Giving.

The Group distributed £2.5m in its own right, primarily through its Movement for Good awards which give £1m to charities in a combination of small donations to a huge diversity of causes and more targeted large grants. In 2021 the campaign was developed to directly involve employees from all over the Group in 'giving panels' to find the charities closest to communities the Group supports.

Around the Group business giving programmes continued to make a significant impact. In Canada the now well-established Community Impact Grants gave CAN$250,000 to 12 charitable organisations across Canada and in December it released a further CAN$250,000 to support 89 charities continuing to help their communities during the pandemic. In Australia the Community Education Programme continues to equip Australians under the age of 25 with the tools to achieve a higher quality of life. Ansvar UK launched funds to promote healthy lifestyles to children and young adults. EdenTree's community fund supports small, innovative organisations that are having a remarkable impact working with marginalised people. Our Irish business provides a wide range of support to Jigsaw, the national centre for youth mental health.

Employee engagement and wellbeing

Support for employees was paramount throughout 2021 as we all battled the ongoing challenging circumstances. The Group continued to take a supportive and pragmatic approach, using flexibility and technology to enable our people to work at their best, ensuring we continued to deliver for customers and partners.

We improved our wellbeing offer even further with the launch of an app which 25% of employees signed-up to and we made the process for counselling referral much easier. Despite the challenging working restrictions we grasped the opportunity to launch Group-wide future flexible working principles and became a signatory to the ABI's Making Flexible Work Charter. As we were able to move back to an effective balance of office working we invested in fantastic office spaces to support flexible working in the short and long term. 2021 marked the opening of the Group's new head office in Gloucester. The building is built to high sustainability standard BREEAM and designed with flexibility and wellbeing in mind with FitWel.

It was particularly heartening to receive external recognition of the Group's levels of engagement – in the first year of participation in the Best Companies assessment the Group was awarded a 2 star accreditation demonstrating 'outstanding' levels of employee engagement, with many teams being recognised at the highest 3 star level, or 'world class.' Employees feel particularly positive, and the results score above benchmark, on some key topics including running the organisation on strong values and principles and making a positive difference in the world. In a year that brought personal challenges for all of us, and in which we developed our approach to flexible working, we also exceeded benchmark on feeling supported by our managers and finding a positive working balance.

The Group continued to keep focused on its approach to diversity and inclusion. During the year a campaign to improve the quality and quantity of data was launched, policies and tone of voice were reviewed resulting in the launch of a new campaign 'we all belong'. The Group continued to be a founding and supportive signatory to the Women in Finance Charter and published gender pay reporting.

Despite the ongoing pandemic we continued to invest in our people, ensuring their ongoing personal growth and professional development. We ensured employees completed regulatory training across the Group, renewed our

UK General Insurance Corporate Chartered Status with the CII and supported leaders through an in-house programme and sponsorship of several senior leaders through Windsor Leadership Programmes and with Cranfield University.

We also ran over 150 virtual learning sessions to colleagues across our UK and Ireland businesses, provided tools for managers to develop and supported a large number of colleagues with professional qualification programmes, using our apprenticeship levy scheme where appropriate.

We developed and agreed Group-wide values and a refreshed culture model which was launched internally alongside our new Group Brand.

Customers and partners

The Group showed the same level of care and commitment to supporting customers and partners. We launched mental health and wellbeing training for our UK brokers and continued to develop fundraising tools to help charities sustain their activities. Our dedicated fundraising site was visited by over 12,000 users and over 750 charities attended a webinar jointly organised with the Directory of Social Change to network, ask questions and hear the latest from a range of fundraising experts.

We believe we're doing the right things, but it's particularly encouraging when the Group receives external awards and recognition. The list of awards for 2021 includes Top Employer for Young People for the 9th time (Canada); top ranking for the 13th time for trust, happiness, transparency and complaint handling in the Fairer Finance ratings (UK direct insurance); digital innovation at the British Insurance Awards (UK general insurance); growth company of the year at the National Insurance Awards (broking); best specialist lines producer (Ireland); and Best Ethical Investment Provider for 13 consecutive years (investment).

We recognise the social impact and influence our business can have on the partners and suppliers we work with. To ensure we uphold the highest standards regarding human rights, anti-corruption and anti-bribery we have a range of measures including robust risk management, employee Code of Conduct and employee regulatory training on topics such as data protection and whistleblowing. 100% of employees attested to our Code of Conduct in 2021.

We continue to submit our Modern Slavery Act declaration and we reported a continuing improvement in the number of suppliers paid within 30 days to 74% under the Payment Practices and Performance Reporting (2020: 72%).

Key employee statistics

Gender by level

	Male	Female	Total
Group Management Board	5	3	8
Senior Leader	67	28	95
Manager	255	182	437
Team Member	452	643	1068
Grand Total	779	856	1635

Gender pay gap

	2021	2020	2019
Fixed pay gap mean/median	27.7%/20.4%	28.0%/21.1%	27.6%/22.4%
Bonus pay gap mean/median	51.2%/32.9%	49.3%/28.9%	50.1%/32.4%

Ethnicity

White	Prefer not to say	BME	Total
1250	312	73	1635

Environmentally-positive

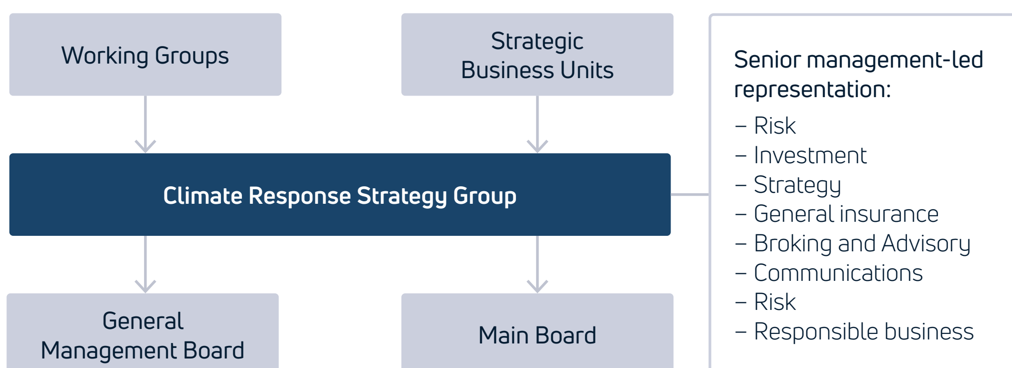
Climate change is one of the biggest challenges facing our colleagues, customers, partners and communities. The Group is committed to grasping its opportunity to make a positive environmental impact and support customers and communities to tackle their climate challenges too.

That's why the Group continues to be a voluntary member of ClimateWise, a group of organisations ambitious about climate action. The Group reports annually to ClimateWise's framework which is in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The Group will continue to integrate the assessment of climate-related risks and opportunities into governance, strategy, risk management and reporting to both improve its response and enhance its disclosures in line with guidance and best practice from TCFD. We have made significant progress in 2021, which is summarised over the following sections.

1. Be accountable – governance

The Group ensures climate risk has strong governance and oversight in a number of ways:

- Climate risk is a key consideration of the Group's enterprise-wide risk management framework overseen by the Group Risk Committee (GRC).
- Board engagement and oversight was strengthened in 2021 – an extraordinary climate strategy session was held to discuss the Group's position and future ambitions. A Non-Executive Director has been appointed to be accountable for climate. Progress against our climate strategy and plans will be reported to the Board regularly.
- The Board has delegated responsibility for oversight of risk arising from climate change to the GRC. Updates are provided through quarterly reports and ad-hoc updates provided to GRC meetings.
- Climate risk is assessed and managed through the Group risk function, reinsurance management and investment advisory panel.
- Under the Senior Managers and Certification Regime (SMCR) climate responsibilities have been included in Statements of Responsibilities for specific senior management functions, including all 3 Lines of Defence. Leaders of all Strategic Business Units in the Group have been assigned responsibility for managing the risks arising in their businesses.
- A requirement for businesses to consider the impact of climate change has been introduced into key risk policies of the Group that are owned by the Board.
- A climate strategy response group was established in 2021 to strengthen existing governance. It is senior management-led and includes representation from risk, investment, strategy, general insurance, Broking and Advisory, communications, risk and responsible business. This group reports to the GMB and co-ordinates communication of climate-related issues to management across the Group and to the Board. This includes external information and sharing of specific issues that have been identified and are being managed at Group or individual business levels. Relevant information is also shared through existing governance bodies such as Centres of Excellence in the insurance businesses.
- Group level risk management committees, the Insurance Risk Committee and the Market & Investment Risk Committee have been assigned responsibility for oversight of the assessment and management of climate related risks arising in those areas.



2. Strategies and investments

Climate risk and opportunity continues to be integrated into the Group's core strategy for general insurance, investment and advisory business. We recognise our responsibility and opportunity as an insurer, investor and advisor.

- In 2021 the Group set out a new five-year strategy which includes a key focus on climate response and action.
- A strategic and emerging risk process is core to assessing and monitoring the impact, probability and exposure of the Group to climate risk.
- The key risks to the Group's general insurance businesses arise from the physical risk of the impact of increased frequency and severity of weather-related events, changes in precipitation and rises in sea levels and temperature variations. These risks primarily relate to property insurance based on the location of insured risks. The Group also recognises the likely impacts on its customers and seeks to support them to address these through underwriting, claims management and risk management activities.
- The Group uses a range of data and tools to assess its insurance risk and is seeking to develop external partnerships to strengthen its approach.
- The Group's main exposure to transition risks is on the value of its investment assets through the impact of changes to a low carbon economy on investee companies.
- The Group adopted a new responsible and sustainable investment policy in February 2021 strengthening its climate response. The new policy evolves exclusion criteria by fully removing fossil fuel exploration and production and thermal coal, so widening the previous policy of excluding material exposure to oil sands and Arctic drilling. The policy also features a new ESG portfolio risk overlay approach, which will consider how companies manage their ESG risks as a factor in investment decisions and put more pressure on companies the Group invests in to improve. The new policy has already resulted in divestment in some key areas.
- The Group has invested in a tool to complete carbon footprinting of equity and corporate bond assets. 80% of funds under management were included in an internal footprint review in 2021 and this analysis will continue to be developed.
- The Group has identified opportunities to benefit from the effects of climate change including greater resource efficiency, using expertise to help customers and directing investment assets towards areas that will profit from changes made in transition to a low carbon economy.

3. Managing climate risk

The Group has continued to embed the identification, assessment, management, monitoring and reporting of climate-related risks within the Risk Management Framework.

- The Group's emerging risk process continues to place climate risk at the heart of our consideration of risk.
- Scenario analysis is a key tool in this process and it is being developed to consider short- (up to 5 years), medium- (5 to 20 years) and longer-term (20 to 30 years) time horizons. Key scenarios used by the Group in identifying and assessing climate risks are an 'early action' scenario, whereby alignment with the Paris agreement to limit warming to no more than two degrees is successful, in which transition risks are most prominent and a 'no further action' scenario, where warming continues to increase and physical risks become much greater.
- The Group held risk identification workshops across all of its territories to consider the impact of climate change on the operations of the local businesses. These have resulted in climate change risk registers owned by business management. These workshops considered weather-related perils relevant for each territory in which the Group operates, based on scientific projections of the impact of the climate change scenarios, and identified the main impacts of these on the local underwriting portfolios.
- Local insurance underwriting businesses have considered how these impacts can be more integrated into underwriting, claims and risk management strategies.
- The Group's investment manager EdenTree engages at portfolio, issuer and individual holding levels with oversight from the investment advisory panel.
- In 2021 the Group continued to develop approaches to help customers strategically manage their climate risk. For example:
  - brokers continue to provide advice and cover in a range of climate-related areas including cover for woodlands and renewable energy; and
  - the UK general insurance business launched a partnership with a third party to more intelligently manage properties to reduce risk and climate impact. The Ecclesiastical Smart Properties initiative is in its trial phase but we plan to roll it out widely.

4. Metrics and targets – our own impact

In 2021 the Group set out its net zero ambitions:

- Achieve net zero for direct impact (scopes 1+2) by 2023;
- Eliminate historic emissions (scopes 1+2) by 2030; and
- Net zero for the Group for all scopes by 2040.

The Group recognises that these ambitions are long-term, challenging and will stimulate accelerated climate action.

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 2021. The emissions reporting boundary is defined as all entities and facilities either owned or under operational control of Ecclesiastical Insurance Office, therefore emissions relating to our premises and associated travel by staff based at those premises. It includes data covering 72% of our Group by headcount. We continue to improve the coverage and quality of data which informs our report.

We have recalculated 2020 emissions and are restating these figures. These include a broader scope of operations and improved quantification methodology. 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 emission factors 2021 (Department for Environment, Food and Rural Affairs), and independently verified according to ISO – 14064-3:2019 Specifications with Guidance for the Validation and Verification of Greenhouse Gas Statements.

In line with the Streamlined Energy and Carbon Reports the Group's 2021 carbon footprint is detailed here including carbon intensity:

	2021 (2020)		
	UK	**Non-UK**	**Total**
Scope 1	97 (378)	6 (40)	104 (446)
Scope 2 – Location Based	383 (414)	97 (106)	480 (521)
Scope 2 – Market Based (not previously reported in 2020)	68	97	165
Scope 3	172 (273)	22 (46)	195 (319)
TOTAL	338 (1,093)	126 (192)	463[1] (1,286[2])

[1] Assuming Scope 2 Market Based

[2] Total using Scope 2 Location Based

Total energy use 59,585,679kWH of which 48,147,143kWH is UK and 11,438,536kWH non-UK.
tCO2e/employee: 0.23 (0.54)

Commentary

The Group's carbon footprint continues to develop for a number of reasons:

- It covers the entire Group's operations, either using actual or extrapolated data (average data is only used for 28% of operations by headcount).
- It continues to be impacted by the Covid-19 period which has influenced reduced office attendance and business travel. Some of this influence we expect to stay with us for the long term – increased use of meeting technologies and more flexible work – but we also expect office occupancy to increase, but not to pre-Covid levels. To grasp the learnings from the pandemic period the Group launched future flexible working principles supported by investment in technology and fantastic office environments. The environmental benefits will be monitored over the long term.
- A dedicated desktop surveying service has been established by the UK general insurance business. Its target is to reduce site visits by more than 3,000 by 2022 to both improve customer experience and reduce environmental impact. In 2021 over 1,600 desk top surveys were completed.
- A Scope 3 initial footprint was completed and assured by a third party in 2021 for the first time. Although this year's reporting only includes business travel, waste and water in Scope 3, the initial exercise has given a greater understanding of Scope 3 impacts and will continue to broaden our reporting in the future.
- The carbon intensity of the Group's investments continues to be a key part of its footprint and opportunity for influence. The Group's investments were 61.3% less emission intense than its benchmark in 2020 and, based on current targets, the fund is expected to align to the Sustainable Development Scenario of 1.5 degrees by 2050 compared to 3.6 degrees for the benchmark.
- 2021 was a transitional year in terms of head office premises. The footprint includes occupancy of both an old and a new head office which was officially opened in late January. The new head office has been designed to a 'very good' BREEAM sustainability standard featuring heat recycling, solar panels and electric charging points. These enhancements have had a significant impact on our footprint already and will make further contributions to our direct reduction plans in the future.

5. and 6. Informing public policy and customer / client awareness

Improved communication of climate change to a wide range of stakeholder groups including customers, clients, employees and partners is also a key consideration of the Group's strategy.

- Public engagement activity includes briefings and publications led by investment management business EdenTree which continue to have a presence and show support for key initiatives such as the Global Investor Statement to Governments on the Climate Crisis to demonstrate our commitment and influence. Topics included energy and fossil fuel divestment.
- Customer and partner engagement activities include issuing advice on cold weather, storms and floods. The Group also researches and promotes climate impact for specific customer groups, such as the education sector, through webinars and guidance.
- In 2021 we made significant shifts to direct some of our charitable funding towards environment and climate-related projects:
  - Our £1m Movement for Good awards gave £94,000 to climate-related charities including the Transition Network and Sheffield Wildlife Trust; and
  - Our owner Benefact Trust, formerly Allchurches Trust, has awarded £150,000 to Eco Church, a charity which will be supporting one of our key customer groups, the Church, with advice on reducing carbon impact.

7. Enhance reporting

The Group's climate-related communication and reporting will continue to evolve in line with TCFD requirements. References or commentary on climate-related issues relevant to TCFD are included in a number of different areas in this Annual Report & Accounts highlighted in each section of the report above.

Topic	Disclosure area	See also...
Governance	Disclose the organisation's governance around climate-related risks and opportunities	– Risk Management Report • More in-depth description of the Group's governance of risk
Strategy	Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning	– Global trends in financial services • Global context and how this shapes our strategy – Strategy in Action • Consideration of climate risk in the Group's strategy – Chief Executive's Report • Statement of commitment to tackling climate challenge
Risk Management	Disclose how the organisation identifies, assesses and manages climate-related risks	- Risk Management Report • More detailed description of the Group's management of climate risk
Metrics and Targets	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities	- Group Remuneration Report • Commentary on the inclusion of Environmental and Social targets in bonus schemes

Workplaces fit for a world-class team

Our stunning new HQ, Benefact House, marks an important milestone in our history and symbolises our forward-looking approach. The office has been designed to support a modern, agile and collaborative way of working – a way of working we've fully embraced.

In October 2018, we signed an Agreement for Lease for a new office to be built at Gloucester Business Park. The new building would be purpose-built for our needs, providing a flexible office space that would accommodate all our Gloucester colleagues and provide plenty of parking. The offices were also designed to BREEAM standards, a sustainability assessment which looks at the building's performance and environmental factors such as electric car charging points and solar panels.

Despite Covid-19 and several lockdowns, the development continued with only minor disruptions, and the first colleagues started working at Benefact House in January 2021. Feedback has been overwhelmingly positive, with praise for the fresh, modern working environment and focus on wellbeing.

The new HQ fits perfectly with our Future Working Vision, which recognises the importance of flexible working and vibrant, social spaces. With an emphasis on wellbeing our office meets FitWel standards, a framework which focuses on creating a healthy workplace, including plants throughout the offices to oxygenate the air, natural lighting, a variety of work spaces to accommodate different needs and healthy options at our staff restaurant. The Gloucester head office is just the latest example of our commitment to invest in great workplaces across our Group to enable our people to work at their best.

And our focus on our people is clearly paying off. Following our 2021 b-Heard survey, we were delighted to be awarded Best Companies' 2 star accreditation demonstrating 'outstanding' levels of employee engagement, with many teams recognised at the highest 3 star or 'world class' level.

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	40
Key performance indicators (KPIs)	Our KPIs set out how we are doing against our strategic goal	Strategic report – Key performance indicators	50
Principal risks	Our key risks and their management	Strategic report – Principal risks	68
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 (TFCD) 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 Responsible Business Report.

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 socially-positive section of the Responsible Business Report. Also included within the Corporate Governance report is information about the composition and diversity of the Board.

Social matters

- We were founded over 135 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 Responsible Business Report. 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

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 uphold 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, whistleblowing 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 Responsible Business 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 provides an overview of how the Directors have fulfilled their duties to promote the success of the Company and had regard to the matters set out in section 172(1) (a) to (f) Companies Act 2006 as detailed below:

(1) A director of a company must act in the way he/she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to –

a) the likely consequences of any decision in the long term;

b) the interests of the company's employees;

c) the need to foster the company's business relationships with suppliers, customers and others;

d) the impact of the company's operations on the community and the environment;

e) the desirability of the company maintaining a reputation for high standards of business conduct, and;

f) the need to act fairly as between members of the company.

This also forms the Directors' statement required under section 414CZA, of the Companies Act 2006.

Our stakeholders are identified in the Group Governance Framework, and are at the core of all decision making. Key stakeholders are our customers (and clients), employees, shareholders and bondholders, regulators, intermediary partners (including brokers and other suppliers), and environment and community groups.

Examples of the way in which the Board has engaged with some of these stakeholder groups throughout the year can be found in the Corporate Governance Section of the Annual Report and Accounts.

Strategic Report Approval

The Strategic Report, outlined on pages 12 to 96, 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 Responsible Business 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
17 March 2022

'Our dedicated and talented people are at the heart of our business, driven by a desire to support our customers and united by a common purpose to contribute to the greater good of society.'

Section Three

Governance

Board of Directors

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

David Henderson (a) (b) (e)

Chair, 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.

Mark Hews

Group Chief Executive

Mark Hews was appointed Group Chief Executive in May 2013 and was previously 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.

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 was also a Non-Executive Director of the Skipton Building Society from 2015 to 2021. Denise is a Trustee of MacIntyre Academy Trust, which provides special schools and specialist alternative provision for children and young people.

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.

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, Benefact Trust Limited, as well as the Insurance Board of Lloyds Banking Group and Tokio 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.

Rita Bajaj (a)

Independent Non-Executive Director

Rita was appointed to the Board in July 2021. She is a Non-Executive Director, Board, and IGC member with over 30 years' broad investment markets experience. Previously, she held senior investment positions at Global and UK Asset Managers, heading investment teams at Royal London and Invesco Perpetual. She was EMEA Chief Administrative Officer at custodian, State Street and she is also a former FCA regulator. Currently, Rita is a Board and Investment Panel member for the London Pension Fund Authority (LPFA), Non-Executive Director on Columbia Threadneedle OEIC Boards and an Independent Governance Member for Hargreaves Lansdown's workplace SIPP Independent Governance Committee.

Francois-Xavier Boisseau (a) (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 of 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. Francois-Xavier is also Chairman of IQUW Syndicate Managing Agency Ltd.

Sir Stephen Lamport (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 Benefact Trust Limited; Vice-President of the Community Foundation for Surrey; Chairman of Painshill Park Trust; 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.

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 and a member of the Council of Christ's Hospital. 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.

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 and of Target Group Limited, where he also chairs the Audit Committees. He is a trustee of the Foundling Museum. Previously, Andrew was for 28 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 was an Independent Non-Executive Director of National Bank of Greece S.A. and chaired its Audit Committee.

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.

Caroline Taylor resigned as a Director on 8 September 2021.

Board diversity

	2021	2020
Balance of Non-Executive Directors and Executive Directors		
Non-Executive Directors : Executive Directors	8:3	8:3
Gender Balance		
Male : Female	8:3	8.3
Length of Tenure		
(Chair and Non-Executive Directors)		
0 – 3 years	5	4
3 – 6 years	3	3
6 – 9 years	0	1
10 years +	0	0
Geographical Mix		
United Kingdom	9	9
Rest of Europe	1	1
North America	1	1
Rest of World	0	0
Age		
35 – 45	0	0
45 – 55	2	2
55 – 65	5	7
65 +	4	2

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 2021.

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 35 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 Benefact Group plc.

Board of Directors

The Directors of the Company during the year and up to the date of this report are stated on pages 100 to 102.

Caroline Taylor resigned as a Non-Executive Director on 8 September 2021.

Rita Bajaj was appointed as a Non-Executive Director on 15 July 2021.

In line with the Financial Reporting Council's (FRC) 2018 UK Corporate Governance Code (the Code), the Board has voluntarily chosen to comply with the recommended annual re-election of Directors. All Directors who have served since the last AGM will be proposed for re-election at the forthcoming AGM. Rita Bajaj will also be recommended for election at the forthcoming AGM following recommendation from the Group Nominations Committee.

The Company has made qualifying third-party indemnity provisions for the benefit of its Directors and Directors of any associated company. These were in place throughout the year and remain in force at the date of this report.

Neither the Directors nor their connected persons held any beneficial interest in any Ordinary shares of the Company during the year ended 31 December 2021. There has been no change in this position since the end of the financial year and the date of this report.

The following Directors of the Company, and their connected persons, held Preference shares in the capital of the Company at 31 December 2021:

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 (2020: £9,181,000).

The Directors do not recommend a final dividend on the Ordinary shares (2020: £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 £23.5m (2020: £2.7m).

It is the Company's policy not to make political donations. No political donations were made in the year (2020: £nil).

Financial instruments

Information about the use of financial instruments by the Group is given in note 22 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 115.

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 in the Responsible Business Report.

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.

Events after the balance sheet date

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

Going concern

The Financial Performance section and Risk Management section of the Strategic Report 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 £883.8m of which 90% are liquid (2020: financial investments of £820.8m, 92% liquid) and cash and cash equivalents of £114.0m (2020: £104.4m). Liquid financial investments consist of listed equities and open-ended investment companies, government bonds and listed debt. In February 2021, the Company raised €30m of Tier 2 capital with the issue of 20-year subordinated bonds, callable after year 10.

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

The Group has considered its capital position, liquidity and expected 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.

Primarily during 2020, Covid-19 impacted how the businesses operate, with a significant proportion of employees working effectively in a remote environment. Whilst there was still some disruption caused by the pandemic during 2021, our businesses and people continued to work effectively and support our customers, work with our key suppliers and perform other functions of the Group.

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.

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 2021 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 and the Company financial statements in accordance with UK-adopted international accounting standards.

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 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 UK-adopted international accounting standards have been followed, 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 Company will continue in business.

Directors' confirmations

The Directors consider that the 2021 Annual Report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Company's position and performance, business model and strategy. Each of the Directors, whose names and functions are listed in Section Three – Governance confirm that, to the best of their knowledge:

- the Group and Company financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities and financial position of the Group and Company, and of the profit of the Group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

David Henderson	**Mark Hews**
Chair	Group Chief Executive
17 March 2022	17 March 2022

Section Three

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 2021 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[1].

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

- provisions relating to outcomes from shareholder votes (Provision 4); and
- 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 Group Chief Executive Officer (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. The Group Remuneration Committee has reviewed the pension contribution rate of the GCEO and determined that it should be aligned to the wider workforce with effect from 1 April 2022.

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.

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.

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 our business model and strategy 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 2021, no Director had any such concerns.

[1] Committees of the Company also perform the same Committee functions for Benefact Group plc, the Company's immediate parent undertaking.

Culture

The Board is responsible for setting the right values and culture within the Group and ensuring the fair treatment of customers. During 2021 a refreshed set of values were launched which inform the culture across the Group, as 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 b-Heard survey results.

Our target culture

We are a group that CARES	
Collaborating and welcoming	· We're a family of diverse businesses united in a common purpose sharing our vision, values, culture and behaviours · We all belong – welcome and inclusion run through everything we do · Our diversity makes us stronger, more connected with each other, our customers and communities · We're willing to listen, we trust our colleagues and value their perspectives and experience · We break down barriers where we spot them to engage with each other and work together to get the job done
Ambitious and pioneering	· We're driven to outperform our ambitious business goals by being bold, brave, agile and innovative · We're competitive and commercial with exceptionally high standards of customer service · We nurture new ideas and innovation – listening, learning, adapting and leading the way · We have high expectations of each colleague's performance, supported by a clear sense of direction and coaching · We take personal responsibility for the way we act and for delivering our commitments · We celebrate every kind of success and reward people for positive results
Responsible and sustainable	· We're building a long-term, sustainable legacy · We maintain the highest ethical principles that we apply to all aspects of our business · We actively manage our impacts on the environment, locally and globally · We embrace our responsibilities to our colleagues, customers, charities and communities · We can be trusted to do the right thing
Expert and specialist	· We nurture specialist expertise across the Group · We seek to really understand our customers and their needs so we can find the right solutions for them · We invest in our colleagues' personal growth to enable them to reach their potential · We understand and fully utilise our individual strengths, skills and knowledge · We get out of each other's way and trust our specialists to deliver
Supporting and Caring	· We grow our business so we can give our profits to good causes · We're proud to be a commercial company with a charitable purpose · We're caring, kind, empathetic people · We all passionately believe in improving the lives of people in our communities · Our culture of giving (money, time and kindness) makes a difference, locally and globally

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Board activities during 2021

During the year, the Board made decisions on the following business issues, routine and Legal and regulatory matters:

Strategic matters

2021 year in review
- Reviewed delivery of the Group's commercial achievements and delivery of agreed Group transitional strategic initiatives and Covid-19 response throughout the previous year.

EdenTree
- Reviewed and approved the EdenTree growth strategy.

Next chapter strategy
- Oversaw the development of the Group's Next Strategic Chapter which it ultimately approved.

Benefact House
- Approved the change of registered office.

Benefact Trust Limited
- Received regular reports from the Shareholder.

People and culture
- Considered the findings of the 2021 Employee survey.

Climate change
- Held a dedicated strategy session to discuss the Group's approach to climate change, including reporting and regulatory requirements.

Company and operational performance

The Chief Executive Officer led discussions on general business performance and key strategic initiatives. Providing the Board with the opportunity to review and challenge points of interest.

Business updates
- Received updates on performance from each business area (general insurance, broker and advisory and investment);
- Considered feedback and insight on service delivered to brokers and customers; and
- Approved the Group's approach to Operational Resilience.

Charitable purpose
- Considered regular updates on the charitable purpose and mission (including consideration of the Grant Policy in Canada and Australia); and
- Approved the Sustainable and Responsible Investment Policy.

Governance and regulatory matters
- Discussed reports from Board Committees and management on legislation and proposed consultations that affect or will affect the Group's legal and regulatory obligations;
- Reviewed and approved the updated Group Data Policy;
- Approved the resolutions to be put to the shareholders at the AGM;
- Approved changes to the Board Committee's Terms of Reference; and
- Considered Directors' Conflicts of Interest Register.

Board succession and diversity
- Assessed the independence of Non-Executive Directors upon the recommendation of the Group Nominations Committee;
- Approved the appointment of a new Non-Executive Director and changes to Committee composition;
- Approved the refreshed Board Diversity Policy; and
- Considered the annual renewal of Directors' and Officers' Liability Insurance.

Board effectiveness
- Approved the 2021 Objectives of the Board and monitored progression throughout the year;
- In a private session considered the results of the annual appraisal of the Chair; and
- Considered the outcome of an externally facilitated Board Paper effectiveness review.

Regulatory disclosures
- Reviewed and approved the Annual Report and Accounts, Notice of General Meeting, Half Year and Full Year results announcements.

Financial reporting and controls, capital structure and dividend

Financial resilience
- Reviewed the going concern assessment and viability statement;
- Considered the General Insurance Claims Reserve Adequacy; and
- Provided final approval for the raising of €30m of Tier 2 capital with the issue of 20-year subordinated bonds, callable after year 20.

Capital, costs and budget
- Considered the Group's reinsurance arrangements;
- Approved a transfer of shares held in Ansvar Risk Management Services Pty Limited to Ansvar Insurances Limited; and
- Agreed the Group Corporate Strategy and Business Plans for 2022 to 2024.

Cashflow and dividends
- Considered the dividends to be paid to the holders of the 8.625% Non-Cumulative Shares of £1; and
- Considered making a grant to the Company's ultimate parent Benefact Trust Limited (formerly Allchurches Trust Limited).

Regulatory reporting
- Considered the report of the Actuarial Function Holder on the adequacy of the year-end technical provisions; and
- Reviewed and approved the Solvency and Financial Condition Report (SFCR), Regular Supervisory Report (RSR), Annual Quantitative Reporting Templates, National Specific Templates (NSTs), Internal Model Output Templates and the Standard Formula Template (SF) prior to submission to the PRA.

Oversight of Risk and Risk Management
- Received and discussed reports from the Group Chief Risk and Compliance Officer (via the Group Risk Committee), and assessed the Group's significant risks and regulatory issues;
- Reviewed the Group Chief Executive's Report on the outcomes of the Systems of Control and Risk Self-Assessment (CRSA) exercise, concluding that the report provided a fair and reasonable view of the effectiveness of the Group's systems of control; and
- Approved the Group Own Risk and Solvency Assessment and considered the Annual Report of the Data Protection Officer

Our approach to the long-term success of the Company

The Board of Directors recognise that the long-term success of the Company is dependent upon having regard to the interests of its stakeholders. In our ambition to be the most trusted and ethical specialist financial services group, the Board understands how important it is to listen and respond to the needs of our stakeholders.

As an ethical, global financial services group we are fundamentally different from our competitors because we are driven by the power of why and are continually striving to do the right thing at all times. In doing so there are occasions where balancing the needs of different stakeholder groups can be challenging. On these occasions, the Board attempts to balance the conflicting interests and impacts of our stakeholders in its decision making.

Stakeholder engagement in decision making

The Board adopts a range of approaches to engage with stakeholders and recognises that the importance of a stakeholder group may differ depending on the matter to be considered. Given the nature of the business, the Board sometimes engages directly with stakeholders and also understands that it may be more appropriate for engagement to be undertaken at an operational level.

The Board considers a variety of information to understand the impact of the Company's operations and also the interests and views of our key stakeholders. A one-year rolling plan of business for discussion is agreed annually to ensure that the Board is focused on the right issues at the right time and sufficient time is allowed for appropriate consideration and debate. Information is provided to Directors in papers in advance of each meeting. In addition, people from the business are invited to attend meetings to provide insight into key matters and developments. At each Board meeting, the Directors discuss strategic and business matters, financial, operational and governance issues and other relevant issues that arise. Following Committee meetings, the Board receives oral reports from the Chair of each Committee at the next Board meeting. As a consequence of this, the Board has an appreciation of engagement with stakeholders and other relevant matters, which enables the Directors to comply with their legal duties.

As a global group, the Board also believes governance is best achieved through the use of delegation of its authority for the executive management to the Group Chief Executive. To assist him in delivering his responsibilities to the Board, the Group Chief Executive has established a corporate structure that comprises three business divisions (Broker and Advisory, General Insurance and Investment Management) with more information found in the 'Our businesses' section. A General Management Board (GMB) and Relevant Boards and Committees have also been established in each business division.

General Management Board (GMB)

Under the leadership of the Group Chief Executive, the GMB leads the Shared Services and oversees the business divisions. Working closely with the Board, it focuses on Group delivery of culture and values; strategy and direction; governance and risk management; key projects and programmes; budgets; reviewing performance; rating agency and shareholder matters; and leadership and communication.

Management Committees

A number of Management Committees and Boards have been established to ensure that each SBU Managing Director has oversight of their respective areas, whilst providing assurance to the Group Chief Executive and other Executive Directors and ultimately the Board.

As the Board remains ultimately responsible for decision making within the Group, it receives regular updates from the Group Chief Executive and other Executive Directors

Covid-19 response

As the world begins to return to some form of normality, we understand that the effects of Covid-19 remain with us all. We set out our initial response to Covid-19 in the 2020 Strategy and Company Performance Overview. As such, the Board has continued to make decisions this year to ensure that the Group remains strong and in a position of being able to continue our Movement for Good for so many, during a time of great need. The ongoing pandemic has also encouraged us and our stakeholders to consider and embrace new and innovative methods of engagement.

This impact and how we have responded to protect our Group and manage the expectations of our stakeholders has been included in our Stakeholder engagement overview below:

Next strategic chapter

The Group unveiled its Next Chapter Strategy internally in September 2021. A dedicated Board Session was held which considered feedback from Benefact Trust Limited (the Company's ultimate shareholder) and other stakeholder and external perspectives (including customers, colleagues, communities and the environment). The development of the Strategy was a key focus of Board Meetings throughout the year. This culminated in the Board's approval of the Corporate Strategic Plan 2022-24. For more detail on the Strategy please refer to the Strategic Report.

Below is a summary of key decisions and actions the Board has taken during the year in respect of strategic and Group performance and how it has had regard to the interests of, and impact on a selection of its stakeholders.

Employee engagement

The Board recognises that employees are the Group's greatest 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 colleagues' views. In order to engage, involve and inform colleagues, a range of methods as set out below are used:

- Given Sir Stephen Lamport's previous experience and responsibilities as Group Remuneration Committee Chair, the Board agreed that he was the most appropriate Non-Executive Director to replace Caroline Taylor as the designated Non-Executive Director for employee engagement . The designated Non-Executive Director is briefed on employee engagement survey results and relevant findings are reported 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);
- During 2020, as a result of the pandemic, the Group chose to focus on more tailored and regular 'check-in' surveys which were conducted monthly. This enabled the Group to gather real time feedback, to flex each survey and to respond as the situation evolved during what was a unique year. During 2021 the Group transitioned back to a full annual colleague engagement survey adopting a new b-Heard Survey provided by an external partner, Best Companies. The full b-Heard survey was undertaken in the Spring with 79% of employees taking part, and this was supplemented by a further pulse survey later in the year. The Group was proud to be awarded Best Companies' 2 star accreditation demonstrating 'outstanding' levels of employee engagement, with many of the Group's teams being recognised at the highest 3 star level, or 'world class';
- During the year the employees undertook training to support the accessibility and understanding of our whistleblowing policy, 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. For example during the year the Chief Executive and other senior leaders engaged directly with colleagues, through a series of online roadshows to which employees from all territories were invited for the internal launch of the Group's next strategic chapter;
- 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.

An example of an opportunity where the Board of Directors were able to engage with a range of employees from across the Group, at various levels of seniority, was at the Official Opening ceremony of the Group's new Head office in Gloucester in September. Following which, the Directors were invited to attend a two day offsite Leadership Conference. The opportunity was used to enhance collaboration between Board members and employees and therefore improving decision making.

Customer engagement

Customers (being the person or entity, which ultimately relies upon Ecclesiastical's products, advice or expertise for the protection and management of their assets including prospective and former customers) are the lifeblood of the Group. The Board considers that customers should be at the heart of everything we do, treating them fairly and ethically and 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 Executive's Report and reports on strategic initiatives.

The Board also received a report on customer feedback. The report provided an overview of service delivery as experienced by its various customer groups. It also outlined a number of the Group's externally received accolades as evidence of the strong service provided to our customers.

In addition, the Board considered customers' needs, knowledge and expectations as part of the development of the Next Chapter Strategy and Company's new visual identity. 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 Strategic Business Units.

Shareholder engagement

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

Protocols for the exchange of information between Benefact Trust Limited and Benefact 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' (a Director who is a member of the Boards of Benefact Trust Limited, Benefact 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 Benefact Trust Limited Board meetings to the Directors. There is also engagement between respective Board and Committee Chairs and the Group Chief Executive Officer. Regular dialogue takes place on Benefact Trust Limited's expectations of the Group, strategy for the development of the business and the grant from the Group. This ensures that the views of Benefact Trust Limited are communicated to the Board as a whole. In turn, the Common Directors are able to support the Directors of Benefact 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 grant to the Company's ultimate parent undertaking, Benefact 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 Chair of Benefact Trust Limited. Two grants amounting to £21m were paid to Benefact Trust Limited during the calendar year 2021.

Suppliers (including brokers)

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.

During the year, the Board received a report on Broker feedback, which presented an overview of broker servicing. The report also set out the Group's response to supporting Brokers throughout the pandemic and subsequent restrictions.

In addition, Executive Directors hold regular meetings with key suppliers to understand their perspectives, specifically the impacts that the wider economic environment (including Brexit and Covid-19) had upon them.

Community and environment

The Board understands the importance and the impact of climate change upon the environment, our communities, our customers and our wider stakeholders. In response, Directors attended a bespoke Climate Change Response Strategy workshop in order to better understand the potential impact (and opportunities) that climate change could have on the Group as an Insurer and asset owner. This session drove the ongoing discussions allowing the Group to formulate its Climate Change ambition, which has been overseen by the Group Risk Committee.

Being an asset owner, the Group understands its responsibilities as a sustainable investor. As such, the Board has overseen the implementation of EdenTree's growth strategy.

The importance of communities to us is demonstrated by our new Group vision and in particular our desire to transform lives and communities. During 2021 the Group achieved its ambition to give more than £100m to charity leading to a cumulative £150m since 2014.

We are also committed to creating a Movement for Good. In doing so, the Board has overseen and had regular updates on the Group's charitable giving.

Engagement with 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) and is committed to complying with applicable legislation and regulation. The Board (via its Committees) receives regular reports detailing the Group's regulatory interactions. The Board (via its Committees) also receives regular reports on the evolving legal and regulatory landscape incorporating a detailed impact and progress assessment which undergoes a rigorous cross departmental challenge process before being presented to the Board.

In addition, Directors attend regular one-to-one meetings with representatives from its regulatory bodies.

Whistleblowing

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

The Group's approach to whistleblowing is set out in a Policy and supported by procedures and guidance documents (which is available internally on the Group's intranet). The Chair 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, procedures 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

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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) 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 2021, no Director had any such concerns.

Division of responsibilities

The responsibilities of the Board, its Committees, Chair, Group Chief Executive and Senior Independent Director are set out in writing and are available on the Company's website.

The Chair and the Group Chief Executive

The roles of the Chair and the Group Chief Executive are undertaken by separate individuals. The Chair, 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 Hews, assisted by the Group Management Board.

Senior Independent Director

Chris Moulder was appointed as the Senior Independent Director on 14 January 2020. The Senior Independent Director supports and acts as a sounding board for the Chair and is responsible for overseeing the governance practices of the Company and leading the Directors in their appraisal of the Chair. Along with the Chair, the Senior Independent Director 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 ambassadors 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.

Attendance at meetings

Directors are required to attend all Board meetings and strategy days as well as Committee meetings where they are members. In 2021, the Board held five scheduled meetings and a strategy day. 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 2021:

Board attendance table

Executive Directors	Director since	Meetings eligible to attend	Meetings attended
Mark Hews	June 2009	6	6
S. Jacinta Whyte	July 2013	6	6
Denise Cockrem	September 2019	6	6
Non-Executive Directors	**Director since**	**Meetings eligible to attend**	**Meetings attended**
David Henderson (Chair)	April 2016	6	6
Rita Bajaj	July 2021	3	3
Francois-Xavier Boisseau	March 2019	6	6
Sir Stephen Lamport	March 2020	6	6
Neil Maidment	January 2020	6	6
Andrew McIntyre	April 2017	6	5[1]
Chris Moulder	September 2017	6	5[1]
Angus Winther	March 2019	6	6
Caroline Taylor	September 2014	3	3

[1] Mr McIntyre and Mr Moulder were unable to attend a meeting because of a prior business commitment arranged before the meeting was confirmed.

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.

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 the assessment of the effectiveness of the processes and controls in place to manage and mitigate these risks.

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

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

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

Systems of internal control are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide reasonable, but not absolute, assurance as to the prevention and detection of financial misstatements, errors, fraud or violation of law or regulations. Further information on internal controls is set out in the Group Audit Committee Report.

By order of the Board

Mrs. R. J. Hall
Group Company Secretary
17 March 2022

Group Finance and Investment Committee Report

Chair's introduction

I am pleased to present this report, describing the work undertaken by the Committee during the past year. Caroline Taylor stepped down from the Committee during the year and we are grateful for her contribution. We also welcomed Rita Bajaj and Francois-Xavier Boisseau who joined as members of the Committee in July 2021.

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[1]	April 2019	4	4
Rita Bajaj[2]	July 2021	2	2
Francois-Xavier Boisseau[3]	July 2021	2	1
David Henderson	June 2016	4	4
Caroline Taylor[4]	March 2016	2	2

1 Angus Winther was appointed to the Committee on 3 April 2019 and was appointed Chair on 1 January 2020.
2 Rita Bajaj was appointed to the Committee on 15 July 2021.
3 Francois-Xavier Boisseau was appointed to the Committee on 1 July 2021. Mr Boisseau was unable to attend his first Committee meeting due to illness.
4 Caroline Taylor was a member of the Committee until 8 September 2021 when she left the Board.

Committee meetings

The Committee held four scheduled 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 Benefact Group plc and provides the same functions.

A summary of the main activities of the Committee during 2021 are set out below:

Finance

During the year, the Committee has monitored acquisition and disposal activity, outcomes and performance across the Group. The need to extend support to some of the businesses within the Group to enable them to realise local strategic ambitions was also considered. In response Benefact Group plc acquired 2,799,900 £1 ordinary shares in Ecclesiastical Planning Services Limited (EPSL) and 200,000 £1 ordinary shares in EdenTree Asset Management Limited (EAM).

Benefact Group plc has a non-controlling equity interest in the speciality insurer Lloyd & Whyte. The Committee has monitored various matters relating to that acquisition, including associated structural changes, Lloyd & Whyte's acquisition pipeline, associated loan exposure and performance.

Investments

During the year, the Committee 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. In addition, the performance of the Group's investment portfolios and outlook for the financial markets were also considered.

The Group's business plan investment assumptions and the overall investment strategy were reviewed. This included consideration of asset allocation and exposure (to equities, bonds, infrastructure, property and cash) and associated risk. The Committee also considered a framework for determining hedging decisions. Areas of focus included the reasons and rationale for the framework and who was best placed to make such decisions and how they should be made.

Additionally, the Committee reviewed in detail investments in property and MAPFRE RE.

Governance

The Committee also reviewed its own performance and set objectives. During the year, Mr Boisseau was appointed as a member of the Committee to further strengthen the interaction with the Group Audit and Group Risk Committees.

Together with the Group Risk Committee, the Committee oversaw a review of the Group's Authorities Framework, culminating in recommendations to the Board which were approved.

By order of the Board

Angus Winther
Chair of the Group Finance and Investment Committee
17 March 2022

> '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.'

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 2021.

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	November 2019	3	3
David Henderson	January 2019	3	3
Angus Winther [1]	May 2021	2	2
Caroline Taylor[2]	November 2019	2	2

[1] Angus Winther was appointed to the Committee on 13 May 2021.
[2] Caroline Taylor was a member of the Committee until 8 September 2021.

Meetings of the Committee

The Committee held three scheduled meetings in 2021 (February, May and October) which were attended by the Group Chief Executive and Group Company Secretary (2020: 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 Group Management Board (GMB), heads of Strategic Buiness Units 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.

Appointment of a new Group Remuneration Chair and Workforce Engagement Non-Executive Director

The appointment process for a new Group Remuneration Chair commenced during 2020. This was to ensure that the appointee was able to serve on the Group Remuneration Committee for at least 12 months. The Board considered the Committee's recommendation that Sir Stephen Lamport be Caroline Taylor's successor at its meeting in February 2021. This proposal was unanimously supported by Directors subject to regulatory approval, which was received on 24 June 2021. As part of the appointment process, Sir Stephen completed an extensive induction to the Group Remuneration Committee.

Board diversity

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

Ecclesiastical will:

- Seek to achieve a level of at least 33% female Directors over the medium term on the Board of Ecclesiastical Insurance Office plc;
- Ensure that the Board composition comprises of at least one Director from an ethnic minority background;
- Engage solely with executive search firms who have signed up to the voluntary Code of Conduct on both gender and ethnic diversity and practice;
- Ensure that the recruitment process and the development of 'long-lists' reflect the Board's diversity commitments to both gender and ethnic diversity and that candidates are presented from all backgrounds, and with diverse skills and personal qualities;
- Maintain commitment to the Women in Finance Charter, which focuses upon building a more balanced and fair industry by promoting gender balance at all levels across the financial services industry; and
- Report annually on its diversity objectives and other initiatives undertaken by the Company, which promote gender, social and ethnic diversity.

As at 17 March 2022 the Board has appointed three female Directors (including two Executive Directors) in a membership of eleven. The Board recognises that the majority of its Committees lack female representation and that all of its Committees are chaired by male Non-Executive Directors. The Board is actively seeking to address this issue. Notwithstanding this, the Board is proud that most of the Company's Executive Directors are female.

As at 31 December 2021, female representation on the GMB stands at 38%(2020: 38%) and in the wider senior management population (GMB and BL) at approximately 28% (2020: 27%). The Board encourages executive management to ensure appropriate diversity at senior levels within the organisation.

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. All Board appointments are made on merit, in the context of the diversity of skills, experience, background and gender required to be effective.

Directors' length of service

The Committee monitors the length of tenure of all Directors as shown in the table on Board diversity.

Independence and time commitment

The Board believes that all the Non-Executive Directors were independent throughout 2021. 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 Non-Executive Directors and, following rigorous review, the Committee confirmed to the Board that all Non-Executive Directors remained independent in character and judgement. No individual participated in the discussions relating to their own independence.

Chris Moulder and Sir Stephen Lamport are Directors on the Boards of Benefact 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 Benefact Trust Limited Nominations Committee Meeting is held on an annual basis, amongst other things to consider the appointment of common Directors.

The Committee evaluates the time Non-Executive Directors spend on the Company's business annually and is satisfied that, in 2021, the Non-Executive Directors 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 Appointment Rita Bajaj

An Appointments Panel comprising David Henderson, Chris Moulder, and Angus Winther was formed to commence the recruitment of a new Non-Executive Director with extensive experience in financial services, preferably gained from investment management and ideally with some experience of socially responsible investments.

Four executive search firms were interviewed with Sapphire Partners (which had no other connection to the Group and is a signatory to the Voluntary Code of Conduct on gender diversity and best practice) engaged to support the recruitment process.

The initial candidate long-list was reduced to a short-list by the Appointments Panel. The short-list was further reduced by the Appointment Panel based on the skills and knowledge of the candidates and identified Board skills gaps. After a series of interviews and due diligence, Rita Bajaj emerged as the preferred candidate. This was based on consideration of personal attributes, external commitments and needs of the Board. Prior to appointment, all members of the Board were given the opportunity to meet with Rita. At the end of the process and following recommendation of the Group Nominations Committee, the appointment was approved by the Board and was effective on 15 July 2021.

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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, Group Chief Internal Auditor and heads of the Group's trading businesses. New Directors also meet individually with the Chair of Benefact Trust, the Group Chair, 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 Chair reviews as part of their annual appraisal. Training and development needs of Board members are also reviewed by the Committee. In 2021, a number of training sessions took place including Catastrophe and PSA Exposure, Internal Model, Board Paper Review Workshop, Anti-Money Laundering, Bribery and Corruption, IFRS17 and Cyber Training. In 2022 sessions have been planned on Technology, IFRS 17, Insure Tech and Re-Insurance (Credit Risk).

Board evaluation

All Directors receive an annual appraisal from the Chair. The Chair 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 typically every two to three years. The last external Board evaluation was carried out in 2019; facilitated by Grant Thornton (which acts as our co-source provider for internal audit on UK and Canada and has no other connection with the Group). Given Covid-19, the Board agreed that the next external evaluation should take place in 2022. During 2021, the Board has focused its attention upon a Board and Committee Reporting Review, which was an action arising from the previous Board evaluation. The Board and Committee Reporting Review has been externally facilitated by Deloitte and will further strengthen the Board's oversight and decision making of the Company and its SBUs.

In addition, the Company Secretariat facilitated an evaluation based on bespoke questionnaires with outcomes considered by the Board and Committees.

The next external Board evaluation will be undertaken in 2022.

By order of the Board

Chris Moulder
Chair of the Group Nominations Committee
17 March 2022

'Ecclesiastical recognises the benefits of having a diverse Board and is committed to improving diversity on the Board in the broadest sense.'

Group Risk Committee Report

Chair's introduction

I am pleased to present this report describing the work undertaken by the Group Risk Committee (the Committee) during the past year. The Committee's role is to oversee the Group's risk management framework (including risk appetite and tolerance) and the Group's risk and compliance functions; and to monitor prudential risk (including overseeing the internal model).

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 (Chair)	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	4	4

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.

Throughout 2021, the Committee continued to monitor the impact of the Covid-19 pandemic on the Group's risk environment, including the Group's financial and operational resilience and its capital and solvency position.

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, use, governance and validation.

The Group's principal risks and uncertainties are set out on pages 68 to 75. 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. The impact of the recent conflict in Ukraine on the principal risks was considered by the Committee and these are included within the Group's principal risks and uncertainties.

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 Chair, Deputy Group Chief Executive, Group Chief Risk and Compliance Officer, Group Chief Financial Officer, Group Underwriting Director, Group Chief Actuary and Group Chief Internal Auditor.

A focus of the Committee's work this year has been monitoring the Group's ongoing operational and financial resilience; and its capital and solvency position, in light of the continuing Covid-19 pandemic, receiving reports from management. The Committee also continued to monitor the ongoing development, governance, methodology and calibration of the Internal Model; overseeing validation; reviewing Profit and Loss Attribution and recommending Model changes and management actions to the Board.

During the year, the Committee also received a report on the outcome of a risk and compliance effectiveness review; oversaw projects to develop the Group's data management model and a Group operational resilience programme; reviewed the Own Risk and Solvency Assessment (ORSA) and Control Risk Self-Assessment; and oversaw the continuing development of a risk oversight and assurance plan and the risk taxonomy.

Additionally, the Committee received regular reports on risk and compliance monitoring and breaches; underwriting and insurance risk; reinsurance; material outsourcing; and business continuity. The Committee also received the Money Laundering Reporting Officer's Report and reviewed a financial crime continuous assurance plan.

The Group Chief Risk and Compliance Officer reports to the Committee and has direct access to the Committee Chair 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
Chair of the Group Risk Committee
17 March 2022

Group Audit Committee Report

Chair's overview

As Chair of the Group Audit Committee, I am pleased to present the Committee's report for the year ended 31 December 2021. This report outlines 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 and regulatory reporting, internal and external audit arrangements, internal control environment and the processes for compliance with laws, regulation and ethical codes of practice.

The Committee's duties over the last year were unchanged, however, there was a particular focus on supporting the business as it navigated through some of the risks and uncertainties arising from Covid-19. While 2021 may have presented less of a challenge than 2020, for nearly all of the Committee's work during 2021, Covid-19 continued to be an important consideration. The invasion of Ukraine by Russia in March 2022 caused the Committee to consider whether there were issues arising which might affect its assessment of the Company's 2021 Annual Report. Developments related to these tragic events will be kept under close scrutiny.

The Committee has reviewed the Group's financial reporting, ensuring that this year's Annual Report and Accounts are prepared using appropriate judgements and are a fair reflection of the Group's performance and position. The significant accounting and reporting issues considered in detail by the Committee are set out on pages 136 to 138. The new insurance accounting standard IFRS 17 will be effective for the Group from January 2023 and will continue to be an important part of the Committee's 2022 agenda. 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 have continued to adapt and respond to developments.

The role of the Committee in the Group's governance framework is vital, providing independent challenge and oversight across financial reporting and internal control procedures. The Committee ensures the interests of our shareholders are protected by providing independent scrutiny and challenge to ensure the Group always presents a true and fair view of its performance, with a focus on the accuracy, integrity and communication of its financial reporting. The Committee also examines the Group's control environment and strategies for risk management, providing assurance these are managed appropriately. We remain satisfied that the business has maintained a robust risk management and internal controls culture, supported by strong overall governance processes.

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 100. 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 six meetings held during the year are shown below.

Committee member	Member since	Meetings eligible to attend	Meetings attended
Andrew McIntyre (Chair)	April 2017	6	6
Francois-Xavier Boisseau	March 2019	6	6
Neil Maidment	March 2020	6	5
Chris Moulder	September 2017	6	6

Committee meetings

In addition to the members of the Committee, the Chair 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, PricewaterhouseCoopers (PwC) attended six of the Committee's meetings. 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 Benefact Group plc (formerly 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 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 plan 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 in the Independent auditors' report. 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.

For the year ended 31 December 2021, the Group was charged £946,000 (ex VAT) by PwC for audit services. Non-audit fees for audit-related assurance services required by legislation and/or regulation amounted to £214,000, making total fees from PwC of £1,160,000. There were no other non-audit services provided by PwC during the financial year. More detail can be found in note 12 to the financial statements.

External audit effectiveness

The Committee assesses the effectiveness of the external auditor annually against a number of criteria including, but not limited to, accessibility and knowledgeability of audit team members, the efficiency of the audit process including the effectiveness of the audit plan, and the quality of improvements recommended.

The Committee reviewed a report based on questionnaires completed by senior management, business unit leaders and those members of staff most involved in the external audit process, regarding the PwC 2020 statutory audit. The audit team had been responsive and demonstrated flexibility in working with management to overcome the challenges of completing the majority of the audit remotely. The Committee recognised the strengths of the external auditor and that their duties were performed independently and effectively.

Appropriateness of the Group's external financial reporting

The primary role of the Committee in relation to financial reporting is to review, challenge and agree the appropriateness of the half-year and annual financial statements and annual regulatory reporting under Solvency II, concentrating on, amongst other matters:
- The quality and acceptability of the Group's accounting policies and practices;
- The clarity of the disclosures and compliance with financial and regulatory reporting standards, and relevant financial and governance reporting requirements;
- Material areas in which significant judgements have been made by the Group or there has been discussion with the external auditor;
- Whether the Group's Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy; and
- Any correspondence from regulators in relation to financial reporting.

In respect of these annual financial statements the Committee paid particular attention to the significant judgements set out below, including a review of the corporate governance disclosures, monitoring of the external audit process and statements about going concern and the viability statement.

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. 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 2021 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, and also note 2 to the financial statements.

Matter considered	Action
General insurance reserves 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 the latest developments of Covid-19 across the Group for both the business interruption and liability claims and acknowledges that although this remains an area of uncertainty for the next 12 to 18 months, the level of uncertainty has decreased since last year end as the reserves set up in 2020 are running off as expected. The Committee challenged management on whether the current reserves appropriately take account of these uncertainties. The Committee acknowledged the exceptional economic circumstances leading to high current and future inflation and how these impact both property and liability accounts across the group. The Committee was satisfied that management and the Group Reserving Actuary have considered inflation in their recommendations and that this will be a key area of uncertainty for the medium term. 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 27 of the financial statements.

Matter considered	Action
Life insurance reserves The calculation of the Group's life insurance reserves requires management to make significant judgements about bond yields, discount rates, credit risk, mortality rates and current expectations of future expense levels.	The Committee considered a report from the Chief Actuary of Ecclesiastical Life Limited (ELL) (the Group's life business) which sets out recommendations for the basis and methodology to apply for: • Valuation of policy liabilities for inclusion in the report and accounts for ELL at 31 December 2021; and • The calculation of technical provisions in accordance with Solvency II regulations at 31 December 2021. 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 2020. The Committee reviewed the work done by the Chief Actuary to assess whether the methodology remained appropriate, with a particular focus on mortality assumptions (including any impacts from Covid-19), 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 27(b) of the financial statements.
Carrying value of goodwill This is an area of focus for the Committee given the materiality of the Group's goodwill balances (£24m as at 31 December 2021) and the inherent subjectivity in impairment testing. The judgements in relation to goodwill impairment continue to relate primarily to the assumptions underlying the calculation of the value in use of the business, being the achievability of the business plans and the macroeconomic and related modelling assumptions underlying the valuation process.	The Committee received detailed reporting from management and challenged the appropriateness of the assumptions made, including: • The consistent application of management's methodology; • The achievability of the business plans; • Assumptions in relation to long-term growth in the businesses at the end of the plan period; and • The determination of a discount rate. The Committee paid particular attention to the business plans and management's proposed cashflows attributable to each Cash Generating Unit, and the determination of the discount rate used in the calculation. Detailed support for these assumptions was provided by management. 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. After its reviews, the Committee concluded that the assumptions were reasonable. Goodwill is disclosed in note 16 of the financial statements.

Matter considered	Action
Valuation of defined benefit pension scheme liability The Group's liabilities of the scheme are material in comparison to the Group's net asset 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.	During 2021, 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 needed updating, which included a reduction in the expected long-term improvements in future mortality. Management also concluded that no weighting would be applied to 2020 mortality data as the long-term impacts of Covid-19 on mortality were uncertain. Following consideration, the Committee concluded that the assumptions proposed were appropriate and in line with normal market practice. The impact of updating assumptions to reflect those in force at the balance sheet date on the valuation at 31 December 2021 are explained in note 18 to the financial statements.
Valuation of unlisted equity This is an area of focus for the Committee given the materiality and the subjectivity in deriving fair value. 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 the most appropriate valuation approach, the set of comparable companies, choice of valuation multiples and the setting of 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 management's recommendations of the valuation multiple, the suitability of comparable companies and the discount applied for illiquidity. Following consideration, the Committee concluded that the assumptions proposed were appropriate.
Significant insurance risk During 2021, the Group launched a new whole of life policy to support pre-paid funeral plan products. The specific features of the product and the resulting accounting treatment were an area of focus for the Committee. Judgement was required when determining how the contractual terms of the arrangements affected the accounting treatment.	The Committee received management's assessment of the arrangement and how the contractual terms of this whole of life policy resulted in the conclusion that the product was accounted for under IAS 39 Financial Instruments and not IFRS 4 Insurance Contracts. Particular attention was paid to whether there was significant insurance risk transferred from the policyholder. When considering management's assessment of product and its accounting treatment, the Committee studied the requirements of IAS 39 and IFRS 4 which are currently applied by the Group along with IFRS 9 Financial Instruments and IFRS 17 Insurance Contracts which are the equivalent standards the Group will apply from 1 January 2023. Following consideration, the Committee concluded management's assessment that there is no insurance risk resulted in the appropriate accounting treatment of financial instruments.

The Committee is constituted as a Committee of the Board of Directors of both Ecclesiastical Insurance Office plc and its immediate parent, Benefact Group plc (formerly Ecclesiastical Insurance Group plc). As a result, the Committee will also consider matters that are specific to the Group, Benefact 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 Benefact Group's financial results in a manner consistent with that set out within this report. This included the carrying value of goodwill and the accounting treatment and control of business combinations related to insurance broker businesses of that Group.

Implementation of IFRS 17 Insurance contracts

IFRS 17 is a new insurance accounting standard, issued by the International Accounting Standards Board (IASB). IFRS 17 will be effective for the Group from 1 January 2023 and will impact the Group's financial reporting.

During the year, the Committee monitored preparedness of the implementation of IFRS 17. This new accounting standard is expected to impact the measurement and disclosure of the Group's insurance business, which is predominantly general insurance.

The Committee continues to assess the impact the new standard on the calculation of insurance liabilities and financial reporting processes. The implementation of this standard is an important feature on the Committee's current agenda as management work to complete the changes required to adopt the standard and carry out 'dry runs' before the effective date.

Fair, balanced and understandable

The Committee considered whether in its opinion, the 2021 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. When forming its opinion, in particular, the Committee considered:

Is the report fair?
- Does the financial reporting reflect the key messages within narrative statements?
- Is the story complete and is there any sensitive material that has been omitted that should have been included?
- Does the Group that is portrayed in the Annual Report and Accounts reflect the Group discussed by the Committee and the Board?

Is the report balanced?
- Are the key areas of judgement included within any narrative reporting and significant matters discussed within this Committee report consistent with the disclosures within the financial statements?
- Are the significant and higher risk areas identified within the Annual Report and Accounts also those risks identified and reported by PwC.

Is the report understandable?
- Does the reporting focus on the more significant items and not become obscured with immaterial detail?
- Are the important messages highlighted up front?
- Does the report use clear and concise language and provide simple explanations of topics?

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 2021.

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.

In reviewing the effectiveness of the system of internal control and risk management during 2021, 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.

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 Chair, reports administratively to the Group Chief Financial Officer and has access to the Group Chief Executive and the Chair 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. GIA continued to focus on the highest areas of risk within the Group such as Cyber Security, Operational Resilience, Disaster Recovery and the firm's major change programmes .

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 continued to perform regular oversight of the Group's whistleblowing arrangements, which are the responsibility of the Board and overseen by Group HR. Actions during 2020 had focused on ensuring an environment in which whistleblowing is well understood, openly communicated and that a positive culture for raising concerns was promoted.

During 2021 and following the roll out of a targeted set of actions designed to improve both accessibility and understanding across the Group, an independent assessment was undertaken and overseen by the Committee to establish whether these actions had raised awareness and understanding. The assessment found that engagement, understanding and governance had significantly improved, supporting a culture of openness where colleagues feel confident and safe to speak up and challenge when and if they need to.

The Group now has an established annual whistleblowing activity cycle encompassing training, communication and monitoring. Online training modules for all colleagues and managers in both Whistleblowing and Code of Conduct increase and maintain awareness and emphasise an open and positive culture. Individual attestation and quarterly reporting ensure the continued close monitoring of whistleblowing activity and understanding across the Group. These annual actions are reinforced by regular colleague communications and awareness raising activities.

Our whistleblowing procedures, polices and guides are also reviewed and updated annually to ensure that, in line with best practice, they are accessible, easily understood and are aimed to encourage and give confidence to potential whistleblowers.

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 2022, the Committee will continue to provide oversight of financial reporting and internal controls of the Group. Key areas 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 resourcing and scope of work of GIA as the Group continues to expand, and continued close attention to geo-political events which might impact on the Group's operations and stakeholder reporting.

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

Andrew McIntyre
Chair of the Group Audit Committee
17 March 2022

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 2021 and to highlight some of the key aspects of the Committee's work during the year. I was appointed as Chair of the Committee on 8 September 2021, having been a member of the Committee since 2020. I would like to take this opportunity to thank Caroline Taylor for her leadership of the Committee over the last two years and her ongoing support of the Committee's work.

2021 performance and incentive outcomes
2021 saw the Group recover strongly from the challenges caused by Covid-19 over the previous year. The Group reported a profit before tax of £77.0m in 2021. This positive financial performance was driven by strong investment returns, as markets bounced back, and a solid underlying underwriting result of £8.8m (2020: £12.1m). The Group delivered Gross Written Premium (GWP) growth of 11% to £486m (2020: £437m) supported by strong retention and new business in the UK and Canada. Our broking business performed above expectation, with SEIB reporting a profit before tax of £3.2m. Lycetts, owned by Benefact Group, reported a profit before tax of £3.2m, well ahead of the £1.1m in the previous year. Our award winning investment management business, EdenTree, had another excellent year, achieving record inflows and exceeding fund benchmarks. These excellent results enabled the Group to award a grant of £21m to our owner Benefact Trust, together with a further grant of £5m in 2022 in respect of its 2021 performance.

2021 continued, however, to be a challenging year for customers, brokers, business partners and colleagues alike. The Committee note with pride and thanks the outstanding efforts of all our colleagues across the Group in continuing to deliver what matters most to the business, supporting our customers and delivering on the Group's purpose, strategy and ambition for the future. Our colleagues' dedication to providing excellent customer service is borne out by an outstanding 98% of customers and brokers who report they are satisfied with the service they receive from Ecclesiastical. This level of delivery is reflected in the Group's performance against its customer and conduct targets for the year.

2021 was a transformational year for the Group, with significant progress on the Group's strategic initiatives and the launch of a new and ambitious Group strategy which aims to raise £250m for good causes by the end of 2025. Alongside the launch of the new Ecclesiastical brand and the opening of our head office, 2021 saw us continue to invest in systems and technology to improve the broker and customer experience; to grow our Broking and Advisory business; and to strengthen the team and fund portfolio of our EdenTree business. During 2021, as part of our commitment to making a properly responsible environmental, as well as social, impact, we built on our existing membership of ClimateWise and the pioneering work of EdenTree in the field of ESG investments through the adoption of a new responsible and sustainable investment strategy; improvements to the way we measure our climate impact; and the integration of our environmental commitments into our remuneration schemes for 2022 and beyond.

In considering the annual bonus outcomes for Executive Directors, the Committee reflected on the financial, underwriting, strategic, customer and conduct performance of the Group including the reported profit before tax of £77.0m, solid performance against Group COR targets, and the continuing strong delivery against the Group's strategic change programme and customer and conduct targets. In its assessment of individual performance during the year, the Committee recognised the excellent performance against Executive Directors' personal financial, strategic and wider objectives. The Committee considered that the annual bonus outcomes 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.

The annual bonus awards for 2021 of 87.5% of maximum (which is 100% of salary) for the Group Chief Executive; 84.4% for the Deputy Group Chief Executive; and 71.9% for the Group Chief Financial Officer reflected the strong performance of the Group during the year. Further details of performance against the targets set for 2021 are disclosed on page 166 of this report.

In view of the Group's reported results for 2020, 35% of the awards for Executive Directors under the 2020 plan were deferred for one year, subject to the Group returning to profit in 2021. In light of the Group's welcome return to profit in 2021, the Committee has approved payment of the 2020 deferred awards.

The long-term incentive plan (LTIP) granted in 2019 vested at 47.0%, reflecting the Group's performance against the financial, strategic, customer and conduct targets over the 2019-2021 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 and Compliance Officer, considered risk management outcomes across the Group as part of its deliberations, including how these had impacted individual performance assessments where relevant. Following this review, the Committee did not consider further risk adjustment of the awards to be necessary.

Base salary

The level of salary increases for UK Ecclesiastical employees is a key consideration in setting the level of any salary increase for Executive Directors. After careful consideration the Committee determined that the base salaries of Executive Directors would be increased by 5.0% (effective 1 April 2022) in line with the wider workforce.

Key Committee activities during the year

During 2021 the Committee undertook a strategic review of the Group's remuneration policy and incentive design, including the applicable performance measures and targets, in order to ensure these continue to drive the Group's strategy and long-term performance, including in respect of ESG and climate change considerations. The review was underpinned by the following principles: fair reward; simplification of the Group's incentive arrangements; compliance with evolving regulatory and corporate governance requirements; linking pay and performance; alignment of incentive designs with the Group's strategy and with shareholder expectations; and consideration of the reputational impact of any changes. As part of this strategic review the Committee consulted with the Group's charitable owner and ultimate shareholder Benefact Trust Limited (previously Allchurches Trust Limited) and the Committee are grateful for their support and counsel.

The 2022 Group Management Board (GMB) annual bonus applicable to Executive Directors and members of the Group's leadership team includes stretching targets in relation to the delivery of profit; the Group's growth strategy; and its strategic change programme. The new Greater Good measure supports the Group's ambition to build a Movement for Good, incentivising delivery of its charitable giving programme; exceptional customer service; and the highest standards of conduct and governance. In line with evolving market practice, deferral of bonuses is increased to one third of the total annual bonus awarded, with deferral continuing to be over a period of three years.

The award level applicable to Executive Directors under the 2022–2024 Group LTIP is increased to 180% for the Group Chief Executive; and 120% for the Deputy Group Chief Executive and Group Chief Financial Officer. The 2022–2024 Group LTIP is subject to performance measures which incentivise the delivery of the Group's return on capital targets; the growth strategy applicable to each of the Group's divisions; the delivery of grants to Benefact Trust Limited to support its charitable work; and the Group's climate change targets for the period ahead.

Full details of the revised incentive arrangements applicable to Executive Directors and the Group's senior leaders are set out on page 156.

The Committee determined that the remuneration packages of Executive Directors remain appropriately aligned with the Group's strategic objectives and reflect both the experience and track record of the Executive Directors and comparative benchmarking. The pension contribution rate for the Group Chief Executive was reviewed during the year and will be aligned with the wider workforce rate of 12% of salary with effect from April 2022.

During 2021 the Committee also considered the remuneration packages for a number of its Material Risk Takers, ensuring that these remained in line with evolving responsibilities and market benchmarks.

The Group's gender pay report for 2021 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 over time and this has contributed to our median gender pay gap reducing for a fifth consecutive year to 20.4%, from 21.1% in 2020. The Group continues to be committed to promoting inclusion and diversity through our business and to 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 2021, the Committee considered the implications of the Investment Firms Prudential Regime on remuneration policy; the BEIS white paper on 'Restoring trust in audit and corporate governance'; and the Regulators' proposals on improving diversity and inclusion in financial services.

Conclusion

Finally, I value the continued support and counsel of our charitable owner and ultimate shareholder Benefact 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.

Sir Stephen Lamport
Chair of the Group Remuneration Committee
17 March 2022

Committee member	Member since	Meetings eligible to attend	Meetings attended
Sir Stephen Lamport (Chair)[1]	June 2020	7	7
David Henderson	September 2016	7	7
Neil Maidment[2]	March 2020	7	6
Angus Winther	April 2019	7	7
Caroline Taylor[3]	November 2014	5	5

[1] Sir Stephen Lamport was appointed the Chair of the Committee on 8 September 2021.
[2] Neil Maidment was unable to attend a meeting due to a prior commitment.
[3] Caroline Taylor stepped down as Chair and member of the Committee on 8 September 2021.

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 2021, the Committee held seven 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 Non-Executive Directors (NED) 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 2021.

Meeting	Key discussion points
February 2021	· 2021 annual bonus and 2021-2023 LTIP design and targets · 2021 Lycetts annual bonus design · 2020 Directors' Remuneration Report · Material Risk Taker list · Evaluation of Committee performance
February 2021	· 2021 annual bonus and 2021-2023 LTIP design and targets · 2020 annual bonus and 2018-2020 LTIP outcomes
March 2021	· 2020 annual bonus and 2018-2020 LTIP outcomes · Review of 2021 salary proposals · 2020 Directors' Remuneration Report · Material Risk Taker list · 2021 Committee objectives
April 2021	· Strategic review of remuneration
July 2021	· Strategic review of remuneration · Review of executive remuneration trends and market practice · Wider employee trends and policies · Remuneration Policy review and Remuneration Policy Statement · Review of remuneration packages for Material Risk Takers · Material Risk Taker list
October 2021	· Strategic review of remuneration · Performance management policy · Deferral policy
November 2021	· Strategic review of remuneration · Update on 2021 GMB pay outturns · Wider employee remuneration trends and pay · 2021 Directors' Remuneration Report · Material Risk Taker list · Gender pay gap reporting · Annual audit of EdenTree remuneration policy · Review of remuneration packages for Material Risk Takers · Annual review of Remuneration Committee Terms of Reference

Advisers to the Committee

Having stepped down as Chair and member of the Committee in September 2021, Caroline Taylor acted as an advisor to the Committee for the period October 2021 to February 2022 to support the strategic review of the Group's remuneration policy.

During the year, the Committee received external advice from Deloitte in relation to the strategic review of remuneration; 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. The Committee also had access to benchmarking reports from Willis Towers Watson and McLagan, which provide additional data to support the determination of pay and conditions throughout the Group.

Fees for professional advice to the Committee paid to Deloitte were £137,250 (2020: £99,222). The Committee is satisfied that the advice received during 2021 from Deloitte was impartial.

To assist its work, 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' – Remuneration Policy summary and implementation for 2022

During 2021 the Committee undertook a strategic review of and consulted with the shareholder regarding remuneration policy and incentive design to ensure these continue to drive the Group's strategy and long-term performance. The principles which underpin the Group's reward structures for all Group employees are set out in full on page 150. The table below sets out the key features of the revised remuneration policy and how it will be implemented in 2022.

Element of pay	Operation	Implementation for 2022
Base Salary	Reviewed annually with any increases normally taking effect in April.	· CEO: £498,800 · Deputy CEO: £407,433 · Group Chief Financial Officer: £322,900
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.	The Canadian branch car allowance applicable to the Deputy CEO increases to £17k.
Pension	For 2021, 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 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. The employer contribution rate to the Canada Defined Contribution Pension plan is 12% of salary subject to the government's annual contribution limits. Amounts in excess are contributed to a SERP.	With effect from April 2022 the employer pension contribution rate for Executive Directors appointed before 2019, applicable to the Group Chief Executive, reduces to 12% of salary, in line with the wider employee population.
Annual Bonus	Maximum opportunity of 100% of salary of which 50% is payable for a target level of performance. Targets are set annually and award levels are determined based on one-year performance against these targets. For 2021, these were: i) Benefact Group (BG) PBT (including fair value investment gains/losses); ii) Group Combined Operating Ratio (COR); iii) Underwriting balanced scorecard; iv) Strategic targets; v) Customer and conduct targets; and vi) Personal performance targets. Any bonus earned in excess of 75% of maximum opportunity is deferred over three years. Malus and clawback provisions apply.	The maximum and target opportunities are unchanged for 2022, with targets for 2022 being: i) Group BG PBT (including fair value investment gains/losses); ii) Group BG PBT (excluding fair value investment gains/losses); iii) Underwriting balanced scorecard; iv) Gross New Money; v) Broking and Advisory turnover; vi) Strategic targets; vii) Greater Good targets; and viii) Personal performance targets. One third of total bonus earned is deferred over three years. Malus and clawback provisions apply.
Long-term incentive plan	The awards are granted annually and operate in three-year periods. Under the rules of the LTIP applicable in 2021, 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. Targets are set annually for each successive three-year LTIP period. For 2021-23, the measures were: i) Group BG PBT (including fair value investment gains/losses); ii) Group BG PBT (excluding fair value investment gains/losses); iii) Group COR; iv) Strategic targets; and v) Customer and conduct targets. Malus and clawback provisions apply.	Under the rules of the LTIP applicable in 2022, awards can be made of up to 180% of salary in the case of the Group Chief Executive and of up to 120% of salary in the case of other Executive Directors. The measures applicable to the 2022-2024 LTIP period are: i) Group BG PBT (including fair value investment gains/losses); ii) Return on Capital; iii) Underwriting profit; iv) EdenTree revenue; v) Broking and Advisory turnover; vi) Grant to Benefact Trust Limited; and vii) Environmental targets. Malus and clawback provisions apply.

Remuneration 'At a Glance' – variable pay outturns

Annual bonus outturn for the year ending 31 December 2021

Further details including information on the performance assessment of the strategic and customer and conduct metrics are set out on page 166 in this report.

	Threshold (0.5x)	Target (1.0x)	Maximum (1.5x)	Weighted multiplier
Group BG PBT (including fair value investment gains/losses)	£7.6m	£37.4m	£73.8m	0.60
			Actual £83.6m	
Group COR	97.0%	91.3%	86.3%	0.10
	Actual 96.8%			
Underwriting balanced scorecard	50%	75%	100%	0.13
		Actual 90.8%		
Strategic Targets	50%	75%	100%	0.20
		Actual 90.0%		
Customer and Conduct	85%	90%	100%	0.22
		Actual 99.0%		
Total				1.25

2019-2021 LTIP Outturns

Further details including information on the performance assessment of the strategic and customer and conduct metrics are set out on page 169 in this report.

	Threshold (20% vesting)	Target (50% vesting)	Maximum (100% vesting)	Percentage vesting
Group BG PBT (excluding fair value investment gains/losses)	£82.4m	£114.1m	£156.2m	-
	Actual £58.6m			
Group BG PBT (including fair value investment gains/losses)	£70.9m	£117.6m	£189.8m	63%
	Actual £135.7m			
Group COR	96.6%	93.6%	89.3%	41%
	Actual £94.5%			
Strategic Targets	50%	75%	100%	84%
	Actual £91.8%			
Customer and Conduct	85%	90%	100%	87%
	Actual £97.3%			
Total				47%

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 2022. 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 return**s, and take into account the expectations of the shareholder. 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.

9. The Group holds itself to the **high standards of corporate behaviour** as a trusted, ethical and socially responsible business and is mindful of the need to maintain and build on these standards, and to avoid risk of reputational damage to the Group and Benefact Trust Limited through the implementation of its remuneration policy.

When determining remuneration policy for Executive Directors, the Committee considers the following factors, which are embedded in the Group's 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
Salary			
To support the attraction and retention of talent with the capability to deliver the Group's strategy and performance goals.	Salaries are normally 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. Salary increases will normally be in line with the increase applicable to the wider employee population, but higher salary increases can be awarded in certain circumstances such as (but not limited to) where there is an increase in scope of role or responsibility; due to performance in the role; or where there has been an increase in the size and/or complexity of the business.	Group and individual performance
Benefits			
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
Pension			
To provide market-competitive and cost-effective post-retirement benefits.	**UK Defined Contribution Scheme:** UK-based Executive Directors are eligible to participate in the Group Personal Pension plan. Contributions are made by the employee and employer. A cash allowance can be paid where pension contributions would be in excess of the HMRC annual and/or lifetime allowance. The cash allowance is equal to the employer contribution rate, net of employer's national insurance contributions. **Canadian EIO plc Defined Contribution Pension plan:** the Canadian Defined Contribution plan is applicable to Ecclesiastical's Canadian staff. The Deputy Group Chief Executive participates under this plan and does not participate in the UK Defined Contribution Scheme. Contributions are made by the employer.	The level of pension contribution 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 is 12% of salary, in line with the wider employee population. The employer contribution rate to the Canada Defined Contribution Pension plan is 12% of salary subject to the government's annual contribution limits. Amounts in excess are contributed to a SERP.	Not applicable

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
GMB annual bonus scheme			
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. One third of total bonus earned is deferred over three years.	Maximum opportunity of 100% of salary of which 50% is payable for a target level of performance.	The GMB annual bonus is subject to a range of challenging financial and non-financial metrics linked to key strategic priorities. For 2022, these are: • Group BG PBT (including fair value investment gains/losses); • Group BG PBT (excluding fair value investment gains/losses); • Underwriting balanced scorecard; • EdenTree Gross New Money; • Broking and Advisory turnover; • Strategic targets; • Greater Good targets; and • Personal performance targets.
Group LTIP			
To focus the executives and incentivise the achievement of the Group's long-term objectives; to align the Executive Directors' interests with those of the 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 180% of salary in the case of the Group Chief Executive and of up to 120% 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 2022 awards relating to the performance period 2022-2024, the following performance conditions will apply: • Group BG PBT (including fair value investment gains/losses); • Return on capital; • Underwriting profit; • EdenTree revenue; • Broking and Advisory turnover; • Grant to Benefact Trust Limited; and • Environmental targets.

Notes to policy table

Performance measures and targets

During 2021 the Committee undertook a strategic review of remuneration policy and incentive design, including the applicable performance measures and targets, in order to ensure these continue to drive the Group's strategy and long-term performance. The Committee selected the performance conditions set out in the table above because they are central to the Group's new strategy and are key metrics used in measuring the performance of the Group. As part of this strategic review the Committee consulted with the Group's charitable owner and ultimate shareholder Benefact Trust Limited and the Committee are grateful for their support and counsel. The Committee additionally sought input from the Group Chief Risk and Compliance Officer, in particular regarding the extent to which the revised 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 cause the Committee to determine an amended or substituted performance condition would be more appropriate.

Remuneration Committee discretion, malus and clawback provisions

The Committee has discretion to reduce any annual bonus and LTIP prior to award in certain circumstances, including (but not limited to) where:

(i) There are material issues regarding the Group's underlying financial strength and position (including if the Group has made a loss);
(ii) There is actual or potential material regulatory censure;
(iii) The Group is in material breach of its risk policies (including conduct risk) and/or its values and ethics;
(iv) There is material reputational damage or a material diminution in the regard by which the Group is held by its customer base; or
(v) There is a material reduction in the Group's and/or any regulated entity's Solvency ratio and/or a material reduction in EdenTree's capital base and/or a material reduction in the Group's credit rating.

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

(i) There are issues regarding the material accuracy of the calculated award;
(ii) There is material regulatory censure, or material reputational damage or a material diminution in the regard by which the Group is held by its customer base;
(iii) There is material non-adherence to the Group's risk guidance, limits and /or tolerances (including conduct risk);
(iv) The Group or any company within the Group suffers a material failure of risk management;
(v) There is reasonable evidence of misbehaviour or material error on the part of a scheme participant;
(vi) There is a corporate failure of the Group and/or any company within the Group and/or there has been unreasonable failure to protect the interests of employees and customers; or
(vii) (In relation to malus only) the Group or any company within the Group suffers a material downturn in its financial performance.

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 GMB Annual Bonus and Group LTIP arrangements are not subject to a post vesting holding period.

Changes to the Policy from that operating in 2021

The Committee carried out a strategic review of the Group's remuneration policy and incentive design during 2021 in order to ensure these continue to drive the Group's strategy and long-term performance, including in respect of ESG and climate change considerations.

As a result of the review, the following revised performance conditions will apply to the GMB annual bonus for 2022, together with individual performance:

Group performance measures	Percentage weighting	Strategic rationale
Group BG PBT (including fair value investment gains and losses)	25%	To incentivise delivery of overall profitability targets
Group BG PBT (excluding fair value investment gains and losses)	25%	To incentivise delivery of profitability targets, excluding market movements
Underwriting balanced scorecard	10%	To incentivise delivery of the general insurance growth strategy through achievement of a balanced scorecard of rate adequacy, retention and new business targets
Gross New Money	5%	To incentivise delivery of the EdenTree growth strategy
Broking and Advisory Turnover	5%	To incentivise delivery of the Broking and Advisory growth strategy
Delivery of Group strategic initiatives in line with the Group's strategic plan	15%	To incentivise delivery of the Group's strategic change programme
Greater Good	15%	Aligned to the Group's ambition to build a Movement for Good, to incentivise delivery of the Group's charitable giving and colleagues' engagement with the Group's MyGiving programme; of exceptional customer service; and of the highest standards of conduct and governance

In line with evolving market practice, deferral of bonuses is increased in 2022 to one third of the total annual bonus awarded, with deferral continuing to be over a period of three years (previously bonus earned in excess of 75% of maximum opportunity was deferred over three years). Malus and clawback provisions are amended as set out on page 154.

Following the review, the following revised performance conditions will apply to the Group LTIP for 2022-2024:

Group performance measures	Percentage weighting	Strategic rationale
Group BG PBT (including fair value investment gains and losses)	30%	To incentivise delivery of overall profitability targets
Return on Capital	30%	To incentivise delivery of return on capital targets
General Insurance Underwriting Profit	10%	To incentivise delivery of the general insurance growth strategy
EdenTree Revenue	5%	To incentivise delivery of the EdenTree growth strategy
Broking and Advisory Turnover	5%	To incentivise delivery of the Broking and Advisory growth strategy
Grant to Benefact Trust Limited	10%	To incentivise delivery of Grants to Benefact Trust Limited to support the Trust's charitable work
Environmental targets	10%	To incentivise delivery of the Group's climate change strategy

Malus and clawback provisions are amended as set out on page 154.

The pension contribution rate for the Group Chief Executive will be aligned with the wider workforce rate of 12% of salary with effect from April 2022.

These changes to the Group's Remuneration Policy will be made in 2022 and are reflected in the Future Policy table above.

Remuneration arrangements elsewhere in the Group

The Group's approach to Executive Director and wider employee remuneration is based on the common set of principles set out in the Group's Remuneration Policy on page 150. 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 which may be applicable.

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.

Remuneration scenario charts

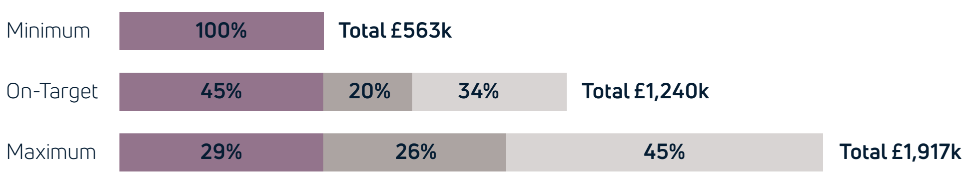
The remuneration scenario charts below illustrate what each Executive Director could earn in respect of the policy for 2022, under different performance scenarios:

- Minimum: fixed pay only (being 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 salary and 50% vesting of the LTIP; and
- Maximum: fixed pay plus maximum bonus of 100% of salary and 100% vesting of the LTIP.

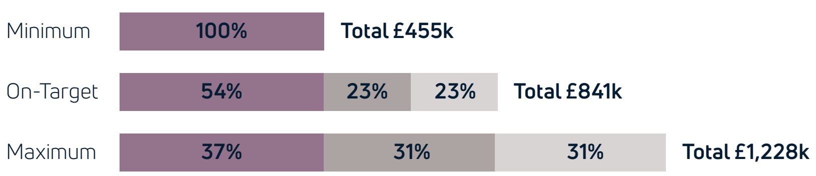
Notes to the charts:

- Fixed pay is base salary for 2022 plus the value of pension and benefits.
- Salary is the salary applicable at 1 April 2022.
- 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 2021.
- 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.

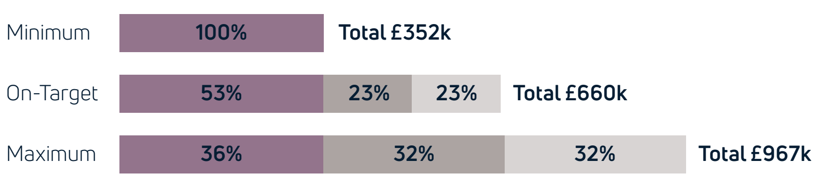
Mark Hews: Effect of the application of this policy in financial year 2021



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



Fixed Pay   Annual Variable   LTIP

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 Group 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.

The Group retains discretion to adjust the balance of the annual bonus and LTIP and the measures used to assess performance. Other payments may be made in relation to relocation expenses and support as appropriate.

In the case of an internal appointment, any incentive awards in respect of the prior role would be allowed to continue according to its original terms, or be adjusted if appropriate to take into account the appointment.

The Group retains discretion to make appropriate remuneration decisions outside the Policy to meet the individual circumstances of recruitment when:

- an interim appointment is made to fill an Executive Director role on a short-term basis; and
- exceptional circumstances require that the Chair or a Non-Executive Director takes on an executive function on a short-term basis.

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 £504k 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 (for example death, ill health, retirement) and other circumstances at the Committee's discretion. If there is a change of control event, then an early payment can be calculated and made.	Good leavers are entitled to a bonus payment subject to the achievement of bonus criteria which is pro-rated down to reflect their service during the performance year unless the Committee determines that a higher amount is justified. A similar provision would apply if there were a change of control event. Bonus payments for good leavers are subject to deferral, malus and clawback.
Treatment of long-term incentive awards on termination or change of control under plan rules	All awards lapse except for 'good leavers' as defined in the plan rules (for example death, ill health, retirement) and other reasons at the discretion of the Committee. If there is a change of control event, then an early payment can be made at the discretion of the Committee.	For good leavers, vesting is determined based on the application of the performance conditions and any award is then pro-rated down based on the proportion of the 36-month performance period that the employee has served since the grant date unless the Committee determines that a higher amount is justified. A similar provision would apply if there were a change of control event. For good leavers grants vest on the original anniversary date.

Service contracts and policy on payment for loss of office continued

Standard provision	Policy	Details
Exercise of discretion	Discretion is intended to be relied upon only in certain circumstances as set out on page 161.	The Committee's determination will take into account the circumstances of the Executive Director's departure and the recent performance of the Group when using discretion in relation to short- or long-term bonus payments.
Other matters	The Group's policy is to honour commitments made under contractual arrangements that may have been entered into with an employee prior to them becoming a Director. There are no other provisions for termination payments or payments for loss of office in standard Directors' service contracts.	
Non-Executive Directors	Each NED is appointed for an initial three-year term and is subject to election by the shareholder at the first AGM following their appointment. In addition, the Board has agreed that all Directors (including NEDs) will be subject to annual re-election by the shareholder at each AGM. NEDs are entitled to receive a pro-rata proportion of their fees that they have accrued up to the date of termination of their contract.	

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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 Chair's fees, are approved by the Board and at a general meeting, following recommendation by the Chair and Executive Directors. NEDs take no part in the discussion relating to their own fees. The Chair's and the SID's fees are considered and approved by the Board in the absence of the Chair 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. NEDs and the Chair 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.	Current fee levels are shown in the section on implementation of policy.	NEDs are not eligible to participate in any performance-related arrangements.

Consideration of employment conditions elsewhere in the Group

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 additionally consults with the shareholder in respect of the NED's and the Chair's fees.

During 2021, the Committee consulted the shareholder throughout its strategic review of remuneration in order to understand the shareholder's expectations with regard to Executive Directors and wider employee remuneration and the shareholder's views in relation to the evolving remuneration proposals.

Annual Report on Remuneration

This section of the Directors' Remuneration Report sets out how the above Remuneration Policy was implemented in 2021 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 2021 financial year for each Executive Director, together with comparative figures for 2020.

£000	Fixed pay				Pension		Total fixed remuneration		Variable pay				Total variable remuneration		Total remuneration	
	Salary		Benefits[1]		Pension benefit[2]		Fixed		Annual bonus[3]		LTIP[4]		Variable		Total	
Executive Director	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Mark Hews	475	472	14	14	61	61	551	547	416	214	319	355	734	569	1,285	1,116
S. Jacinta Whyte[5 6]	388	386	37	22	69	57	493	465	327	180	174	193	501	374	994	839
Denise Cockrem	308	306	13	13	32	32	353	351	221	133	108	0	329	133	682	484
Total	1,171	1,164	64	49	162	150	1,397	1,363	964	527	601	548	1,564	1,076	2,961	2,439

1 Benefits include car allowance and private medical insurance which are valued at their taxable value. Provision of benefits during 2021 was in line with the Directors' Remuneration Policy. The Deputy Group Chief Executive received £15k in 2021 in respect of outstanding annual leave.

2 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 national insurance contributions) can be paid to UK-based Executive Directors where pension contributions would be in excess of the HMRC annual and/or lifetime allowance.

3 In line with the deferral policy, annual bonus earned in respect of 2021 which is in excess of 75% of the maximum bonus opportunity is deferred over a period of three years. In 2021 the value of Executive Directors' annual bonuses that are deferred is: £59k (Group Chief Executive) and £36k (Deputy Group Chief Executive). 35% of the awards under the 2020 annual bonus plan were deferred for one year and were subject to the Group returning to profit in 2021. These amounts became payable in March 2022 on the Group returning to profit in 2021.

4 LTIP represents the amount payable in respect of the three-year LTIP performance period 2019-2021 for 2021 and 2018-2020 for 2020. 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.

5 An average 2021 exchange rate of 1.7247 Canadian dollars to 1 GBP has been used in respect of both 2021 and 2020.

6 Contributions to the Canadian pension plan that are above the Canadian Revenue Agency's prescribed limit are paid into a SERP. These contributions for the Deputy Group Chief Executive and interest accruing to the SERP are included in the figures shown.

Mark Hews is a NED for MAPFRE RE and was appointed to their Board in December 2013. The fee of £30k (2020: £34k) 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 resigned as a NED of Skipton Building Society in April 2021. The fee that Denise Cockrem earned in respect of this role was paid directly to the Group by Skipton Building Society and was not received by Denise Cockrem. The fee earned in respect of 2021 was £15.6k (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).

Additional requirements in respect of the single total figure table

Annual bonus outcomes for 2021 (audited)
The annual bonus awards for 2021 were 87.5% of maximum (which is 100% of salary) for the Group Chief Executive; 84.4% for the Deputy Group Chief Executive; and 71.9% for the Group Chief Financial Officer.

The annual bonuses outturns were determined 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 five performance conditions which together form the Group performance multiplier. For 2021, these were Group BG 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%); 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 2021 were not adjusted as a result of the impact of the Covid-19 pandemic and remain as originally determined.

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 GMB annual bonus and actual performance against those targets for the financial year 2021 were:

Performance Condition	Weighting	Threshold (0.5x)	Target (1.0x)	Maximum (1.5x)	Actual performance	Weighted multiplier
Group BG PBT[1]	40%	£7.6m	£37.4m	£73.8m	£83.6m	0.60
Group COR	20%	97.0%	91.3%	86.3%	96.8%	0.10
Underwriting balanced scorecard	10%	50%	75%	100%	90.8%	0.13
Strategic Targets	15%	50%	75%	100%	90.0%	0.20
Customer and Conduct	15%	85%	90%	100%	99.0%	0.22
Aggregate Group performance multiplier						**1.25**

[1] 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, 2021 saw both significant progress on the Group's strategic initiatives and the launch of an ambitious new strategy for the Group. During the year, the Group launched the new Ecclesiastical brand; opened its new head office; delivered further investment in systems, technology and innovation; grew the Broking and Advisory business; and invested in the EdenTree business, including strengthening the team and launching three new funds. The Group's climate change strategy was agreed by the Board and a new responsible and sustainable investment strategy implemented. Overall in 2021, substantial progress was made on the Group's change programme, resulting in an outturn of 90.0% being achieved against the strategic targets measure for 2021.

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. Customer satisfaction continued to be high through 2021, with 98% of customers and brokers reporting that they were satisfied with the service they received from Ecclesiastical. This outstanding level
of customer service, together with the Group's strong customer and conduct culture and effective systems of control, drove another strong performance against the Group's customer and conduct targets, with an outturn of 99.0% being achieved in 2021. In just one business unit customer satisfaction outturns were slightly below target. 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.

Personal performance

Personal performance was assessed taking into consideration delivery against the Group's business plans for 2021, 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.

The assessment of personal performance for 2021 takes account of the additional challenges that the ongoing Covid-19 pandemic has presented.	
Mark Hews	Delivered another year of exceptional leadership across the Group throughout what has been a pivotal year in the Group's history. Under Mark Hews' leadership, 2021 saw the Group recover strongly from the challenges caused by Covid-19 in 2020, with the Group reporting a profit before tax of £77.0m in 2021 and exceeding its goal of donating more than £100m to good causes. The Group continued to deliver for customers, maintaining outstanding levels of customer satisfaction, with 98% of customers and brokers reporting that they were satisfied with the service they received from Ecclesiastical. Employee engagement levels remained high, with the Group being awarded a two-star 'outstanding' accreditation by Best Companies. During 2021, Mark Hews oversaw the development of the new Benefact Group identity and name for the Group, the delivery of transformational changes including investments in new systems and technology, a new head office, the new Ecclesiastical brand for the Group's General Insurance businesses and a new ambitious strategy behind which the whole Group can align.
S. Jacinta Whyte	Continued to provide strong leadership across the Group's General Insurance portfolio of businesses. Playing a central leadership role in the Group's ongoing Covid-19 response, Jacinta Whyte ensured that the Group's General Insurance businesses continued to provide market leading products and service as well as overseeing the management of business interruption claims. Jacinta Whyte additionally managed a programme of work to strengthen the Group's overall management of data, enabling the Group to be increasingly strategic in its use of data in support of its long-term business goals.
Denise Cockrem	Further improved the financial strength of the Group during 2021 and made a significant contribution across the Group which has been central to the delivery of the business plan, including overseeing a return to profitability in all of the Group's businesses at the same time as maintaining control over costs. Denise Cockrem additionally managed the issuance of €30m subordinated debt in February 2021, as the Group seeks to take advantage of profitable growth opportunities, and continued to lead and strengthen the Group's Risk, Compliance and Audit functions.

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 154.

LTIP outcomes in 2021 (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 2019-2021, which vested at 47.0%. Vesting was dependent on performance over the three financial years ending on 31 December 2021 and continued service until March 2022.

The 2019-2021 Group LTIP is subject to five performance conditions: Group BG PBT (excluding fair value investment gains and losses) (25%); Group BG PBT (including fair value investment gains and losses) (25%); Group COR (25%); delivery of Group strategic initiatives in line with the Group's strategic plan (15%); and Customer and Conduct performance (10%). 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 PBT (excluding fair value investment gains and losses)[1]	£82.4m	£114.1m	£156.2m	£58.6m	-
Group PBT (including fair value investment gains and losses)[1]	£70.9m	£117.6m	£189.8m	£135.7m	63%
Group COR	96.6%	93.6%	89.3%	94.5%	41%
Strategic Targets	50%	75%	100%	91.8%	84%
Customer and Conduct	85%	90%	100%	97.3%	87%
Total					47.0%

[1] Audited to EIO Group level

The Strategic Targets performance condition measures delivery of the Group's change programme over the period 2019-2021. During 2021 the Group surpassed its target of delivering £100m to good causes. 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; launching the new Ecclesiastical and Benefact Group brands; further strengthening the Group's award winning EdenTree business; adoption of a climate change strategy for the Group; and the launch of an ambitious new strategy for the Group. 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 91.8% being achieved against the strategic targets measure for 2019-2021.

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. Customer satisfaction outturns were slightly below target for one business unit in 2021 and for two business units in 2020, with all business units meeting targets in 2019. Claims service outturns were slightly below target in 2020, reflecting the challenges of Covid-19, having been met in full in 2019 and 2021. Targets relating to the Group's rolling programme of product reviews were met in full in 2021 and 2020, with one business unit reporting below target outturns in 2019. An overall outturn of 97.3% was achieved.

Combining the financial and non-financial performance results in an overall vesting level of 47.0%.

The Group LTIP outcome that vests in respect of each Executive Director in respect of 2019-2021 is shown below.

	LTIP grant	Total LTIP vesting	
	% of salary	£000	% of maximum
Mark Hews	150%	319	47.0%
S. Jacinta Whyte[1]	100%	174	47.0%
Denise Cockrem[2]	100%	108	47.0%

[1] An average 2020 exchange rate of 1.7247 Canadian dollars to 1 GBP has been used in respect of 2021.

[2] Denise Cockrem was appointed to the Board on 6 September 2019.

Scheme interests awarded during 2021 (audited)

During 2021, awards comprising of a cash sum were granted under the 2021-2023 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 2024, to the extent that the applicable performance targets are met. The vesting date for these awards is the date on which the Group's 2023 results are announced, anticipated to be during March 2024.

Executive Director	Award date	Maximum cash sum subject to the award (% base salary)	Face value of award at grant £000s	Cash award if threshold performance achieved (% base salary)	End of the period over which the performance targets have to be fulfilled	Performance measures[1]
2020-2022 Group LTIP						
Mark Hews	26 Jul 2021	150%	713	20%	31 December 2023	· Group BG PBT (including fair value investment gains/ losses) 40%; · Group BG PBT (excluding fair value investment gains/ losses) 20%; · Group COR 15%; · Strategic targets 15%; and · Customers and conduct targets 10%.
S. Jacinta Whyte[2]	26 Jul 2021	100%	388	20%	31 December 2023	
Denise Cockrem	26 Jul 2021	100%	308	20%	31 December 2023	

[1] 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.

[2] An average 2021 exchange rate of 1.7247 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[1] in the Group in order to provide greater transparency.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2021	Option A[2]	32:1	23:1	17:1
2020	Option A[2]	30:1	23:1	16:1
2019	Option A[2]	40:1	29:1	21:1

The total remuneration and salary values for the 25th percentile, median and 75th percentile employees for 2021 were:

	25th percentile	Median	75th percentile
Total remuneration[3]	£40,755	£55,306	£77,786
Salary	£31,948	£42,506	£57,562

[1] The table sets out the ratio between the Group Chief Executive's total remuneration and that of the 25th percentile, median and 75th 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.

[2] 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 25th percentile, median and 75th percentile.

[3] 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 2021.

The Group Chief Executive was paid 23 times the median employee in 2021, with the CEO pay ratios being broadly consistent with the prior year. 2021 awards under both the Group's GMB and employee annual bonus schemes were materially higher in comparison to the prior year, in line with 2021 performance. Vesting of the 2019-2021 Group LTIP was, however, marginally lower than the prior year. Whilst salary increases were awarded to employees during 2021, those of the Group Chief Executive, Directors or other senior leaders across the Group were frozen, in light of the impact of the Covid-19 pandemic.

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 2020 to 2021) for the Board Directors compared with UK-based employees[1]. The Committee has selected this comparator group as being the most appropriate because the composition and structure of remuneration for this group most closely reflects that of the Board.

	Salary	Taxable benefits[2]	Annual bonus
Executive Directors			
Mark Hews	0.6%	0.1%	94.7%
Jacinta Whyte	0.6%	67.1%	81.5%
Denise Cockrem	0.6%	0.0%	65.6%
UK-based employees			
Average UK-based employees[1]	3.9%	1.1%	132.0%

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

[2] 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). The Deputy Group Chief Executive received £15k in respect of outstanding annual leave in 2021 (2020: £0k).

The fee paid to the Chair and the basic fee for NEDs were unchanged in 2021 compared to 2020.

Relative importance of spend on pay

The table below sets out for 2021 and 2020, the actual costs of employee remuneration; grants paid to Benefact Trust Limited; and dividends paid to Preference shareholders. PBT in each year is provided for context.

(£000)	2021	2020	% change
Remuneration paid to all Group employees	102,313	86,840	17.8%[1]
Gross charitable grants to the ultimate parent company, Benefact Trust Limited[2]	21,000	Nil	N/A
Non-Cumulative Irredeemable Preference share dividend	9,181	9,181	Nil
Profit/(loss) before tax[3]	77,037	(15,746)	N/A

[1] In light of the Group's reported results, total variable remuneration is significantly increased compared to 2020 as set out above. In addition, there has been an increase in the number of employees and salary inflation. See note 13 to the financial statements.

[2] An additional grant of £5m has been made in 2022 following finalisation of the Group results.

[3] 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 2021.

		Financial year ending 31 December									
Financial year	Group Chief Executive[1]	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total remuneration (single figure) £000	Mark Hews	N/A	569	907	1,089	1,370	1,212	1,240	1,489	1,116	1,285
	Michael Tripp	390	330	162	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Annual bonus received (% of maximum)	Mark Hews	N/A	45%	78%	88%	97%	99%	84%	96%	45%	88%
	Michael Tripp[2]	0%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Long-term incentive vesting (% of maximum)	Mark Hews[3]	N/A	4%	60%	70%	88%	75%	88%	86%	54%	47%
	Michael Tripp[4]	0%	4%	47%	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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

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

3 The LTIP vesting relevant to Mark Hews represents the amount vesting in respect of the three-year LTIP performance period 2012-2014 for 2014; 2013-2015 for 2015 and 2014-2016 for 2016, together with the amounts vesting in respect of the Group Chief Executive's three-year incentive plan in 2014, 2015 and 2016 respectively. The Group Chief Executive's three-year incentive plan concluded at the end of 2016. LTIP vesting in 2017 and subsequent years represent the amounts vesting in respect of the relevant three-year LTIP performance period only.

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

Statement of Directors' shareholdings and share interests

Directors' shareholdings and share interests are set out in the Directors' Report. 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 2021.

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[1]	
Non-Executive Directors	**2021**	**2020**	**2021**	**2020**
David Henderson[2]	145,000	145,000	182	987
Chris Moulder[3]	75,000	74,772	0	5
Andrew McIntyre[4]	68,000	68,000	0	4
Sir Stephen Lamport[5]	59,087	42,708	385	159
Angus Winther[6]	66,000	66,000	0	144
Francois-Xavier Boisseau[7]	61,500	55,000	0	263
Neil Maidment[8]	55,000	54,402	0	6
Rita Bajaj[9]	25,417	0	0	0
Caroline Taylor[10]	46,879	68,000	222	2,869
The Very Revd Christine Wilson[11]	0	26,485	0	1,467
Total	**601,883**	**600,637**	**789**	**5,904**

1 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.

2 David Henderson was appointed as Chair on 19 March 2019.

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

4 Andrew McIntyre was appointed as a NED and Chair of the Group Audit Committee on 4 April 2017.

5 Sir Stephen Lamport was appointed as a NED on 23 March 2020 and Chair of the Group Remuneration Committee on 8 September 2021.

6 Angus Winther was appointed as a NED on 19 March 2019 and Chair of the Group Finance and Investment Committee on 1 January 2020.

7 Francois-Xavier Boisseau was appointed as a NED on 19 March 2019 and to undertake a Broker Oversight role on 1 July 2021.

8 Neil Maidment was appointed as a NED on 6 January 2020.

9 Rita Bajaj was appointed as a NED on 15 July 2021.

10 Caroline Taylor retired from the Board and as Chair of the Group Remuneration Committee on 8 September 2021.

11 The Very Revd Christine Wilson retired from the Board on 18 June 2020. Christine Wilson chose to donate her fee to charity in 2020.

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).

Statement of implementation of Remuneration Policy in 2022
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 2022 are set out below.

Salary (Executive Directors)
Executive Directors' salaries are reviewed annually in line with the Directors' Remuneration Policy. The level of salary increases for UK Ecclesiastical employees is a key consideration in setting the level of any salary increase for Executive Directors. After careful consideration the Committee determined that the salaries of Executive Directors would be increased by 5.0% in line with the wider workforce. The following salaries will apply from 1 April 2022:

(£000)	Salary	Salary	Percentage increase
	1 April 2022	1 April 2021	
Mark Hews	499	475	5.0%
S. Jacinta Whyte[1]	407	388	5.0%
Denise Cockrem	323	308	5.0%

[1] An average 2021 exchange rate of 1.7247 Canadian dollars to 1 GBP has been used.

Annual bonus for 2022
The annual bonus performance conditions and targets have been set in accordance with the Directors' Remuneration Policy above.

As set out above, a strategic review of the Group's incentive arrangements was carried out in 2021, with the resulting revised arrangements below applying from 2022.

The annual bonuses payable to Executive Directors in respect of 2022 will be assessed based on both Group and individual performance. Individual performance continues to be subject to delivery of personal performance objectives and performance in line with the Group's culture and behaviours framework, expressed as a personal performance multiplier. Group performance is subject to seven performance conditions which together form the Group performance multiplier. For 2022, these will be as follows:

Group performance measures	Percentage weighting
Group BG PBT (including fair value investment gains and losses)	25%
Group BG PBT (excluding fair value investment gains and losses)	25%
Underwriting balanced scorecard	10%
Gross New Money	5%
Broking and Advisory Turnover	5%
Delivery of Group strategic initiatives in line with the Group's strategic plan	15%
Greater Good (including charitable giving; employee engagement with MyGiving programme; customer and conduct; and governance)	15%

The overall bonus outturn for each Executive Director is the product of their target bonus opportunity, personal performance multiplier and the aggregate Group performance multiplier. The maximum opportunity under the annual bonus plan in 2022 is 100% of salary. Annual bonuses in respect of 2022 will be subject to deferral, over a period of three years, of one third of the total annual bonus awarded.

LTIP for 2022-2024

The 2022-2024 LTIP performance conditions and targets have been set in accordance with the Directors' Remuneration Policy above. As outlined above, a strategic review of the Group's incentive arrangements was carried out in 2021, with the resulting revised performance conditions below applying for the 2022-2024 Group LTIP:

Group performance measures	Percentage weighting
Group BG PBT (including fair value investment gains and losses)	30%
Return on Capital	30%
General Insurance Underwriting Profit	10%
EdenTree Revenue	5%
Broking and Advisory Turnover	5%
Grant to Benefact Trust Limited	10%
Environmental targets	10%

Awards under the 2022-2024 Group LTIP will be up to 180% of salary in the case of the Group Chief Executive and up to 120% 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 Chair	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 Broker Oversight Role	13
Fee for chairing the Group Finance and Investment Committee	11
Fee for chairing the Group Nominations Committee[1]	11

[1] The fee for chairing the Group Nominations Committee is included within the all-inclusive fee for the Senior Independent Director for 2022.

By order of the Board

Sir Stephen Lamport
Chair of the Group Remuneration Committee
17 March 2022

'A transformational year for the Group, 2021 saw significant progress on the Group's strategic initiatives and the launch of a new and ambitious Group strategy which aims to raise £250m for good causes by the end of 2025.'

Section Four

Financial Statements

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 parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2021 and of the group's profit and the group's and parent company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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 statement of financial position as at 31 December 2021; Consolidated statement of profit or loss, Consolidated and parent statement of comprehensive income, Consolidated and parent statement of cash flows and Consolidated and parent statement 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.

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.

Other than those disclosed in note 12, we have provided no non-audit services to the parent company or 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 subsidiaries that carries out insurance broking, life insurance, investment management and financial advisory business.

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 used in calculating asbestos and Physical and Sexual Abuse "PSA" reserves (group and parent).

Materiality

- Overall group materiality: £11,382,000 (2020: £10,000,000) based on 1.8% of Net assets.
- Overall parent company materiality: £10,813,000 (2020: £9,500,000) based on 2.0% of Net assets.
- Performance materiality: £8,536,000 (2020: £7,500,000) (group) and £8,109,000 (2020: £7,100,000) (parent 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.

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.

Completeness of reserves in relation to business interruption claims, valuation of investment property and unlisted equity and impact of Covid-19, which were key audit matters last year, are no longer included because of the subsequent easing of lockdown restrictions and start of the recovery from the pandemic has resulted in the reduction of the level of uncertainty surrounding these areas of the audit. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Assumptions used in calculating asbestos and Physical and Sexual Abuse "PSA" reserves (group and parent) As disclosed in the Group Audit Committee Report and notes 2, 3 and 27. 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 area of significant judgement to be specific to assumptions used in calculating the reserves for asbestos and PSA exposures, specifically in relation to the incurred but not reported ('IBNR') element of these reserves. Specifically, the assumptions requiring significant judgement and estimation are claims frequency, claim severity, the discount rate, future inflation, and the reserve margin.	With involvement from our Actuarial specialists we have performed the following procedures: – Observed the Reserving Committee control which reviews, challenges and approves the assumptions used within the calculation of the reserves; – Challenged the assumptions used by management and considered reasonable alternative assumptions and the impact of the level of reserves calculated. This includes consideration of the historic claim numbers, average claims cost, the current regulatory environment and IICSA review (for PSA) and Asbestos Working Party (for asbestos), discount rate, future inflation and level of margin. - We have assessed the appropriateness of the resulting reserves based on the assumptions selected. Based on the work performed and evidence obtained, we consider the assumptions used in the calculation of the asbestos and PSA reserves to be 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 parent 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 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 and 95% coverage of insurance contract liabilities.

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 – parent company
Overall materiality	£11,382,000 (2020: £10,000,000).	£10,813,000 (2020: £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 a net assets benchmark is the most appropriate when setting an overall materiality on the 2021 audit engagement. We consider net assets to be the appropriate benchmark as it best aligns with the underlying interest of the stakeholders. The percentage of net assets of 1.8% is consistent with the prior period. The quantum of materiality was determined by considering the various benchmarks available to us as auditors, our experience of auditing other insurance groups and the business performance during 2021.	The engagement team concluded that a net assets benchmark is the most appropriate when setting an overall materiality on the 2021 audit engagement. We consider net assets to be the appropriate benchmark as it best aligns with the underlying interest of the stakeholders. The percentage of net assets of 2.0% is consistent with the prior period. The quantum of materiality was determined by considering the various benchmarks available to us as auditors, our experience of auditing other insurance groups and the business performance during 2021.

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 £2.0 million and £10.0 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

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% (2020: 75%) of overall materiality, amounting to £8,536,000 (2020: £7,500,000) for the group financial statements and £8,109,000 (2020: £7,100,000) for the parent company financial statements.

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 £560,000 (group audit) (2020: £500,000) and £540,000 (parent company audit) (2020: £475,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the parent 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; 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 parent 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 parent company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

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 2021 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 parent 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.

Corporate governance statement

ISAs (UK) require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the parent company's compliance with the provisions of the UK Corporate Governance Code, which the Listing Rules of the Financial Conduct Authority specify for review by auditors of premium listed companies. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Governance and Strategic Report sections is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and parent company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the parent company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and parent company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and parent company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Group Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the parent company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

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

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, 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 regulation, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. 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 the valuation of specific general insurance reserves including asbestos and Physical and Sexual Abuse ("PSA") reserves (see Key Audit Matters section). 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 and the Financial Conduct 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 specific general insurance reserves such as asbestos and PSA reserves described in the related key audit matters;
- 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.

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. 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 parent 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 parent 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 parent company financial statements are not in agreement with the accounting records and returns.

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. The period of total uninterrupted engagement is 2 years, covering the years ended 31 December 2020 to 31 December 2021.

Other matter

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

Sue Morling (Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
17 March 2022

Section Four

Financial Statements

Consolidated statement of profit or loss for the year ended 31 December 2021

	Notes	2021 £000	2020 £000
Revenue			
Gross written premiums	5, 6	486,211	437,299
Outward reinsurance premiums	6	(198,601)	(173,074)
Net change in provision for unearned premiums	6	(14,620)	(16,562)
Net earned premiums		272,990	247,663
Fee and commission income	7	81,547	69,582
Other operating income		1,136	2,126
Net investment return	8	101,067	(4,298)
Total revenue		456,740	315,073
Expenses			
Claims and change in insurance liabilities	9	(269,633)	(222,794)
Reinsurance recoveries	9	123,822	94,581
Fees, commissions and other acquisition costs	10	(95,896)	(85,444)
Other operating and administrative expenses		(135,632)	(116,393)
Total operating expenses		(377,339)	(330,050)
Operating profit/(loss)		79,401	(14,977)
Finance costs		(2,364)	(769)
Profit/(loss) before tax	5	77,037	(15,746)
Tax (expense)/credit	14	(17,648)	526
Profit/(loss) for the year (attributable to equity holders of the Parent)	11	59,389	(15,220)

Consolidated and parent statements of comprehensive income for the year ended 31 December 2021

	Notes	2021 Group £000	2021 Parent £000	2020 Group £000	2020 Parent £000
Profit/(loss) for the year		59,389	64,229	(15,220)	(19,376)
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Fair value losses on property		-	-	(15)	(15)
Actuarial gains/(losses) on retirement benefit plans	18	38,660	38,660	(17,318)	(17,318)
Attributable tax		(8,098)	(8,098)	3,521	3,521
		30,562	30,562	(13,812)	(13,812)
Items that may be reclassified subsequently to profit or loss:					
(Losses)/gains on currency translation differences	26	(2,356)	551	1,980	(711)
Gains/(losses) on net investment hedges	26	1,912	(713)	(2,339)	279
Attributable tax	26	(183)	131	265	(64)
		(627)	(31)	(94)	(496)
Net other comprehensive income/(expense)		29,935	30,531	(13,906)	(14,308)
Total comprehensive income/(loss) attributable to equity holders of the Parent		89,324	94,760	(29,126)	(33,684)

Consolidated and parent statements of changes in equity for the year ended 31 December 2021

Group	Notes	Share capital £000	Share premium £000	Revaluation reserve £000	Translation and hedging reserve £000	Retained earnings £000	Total £000
At 1 January 2021		**120,477**	**4,632**	**599**	**18,230**	**425,290**	**569,228**
Profit for the year		**-**	**-**	**-**	**-**	***59,389***	***59,389***
Other net (expense)/income		**-**	**-**	***(18)***	***(627)***	***30,580***	***29,935***
Total comprehensive (expense)/income		**-**	**-**	**(18)**	**(627)**	**89,969**	**89,324**
Dividends	15	**-**	**-**	**-**	**-**	**(9,181)**	**(9,181)**
Gross charitable grant	15	**-**	**-**	**-**	**-**	**(21,000)**	**(21,000)**
Tax relief on charitable grant	15	**-**	**-**	**-**	**-**	**3,990**	**3,990**
Reserve transfers		**-**	**-**	**(313)**	**-**	**313**	**-**
At 31 December 2021		**120,477**	**4,632**	**268**	**17,603**	**489,381**	**632,361**
At 1 January 2020		120,477	4,632	565	18,324	463,537	607,535
Loss for the year		-	-	-	-	*(15,220)*	*(15,220)*
Other net income/(expense)		-	-	*34*	*(94)*	*(13,846)*	*(13,906)*
Total comprehensive income/(expense)		-	-	34	(94)	(29,066)	(29,126)
Dividends	15	-	-	-	-	(9,181)	(9,181)
At 31 December 2020		120,477	4,632	599	18,230	425,290	569,228
Parent							
At 1 January 2021		**120,477**	**4,632**	**600**	**7,067**	**348,644**	**481,420**
Profit for the year		**-**	**-**	**-**	**-**	***64,229***	***64,229***
Other net (expense)/income		**-**	**-**	***(18)***	***(31)***	***30,580***	***30,531***
Total comprehensive (expense)/income		**-**	**-**	**(18)**	**(31)**	**94,809**	**94,760**
Dividends		**-**	**-**	**-**	**-**	**(9,181)**	**(9,181)**
Gross charitable grant		**-**	**-**	**-**	**-**	**(21,000)**	**(21,000)**
Tax relief on charitable grant		**-**	**-**	**-**	**-**	**3,990**	**3,990**
Group tax relief in excess of standard rate		**-**	**-**	**-**	**-**	**(87)**	**(87)**
Reserve transfers		**-**	**-**	**(313)**	**-**	**313**	**-**
At 31 December 2021		**120,477**	**4,632**	**269**	**7,036**	**417,488**	**549,902**
At 1 January 2020		120,477	4,632	565	7,564	391,519	524,757
Loss for the year		-	-	-	-	*(19,376)*	*(19,376)*
Other net income/(expense)		-	-	*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)
At 31 December 2020		120,477	4,632	600	7,067	348,644	481,420

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

Consolidated and parent statements of financial position at 31 December 2021

	Notes	2021 Group £000	2021 Parent £000	2020 Group £000	2020 Parent £000
Assets					
Goodwill and other intangible assets	16	**52,512**	**27,501**	54,353	24,265
Deferred acquisition costs	17	**46,027**	**36,740**	41,989	33,472
Deferred tax assets	29	**8,480**	**-**	1,078	-
Pension surplus	18	**28,304**	**28,304**	1,053	1,053
Property, plant and equipment	19	**35,245**	**32,771**	38,316	34,726
Investment property	20	**163,355**	**162,822**	142,142	142,142
Financial investments	21	**883,770**	**707,106**	820,777	650,787
Reinsurers' share of contract liabilities	27	**254,449**	**171,922**	208,677	134,516
Current tax recoverable		**5**	**5**	7,986	5,497
Other assets	23	**240,910**	**194,808**	216,570	161,114
Cash and cash equivalents	24	**114,036**	**48,437**	104,429	59,466
Total assets		**1,827,093**	**1,410,416**	1,637,370	1,247,038
Equity					
Share capital	25	**120,477**	**120,477**	120,477	120,477
Share premium account		**4,632**	**4,632**	4,632	4,632
Retained earnings and other reserves		**507,252**	**424,793**	444,119	356,311
Total shareholders' equity		**632,361**	**549,902**	569,228	481,420
Liabilities					
Insurance contract liabilities	27	**943,292**	**673,598**	868,649	616,202
Investment contract liabilities	32	**15,519**	**-**	-	-
Lease obligations	33	**22,738**	**20,806**	25,450	22,838
Provisions for other liabilities	28	**6,373**	**6,068**	6,499	5,842
Pension deficit	18	**-**	**-**	10,406	10,406
Retirement benefit obligations	18	**7,058**	**7,058**	6,530	6,530
Deferred tax liabilities	29	**48,355**	**46,123**	29,846	28,562
Current tax liabilities		**1,232**	**819**	1,293	1,293
Deferred income	30	**28,385**	**21,951**	25,908	18,858
Subordinated liabilities	31	**24,433**	**24,433**	-	-
Other liabilities	30	**97,347**	**59,658**	93,561	55,087
Total liabilities		**1,194,732**	**860,514**	1,068,142	765,618
Total shareholders' equity and liabilities		**1,827,093**	**1,410,416**	1,637,370	1,247,038

The financial statements of Ecclesiastical Insurance Office plc, registered number 24869, on pages 192 to 261 were approved and authorised for issue by the Board of Directors on 17 March 2022 and signed on its behalf by:

David Henderson
Chair

Mark Hews
Group Chief Executive

Consolidated and parent statements of cash flows for the year ended 31 December 2021

	Notes	2021 Group £000	2021 Parent £000	2020 Group £000	2020 Parent £000
Profit/(loss) before tax		77,037	87,719	(15,746)	(20,398)
Adjustments for:					
Depreciation of property, plant and equipment		6,155	5,285	5,486	4,620
Revaluation of property, plant and equipment		-	-	(10)	(10)
Loss on disposal of property, plant and equipment		24	11	172	172
Amortisation and impairment of intangible assets		856	622	1,468	593
Loss on disposal of intangible assets		4,765	87	-	-
Impairment of shares in subsidiary undertakings		-	-	-	58
Profit on disposal of subsidiary		-	(5)	-	-
Net fair value (gains)/losses on financial instruments and investment property		(58,340)	(58,384)	18,602	24,390
Dividend and interest income		(21,802)	(18,822)	(21,814)	(17,185)
Finance costs		2,364	2,276	769	667
Adjustment for pension funding		1,646	1,646	1,003	1,003
Changes in operating assets and liabilities:					
Net increase in insurance contract liabilities		83,952	57,439	94,180	59,703
Net increase in investment contract liabilities		15,519	-	-	-
Net increase in reinsurers' share of contract liabilities		(49,513)	(37,260)	(45,101)	(27,858)
Net increase in deferred acquisition costs		(4,376)	(3,169)	(3,352)	(2,405)
Net increase in other assets		(25,891)	(33,049)	(35,369)	(27,384)
Net increase in operating liabilities		8,472	8,544	16,642	10,148
Net (decrease)/increase in other liabilities		(234)	114	1,298	1,212
Cash generated by operations		40,634	13,054	18,228	7,326
Purchases of financial instruments and investment property		(186,514)	(117,611)	(121,754)	(89,260)
Sale of financial instruments and investment property		157,614	103,706	151,531	129,725
Dividends received		7,427	9,547	6,255	6,812
Interest received		14,068	8,830	14,519	9,332
Tax paid		(3,142)	(4,912)	(2,756)	(2,844)
Net cash from operating activities		30,087	12,614	66,023	61,091
Cash flows from investing activities					
Purchases of property, plant and equipment		(3,634)	(3,451)	(6,028)	(5,881)
Proceeds from the sale of property, plant and equipment		48	19	1	1
Purchases of intangible assets		(3,914)	(3,914)	(15,602)	(12,978)
Acquisition of business, net of cash acquired		-	-	(822)	-
Disposal of subsidiary		-	5	-	-
Net cash used by investing activities		(7,500)	(7,341)	(22,451)	(18,858)
Cash flows from financing activities					
Interest paid		(2,364)	(2,276)	(769)	(667)
Payment of lease liabilities		(3,209)	(2,512)	(5,090)	(4,432)
Change in interest in subsidiary	21	-	(5,406)	-	(11,086)
Proceeds from issue of subordinate debt, net of expenses		25,014	25,014	-	-
Dividends paid to Company's shareholders		(9,181)	(9,181)	(9,181)	(9,181)
Charitable grant paid to ultimate parent undertaking		(21,000)	(21,000)	-	-
Net cash used by financing activities		(10,740)	(15,361)	(15,040)	(25,366)
Net increase/(decrease) in cash and cash equivalents		11,847	(10,088)	28,532	16,867
Cash and cash equivalents at beginning of year		104,429	59,466	74,775	42,248
Exchange (losses)/gains on cash and cash equivalents		(2,240)	(941)	1,122	351
Cash and cash equivalents at end of year	24	114,036	48,437	104,429	59,466

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 UK adopted IFRS applicable at 31 December 2021 issued by the International Accounting Standards Board (IASB). The financial statements have been prepared on the historical cost basis, except for certain financial assets and derivatives measured at fair value through profit and loss (FVTPL), and the revaluation of properties and certain derivatives measured at fair value through other comprehensive income (FVOCI).

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), and endorsed by the UK, with an effective date of on or after 1 January 2021, and are therefore applicable for the 31 December 2021 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 and Ansvar Insurance Limited qualify for the temporary exemption from the requirements of IFRS 9. Within the Group, Ecclesiastical Life Limited previously qualified for the temporary exemption, however policies issued by Ecclesiastical Life Limited from 1 August 2021 do not give rise to liabilities within the scope of IFRS 4. Following this change in operations, Ecclesiastical Life Limited is still able to defer application of IFRS 9 for a further year, until 1 January 2023.

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.

IFRS 9, Financial Instruments

Key requirements

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.

Effective date

Annual periods beginning on or after 1 January 2018. Although can be deferred until 2023 for insurers in line with the effective date of IFRS 17.

Expected impact on financial statements

It is expected that equity instruments will continue to be measured at fair value through profit or loss. The measurement of certain debt instruments may 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, *Insurance contracts* .

Notes to the financial statements

1 Accounting policies (continued)

IFRS 17, Insurance Contracts

Key requirements

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.

Effective date

Applicable to annual reporting periods beginning on or after 1 January 2023. The final standard remains subject to endorsement in the UK by the UK Endorsement Board which is expected to be complete in time for the 1 January 2023 effective date.

Expected impact on financial statements

IFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure.

The accounting principles for the Group's life insurance business (Whole-of-Life policies supporting pre-paid funeral plans, which ceased to be written from 2013) are expected to be revised. These contracts are serviced over a long coverage period and applying IFRS 17 is expected to result in expected profits attributable to future services (the contractual services margin concept within IFRS 17) being spread over the lifetime of the contract. Margins for prudence within the reserving basis will be replaced with an explicit risk adjustment defined as the compensation required by the entity for non-financial risks. A key judgement being assessed is whether sufficient information exists to apply the full retrospective approach to transition, otherwise a fair value approach is expected to be adopted.

The Group expects to use the premium allocation approach for the majority of its general business insurance contracts, and for which the deferral of expected future profits and initial recognition of losses are not expected to represent a significant change. The Group has developed draft accounting policies for the key accounting judgements. The key new items expected to impact net assets relate to:

Key item	Impact
Level of aggregation for portfolios and groups of insurance and reinsurance contracts	For the majority of product lines, the Group issues packaged policies incorporating a range of lines of business within a single contract. Accounting policy development has focussed on applying the IASB's Transition Resource Group's guidance to identify when it is appropriate to unbundle individual components and treat as separate contracts. In the majority of cases, the Group expects that its contracts should not be unbundled below the legal contract level. The most material determinant of portfolios of significant risks that are managed together is expected to be the geographic territories in which the Group underwrites its core general insurance products. An outcome of the draft policy is instances of up front recognition of losses on groups of onerous contracts within a portfolio will be triggered at a more granular level, although the transitional impact is not expected to be significantly different from applying the current Liability Adequacy Test under IFRS 4.
Eligibility for applying the premium allocation approach	Draft definitions of what constitutes reasonably expected assumption changes on future profitability, and measuring the materiality of differences between the general measurement model and the premium allocation approach as a proportion of exposure, indicates that the majority of the Group's general insurance products and associated reinsurance are expected to be eligible.
Discounting of the claims reserves	The Group already incorporates illiquidity into a discount rate, but this will be extended to all components of the reserve and not only the longer term liabilities. Aligning the illiquidity measurement to the characteristics of the liabilities is expected to increase the discount because general insurance liabilities in the incurred claims phase are highly illiquid and cannot be extinguished on demand by the Group or readily converted into cash by the policyholder.
Risk adjustment	For products applying the premium allocation approach, the Group's reserves for incurred claims are currently measured using best estimate plus an explicit risk margin quantified using confidence level techniques. This is expected to remain the case, with policy development focussing on the level of diversification of risk informing each entity's compensation required, to quantify the risk adjustment as aligned to risk appetite.
Expenses allocation	A new policy has been developed defining directly attributable expenses as those which are required in order to obtain and fulfil contracts, with other expenses being reported outside of insurance services. Under the premium allocation approach, the Group does not expect to choose to recognise insurance acquisition cash flows when they are incurred, with measurement therefore remaining similar to the current policy of deferring acquisition costs. The recurring nature of the Group's acquisition cost expense base on renewing business means that all such incurred costs are expected to be attributable to groups of insurance contracts that have been recognised (impacting the liability for remaining coverage), with the presentation not expected to give rise to separate assets for insurance acquisition cash flows.

The Group is developing and testing the changes to existing processes required to apply new policies. It is not yet practicable to quantify the impact on the Group's financial statements

Amendments to other standards in issue but not yet effective are not expected to materially impact the Group.

Notes to the financial statements

1 Accounting policies (continued)

Use of estimates

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

Operating profit or loss

Operating profit or loss is stated before finance costs.

Basis of consolidation

Subsidiaries

Subsidiaries are those entities over which the Company, directly or indirectly, has control, with control being achieved when the Company has power over the investee, is exposed to variable return from its involvement with the investee and has the ability to use its power to affect its returns. The results and cash flows relating to subsidiaries acquired or disposed of in the year are included in the consolidated statement of profit or loss, and the consolidated statement of cash flows, from the date of acquisition or up to the date of disposal. All inter-company transactions, balances and 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.

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 written up to April 2013 are classified as insurance contracts and those written from August 2021 are classified as investment contracts.

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.

Notes to the financial statements

1 Accounting policies (continued)

Life insurance 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.

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.

Notes to the financial statements

1 Accounting policies (continued)

(iii) Liability adequacy

At each reporting date, the Group reviews its unexpired risks and carries out a liability adequacy test for any overall excess of expected claims and deferred acquisition costs over unearned premiums, using the current estimates of future cash flows under its contracts. Unexpired risks are assessed separately for each class of business.

Surpluses and deficits are offset where business classes are considered to be managed together and a provision is held for any net deficit.

Life insurance provisions

Under current IFRS requirements, insurance contract liabilities are measured using accounting policies consistent with those adopted previously. The life insurance 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 insurance provision is held in respect of certain 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.

Reinsurance

The Group assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance assumed are recognised as revenue in the same manner as direct business. Outwards reinsurance premiums are accounted for in the same accounting period as the related premiums for the direct or inwards reinsurance business being reinsured. Estimates are included for premiums not notified by the year end and provision is made for the anticipated lapse of renewals not yet confirmed. The proportion of premiums ceded in a year which relates to periods of risk extending beyond the current year is carried forward as unearned. The Group does not reinsure its life business.

Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provisions or the settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

Further details on insurance contract liabilities are included in note 27.

Investment contract liabilities

For products that have no significant insurance risk and therefore classified as a investment contracts, the Group recognises a liability measured at fair value. The fair value of these liabilities is estimated based on an arms-length transaction between willing market participants with consideration given to the cost of the minimum repayment guarantee to the policyholders. The cost of the guarantee is determined using risk free rates of return, with the associated volatility assumption and allowing for the costs of administration associated with this low risk investment

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. Amortisation and impairment charges incurred for the period are included in the statements of profit or loss within other operating and administrative expenses.

Software costs that cannot be classified as intangible assets are charged to profit or loss during the period in which they are incurred.

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. Amortisation and impairment charges incurred for the period are included in the statement of profit or loss within other operating and administrative expenses.

Notes to the financial statements

1 Accounting policies (continued)

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.

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. Investment properties are derecognised when they have been disposed of. Where the Group disposes of a property, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded in profit or loss within net investment return.

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.

Notes to the financial statements

1 Accounting policies (continued)

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

All derivatives are initially recognised in the statement of financial position at their fair value, which usually represents their cost, including any premium paid. They are subsequently remeasured at their fair value, with the method for recognising changes in the fair value depending on whether they are designated as hedges of net investments in foreign operations. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities in the statement of financial position as they do not represent the fair value of these transactions. Collateral pledged by way of cash margins on futures contracts is recognised as an asset in the statement of financial position within cash and cash equivalents.

Certain Group derivative transactions, while providing effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting under the specific IFRS rules and are therefore treated as derivatives held for trading. Their fair value gains and losses are recognised immediately in net investment return. The fair value gains and losses for derivatives which are hedge accounted in line with IFRIC 16 are recognised in other comprehensive income.

(b) Financial assets at fair value through other comprehensive income
Derivative instruments for hedging of net investments in foreign operations
On the date a foreign exchange contract is entered into, the Group designates certain contracts as a hedge of a net investment in a foreign operation (net investment hedge) and hedges the forward foreign currency rate.

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

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

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

(c) Loans and receivables
Loans and receivables, comprising loans and cash held on deposit for more than three months, are carried at amortised cost using the effective interest method. Loans are recognised when cash is advanced to borrowers. To the extent that a loan or receivable is uncollectable, it is written off as impaired. Subsequent recoveries are credited to profit or loss.

Subordinated liabilities
Subordinated liabilities are recognised initially at fair value, being the issue proceeds net of premiums, discounts and transaction costs incurred. All borrowings are subsequently measured at amortised cost using the effective interest rate method. The amortisation is recognised as an interest expense using the effective interest rate method.

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 insurance 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 can be deferred and amortised over the period during which the costs are expected to be recoverable. No acquisition costs have been deferred on the Group's existing long-term business.

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.

Notes to the financial statements

1 Accounting policies (continued)

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.

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.

Notes to the financial statements

1 Accounting policies (continued)

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

For defined benefit plans, the pension costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to profit or loss so as to spread the regular cost over the service lives of employees. The pension obligation is measured as the present value of the estimated future cash outflows using a discount rate based on market yields for high-quality corporate bonds. The resulting pension plan surplus or deficit appears as an asset or obligation in the statement of financial position. Any asset resulting from this calculation is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future employer contributions to the plan. Independent actuarial valuations are carried out at the end of each reporting period.

In accordance with IAS 19, *Employee Benefits,* current and past service costs, gains and losses on curtailments and settlements and net interest expense or income (calculated by applying a discount rate to the net defined benefit liability or asset) are recognised through profit or loss. Actuarial gains or losses are recognised in full in the period in which they occur in other comprehensive income.

Contributions in respect of defined contribution plans are recognised as a charge to profit or loss as incurred.

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 actuarial valuations are carried out at the end of each reporting period.

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, Benefact Trust Limited, a registered charity. The Group does not regard these payments as being expenses of the business and, as such, recognises these 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 37 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. Management have considered the current economic environment in their estimates and judgements.

(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.

The Group also applies judgement in determining the extent to which a surplus in the defined benefit plan can be recognised in the statement of financial position. In accordance with IAS 19, Employee benefits, the recognisable surplus is limited to the lower of the surplus in the plan and the asset ceiling. The asset ceiling is the present value of future economic benefits available in the form of a refund or as a reduction in future contributions. The Group applies judgement in determining the asset ceiling in accordance with IFRS 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).

Significant insurance risk
Whole-of-life policies issued by the Group where significant insurance risk has been accepted from a policyholder are accounted for as insurance contracts. Whole-of-life policies where the Groups has not accepted significant insurance risk from a policyholder are accounted for as financial instruments. Contracts can have features of, or appear to have features of, an insurance contract and therefore judgement is required on whether there is insurance risk and then whether that insurance risk is significant. Policies are considered to be insurance contracts where future benefits are linked to inflation as there is uncertainty over the timing and amount of a resulting claim. Policies that provide a policyholder with a guarantee to return the original premium have not transferred insurance risk and are considered financial instruments.

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 still some uncertainty as to the economic effect that both Covid-19 and higher inflation 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). These include but are not limited to inflation, discount rate, 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 27(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 27(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 27(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. Any change in these assumptions may affect planned funding of the pension plans.

The discount rate assumption is a component in determining the charge to profit or loss. 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 18.

The Group determines an appropriate discount rate at the end of each year, to be used to determine the present value of estimated future cash outflows expected to be required to settle the pension and other post-employment benefit obligations.

The expected rate of medical expense inflation is determined by comparing the historical relationship of medical expense increases over a portfolio of UK-based post-retirement medical plans with the rate of inflation, making an allowance for the size of the plan and actual medical expense experience.

Other key assumptions for the pension and post-employment benefit costs and credits are based in part on current market conditions. Additional information including the sensitivity of pension and post-employment medical benefit scheme liabilities to changes in the key assumptions is disclosed in note 18.

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).

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 optimal 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:

2021		General insurance				Life insurance	
Group		**Property £000**	**Liability £000**	**Miscellaneous financial loss £000**	**Other £000**	**Whole of Life £000**	**Total £000**
Territory							
United Kingdom and Ireland	Gross	217,961	62,949	16,941	3,394	(9)	301,236
	Net	109,242	60,060	8,883	376	(9)	178,552
Australia	Gross	54,229	37,106	1,290	740	-	93,365
	Net	5,891	31,733	1,238	140	-	39,002
Canada	Gross	64,086	27,524	-	-	-	91,610
	Net	44,750	25,306	-	-	-	70,056
Total	Gross	336,276	127,579	18,231	4,134	(9)	486,211
	Net	159,883	117,099	10,121	516	(9)	287,610
Parent							
Territory							
United Kingdom and Ireland	Gross	217,961	62,949	16,941	16,425	-	314,276
	Net	109,242	60,060	8,883	13,407	-	191,592
Canada	Gross	64,086	27,524	-	-	-	91,610
	Net	44,750	25,306	-	-	-	70,056
Total	Gross	282,047	90,473	16,941	16,425	-	405,886
	Net	153,992	85,366	8,883	13,407	-	261,648

Notes to the financial statements

3 Insurance risk (continued)

2020		General insurance				Life insurance	
Group		**Property £000**	**Liability £000**	**Miscellaneous financial loss £000**	**Other £000**	**Whole of Life £000**	**Total £000**
Territory							
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
Parent							
Territory							
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

(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 27 presents the development of the estimate of ultimate claim cost for public and employers' liability claims occurring in a given year. This gives an indication of the accuracy of the estimation technique for incurred claims.

(d) Life insurance risks

The Group provides whole-of-life insurance policies to support funeral planning products, for most of which the future benefits are linked to inflation and backed by index-linked assets. None of the risks arising from this business are amongst the Group's principal risks and no new policies with insurance risk have been written in the life fund since 2013.

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 is insufficient to meet future claims payments, particularly if the timing of claims is different from that assumed. 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.

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. This small mortality risk is retained by the Group. 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.

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 rollout of the Covid-19 vaccine programmes in 2021, the subsequent conflict in Ukraine and recent international economic sanctions means there is continued uncertainty in relation to the economic risks to which the Group is exposed. This includes 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

	Financial assets				Financial liabilities					
Group	Designated at fair value £000	Held for trading £000	Loans and receivables £000	Hedge accounted derivatives £000	Designated at fair value £000	Held for trading £000	Financial liabilities[1] £000	Hedge accounted derivatives £000	Other assets and liabilities £000	Total £000
At 31 December 2021										
Financial investments	882,350	336	670	414	-	-	-	-	-	883,770
Other assets	-	-	232,553	-	-	-	-	-	8,357	240,910
Cash and cash equivalents	-	-	114,036	-	-	-	-	-	-	114,036
Lease obligations	-	-	-	-	-	-	(22,738)	-	-	(22,738)
Subordinated liabilities	-	-	-	-	-	-	(24,433)	-	-	(24,433)
Other liabilities	-	-	-	-	-	(331)	(68,103)	-	(13,394)	(81,828)
Inv't contract liabilities	-	-	-	-	(15,519)	-	-	-	-	(15,519)
Net other	-	-	-	-	-	-	-	-	(461,837)	(461,837)
Total	882,350	336	347,259	414	(15,519)	(331)	(115,274)	-	(466,874)	632,361
At 31 December 2020										
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)
Total	817,551	2,079	316,650	401	-	-	(105,674)	(1,244)	(460,535)	569,228

Parent	Designated at fair value £000	Held for trading £000	Loans and receivables £000	Hedge accounted derivatives £000	Designated at fair value £000	Held for trading £000	Financial liabilities[1] £000	Hedge accounted derivatives £000	Other assets and liabilities £000	Total £000
At 31 December 2021										
Financial investments	639,523	481	670	269	-	-	-	-	66,163	707,106
Other assets	-	-	190,478	-	-	-	-	-	4,330	194,808
Cash and cash equivalents	-	-	48,437	-	-	-	-	-	-	48,437
Lease obligations	-	-	-	-	-	-	(20,806)	-	-	(20,806)
Subordinated liabilities	-	-	-	-	-	-	(24,433)	-	-	(24,433)
Other liabilities	-	-	-	-	-	(331)	(48,571)	-	(10,756)	(59,658)
Net other	-	-	-	-	-	-	-	-	(295,552)	(295,552)
Total	639,523	481	239,585	269	-	(331)	(93,810)	-	(235,815)	549,902
At 31 December 2020										
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)
Total	586,804	2,079	217,451	401	-	(1,244)	(66,846)	-	(257,225)	481,420

[1] 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	2021			2020		
	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	670	883,100	883,770	746	820,031	820,777
Cash and cash equivalents	114,036	-	114,036	104,429	-	104,429
Other financial assets	232,553	-	232,553	211,475	-	211,475
Total fair value	347,259	883,100	1,230,359	316,650	820,031	1,136,681

Parent	2021			2020		
	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	670	640,273	640,943	746	589,284	590,030
Cash and cash equivalents	48,437	-	48,437	59,466	-	59,466
Other financial assets	190,478	-	190,478	157,239	-	157,239
Total fair value	239,585	640,273	879,858	217,451	589,284	806,735

There has been a £30,609,000 increase (2020: £62,109,000 increase) in the fair value of SPPI financial assets of the Group, and a £63,069,000 increase (2020: £32,112,000 decrease) in the fair value of other financial assets of the Group during the reporting period. There has been a £22,134,000 increase (2020: £39,217,000 increase) in the fair value of SPPI financial assets of the Parent, and a £50,989,000 increase (2020: £52,374,000 decrease) in the fair value of other financial assets of the Parent during the reporting period.

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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 (as prices) or indirectly (derived from prices). This category includes listed debt or equity securities in a market that is not active and derivatives that are not exchange-traded.

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

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

Analysis of fair value measurement bases

Group	Fair value measurement at the end of the reporting period based on Level 1 £000	Level 2 £000	Level 3 £000	Total £000
At 31 December 2021				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	281,169	186	68,947	350,302
Debt securities	515,953	1,412	34	517,399
Structured notes	-	14,649	-	14,649
Derivatives	-	336	-	336
Hedged accounted derivatives	-	414	-	414
Total financial assets at fair value	797,122	16,997	68,981	883,100
At 31 December 2020				
Financial assets at fair value through profit or loss				
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
Total financial assets at fair value	755,615	4,177	60,239	820,031

Notes to the financial statements

4 Financial risk and capital management (continued)

Parent	Fair value measurement at the end of the reporting period based on Level 1 £000	Level 2 £000	Level 3 £000	Total £000
At 31 December 2021				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	254,377	186	68,799	323,362
Debt securities	315,033	1,094	34	316,161
Derivatives	-	481	-	481
Hedged accounted derivatives	-	269	-	269
Total financial assets at fair value	569,410	2,030	68,833	640,273
At 31 December 2020				
Financial assets at fair value through profit or loss				
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
Total financial assets at fair value	525,402	3,823	60,059	589,284

In the current year the derivative liabilities of the Group and Parent were measured at fair value through profit or loss. In the prior year the derivative liabilities of the Group were measured at fair value through other comprehensive income and the derivative liabilities of the Parent were measured at fair value through profit or loss. Derivative liabilities are categorised as level 2 (see note 22).

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

Group	Financial assets at fair value through profit and loss Equity securities £000	Debt securities £000	Total £000
At 31 December 2021			
Opening balance	59,688	551	60,239
Total gains/(losses) recognised in profit or loss	9,259	(517)	8,742
Closing balance	68,947	34	68,981
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	9,259	(517)	8,742
At 31 December 2020			
Opening balance	66,703	404	67,107
Total (losses)/gains recognised in profit or loss	(7,015)	147	(6,868)
Closing balance	59,688	551	60,239
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)

Notes to the financial statements

4 Financial risk and capital management (continued)

Parent	Financial assets at fair value through profit and loss Equity securities £000	Debt securities £000	Total £000
At 31 December 2021			
Opening balance	59,508	551	60,059
Total gains/(losses) recognised in profit or loss	9,292	(518)	8,774
Closing balance	68,800	33	68,833
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	9,292	(518)	8,774
At 31 December 2020			
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)

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.

Structured notes (level 2)
These financial assets are not traded on active markets. Their fair value is linked to an index that reflects the performance of an underlying basket of observable securities, including derivatives, provided by an independent calculation agent.

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-tangible 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 +/-£8m (2020: +/-£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, subordinated debt which has a fixed interest rate until 2030, 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 (2020: 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 27(a)(iv).

For the Group's life insurance 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 insurance 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 (for example 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 insurance business assets and liabilities that are exposed to interest rate risk.

Group life business	Maturity Within 1 year £000	Between 1 and 5 years £000	After 5 years £000	Total £000
At 31 December 2021				
Assets				
Debt securities	6,120	26,768	63,819	96,707
Cash and cash equivalents	5,269	-	-	5,269
	11,389	26,768	63,819	101,976
Liabilities (discounted)				
Life insurance business provision	4,787	16,686	52,436	73,909
At 31 December 2020				
Assets				
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
Liabilities (discounted)				
Life insurance business provision	5,103	18,045	53,709	76,857

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[1]	**Reinsurance debtors**	**Other financial assets**	**Total SPPI**	**Debt securities**
At 31 December 2021	**£000**	**£000**	**£000**	**£000**	**£000**
AAA	**-**	**-**	**-**	**-**	**171,502**
AA	**42,719**	**2,651**	**-**	**45,370**	**122,895**
A	**19,946**	**9,424**	**-**	**29,370**	**129,795**
BBB	**51,365**	**3**	**-**	**51,368**	**72,653**
Below BBB	**-**	**-**	**-**	**-**	**7,895**
Not rated	**6**	**505**	**220,640**	**221,151**	**12,659**
	114,036	**12,583**	**220,640**	**347,259**	**517,399**
At 31 December 2020					
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
	104,429	11,005	201,216	316,650	495,665

[1] Cash includes amounts held on deposit classified within financial investments and disclosed in note 21. 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[1]	**Reinsurance debtors**	**Other financial assets**	**Total SPPI**	**Debt securities**
At 31 December 2021	**£000**	**£000**	**£000**	**£000**	**£000**
AAA	**-**	**-**	**-**	**-**	**89,099**
AA	**7,018**	**1,828**	**-**	**8,846**	**61,199**
A	**10,896**	**5,585**	**-**	**16,481**	**108,443**
BBB	**30,518**	**3**	**-**	**30,521**	**44,598**
Below BBB	**-**	**-**	**-**	**-**	**4,379**
Not rated	**5**	**585**	**183,147**	**183,737**	**8,443**
	48,437	**8,001**	**183,147**	**239,585**	**316,161**
At 31 December 2020					
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
	59,466	4,941	153,044	217,451	288,962

[1] Cash includes amounts held on deposit classified within financial investments and disclosed in note 21. 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:

	2021			2020	
	Group £000	**Parent £000**		Group £000	Parent £000
UK	**265,506**	**168,798**	UK	276,914	179,003
Australia	**104,530**	**-**	Australia	108,792	-
Canada	**119,622**	**119,622**	Canada	89,661	89,661
Europe	**27,741**	**27,741**	Europe	20,298	20,298
Total	**517,399**	**316,161**	Total	495,665	288,962

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:

	2021 Group £000	2021 Parent £000		2020 Group £000	2020 Parent £000
UK	281,497	254,557	UK	262,414	238,370
Europe	68,619	68,619	Europe	59,287	59,287
Hong Kong	186	186	Hong Kong	185	185
Total	350,302	323,362	Total	321,886	297,842

(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 22. 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.

	2021 Group £000	2021 Parent £000		2020 Group £000	2020 Parent £000
Aus $	64,005	14,131	Aus $	57,291	3,089
Can $	46,087	46,087	Can $	39,621	39,621
Euro	11,054	11,054	Euro	23,932	23,932
USD $	2,345	2,345	USD $	2,045	2,045
HKD $	172	172	HKD $	171	171

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 22.

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 27. The Group has robust processes in place to manage liquidity risk and has available cash balances, other readily marketable assets and access to funding in case of exceptional need. This is not considered to be a significant risk to the Group.

Non-derivative financial liabilities consist of lease liabilities, for which a maturity analysis is included in note 33, and other liabilities for which a maturity analysis is included in note 30, and subordinated debt 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 18.

Group		**Potential increase/ (decrease) in profit**		**Potential increase/ (decrease) in other equity reserves**	
Variable	**Change in variable**	**2021 £000**	2020 £000	**2021 £000**	2020 £000
Interest rate risk	-100 basis points	**(6,797)**	(11,896)	**54**	(70)
	+100 basis points	**5,088**	6,153	**(48)**	44
Currency risk	-10%	**4,118**	2,833	**10,845**	9,715
	+10%	**(3,369)**	(2,318)	**(8,873)**	(7,948)
Equity price risk	+/-10%	**28,375**	26,073	**-**	-

Parent		**Potential increase/ (decrease) in profit**		**Potential increase/ (decrease) in other equity reserves**	
Variable	**Change in variable**	**2021 £000**	2020 £000	**2021 £000**	2020 £000
Interest rate risk	-100 basis points	**(4,999)**	(9,642)	**(19)**	(19)
	+100 basis points	**2,733**	4,909	**29**	29
Currency risk	-10%	**4,118**	2,833	**5,303**	3,692
	+10%	**(3,369)**	(2,318)	**(4,339)**	(3,021)
Equity price risk	+/-10%	**26,192**	24,125	**-**	-

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, Benefact Group plc. Consequently, there is no directly comparable solvency measure for EIO group. 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.

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. The Group's regulated entities, EIO and ELL, expect to meet the deadline for submission to the PRA of 8 April 2022 and their respective SFCRs will be made available on the Group's website shortly thereafter. Benefact Group is also expected to meet its deadline for submission to the PRA of 20 May 2022, with its SFCR also being made available on the Group's website shortly after.

	2021		2020	
	Ecclesiastical Insurance Office plc Parent £000	Ecclesiastical Life Limited £000	Ecclesiastical Insurance Office plc Parent £000	Ecclesiastical Life Limited £000
Solvency II Own Funds	**616,905**	**55,235**	518,562	49,259

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 and financial advisory services through Ecclesiastical Financial Advisory Services Limited.

- Life business

Ecclesiastical Life Limited provides long-term policies to support funeral planning products. The business reopened in the year but remains closed to new insurance 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.

	2021 Gross written premiums £000	2021 Non-insurance services £000	2021 Total £000	2020 Gross written premiums £000	2020 Non-insurance services £000	2020 Total £000
General business						
United Kingdom and Ireland	**297,235**	**-**	**297,235**	276,618	-	276,618
Australia	**93,365**	**-**	**93,365**	80,178	-	80,178
Canada	**91,610**	**-**	**91,610**	75,953	-	75,953
Other insurance operations	**4,010**	**-**	**4,010**	4,538	-	4,538
Total	**486,220**	**-**	**486,220**	437,287	-	437,287
Life business	**(9)**	**-**	**(9)**	12	-	12
Investment management	**-**	**14,908**	**14,908**	-	12,382	12,382
Broking and advisory	**-**	**11,346**	**11,346**	-	9,458	9,458
Group revenue	**486,211**	**26,254**	**512,465**	437,299	21,840	459,139

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 37.

The life business segment result comprises the profit or loss on insurance contracts (including return on assets backing insurance 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.

2021	*Combined operating ratio*	Insurance £000	Investments £000	Other £000	Total £000
General business					
United Kingdom and Ireland	*85.3%*	24,952	87,106	(2,098)	109,960
Australia	*156.9%*	(13,306)	1,924	(34)	(11,416)
Canada	*88.6%*	7,065	246	(156)	7,155
Other insurance operations		(9,952)	(133)	-	(10,085)
	96.8%	8,759	89,143	(2,288)	95,614
Life business		1,117	3,981	-	5,098
Investment management		-	-	(2,525)	(2,525)
Broking and advisory		-	-	2,984	2,984
Corporate costs		-	-	(24,134)	(24,134)
Profit/(loss) before tax		9,876	93,124	(25,963)	77,037

Notes to the financial statements

5 Segment information (continued)

2020	*Combined operating ratio*	Insurance £000	Investments £000	Other £000	Total £000
General business					
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		(4,103)	-	-	(4,103)
	95.1%	12,052	(7,442)	(686)	3,924
Life business		468	29	-	497
Investment management		-	-	(1,031)	(1,031)
Broking and advisory		-	-	2,397	2,397
Corporate costs		-	-	(21,533)	(21,533)
Profit/(loss) before tax		12,520	(7,413)	(20,853)	(15,746)

(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:

	2021 Gross written premiums £000	2021 Non-current assets £000	2020 Gross written premiums £000	2020 Non-current assets £000
United Kingdom and Ireland	**301,236**	**301,523**	281,168	276,236
Australia	**93,365**	**2,925**	80,178	6,114
Canada	**91,610**	**6,227**	75,953	6,946
	486,211	**310,675**	437,299	289,296

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
For the year ended 31 December 2021			
Gross written premiums	**486,220**	**(9)**	**486,211**
Outward reinsurance premiums	**(198,601)**	**-**	**(198,601)**
Net written premiums	**287,619**	**(9)**	**287,610**
Change in the gross provision for unearned premiums	**(24,504)**	**-**	**(24,504)**
Change in the provision for unearned premiums, reinsurers' share	**9,884**	**-**	**9,884**
Change in the net provision for unearned premiums	**(14,620)**	**-**	**(14,620)**
Earned premiums, net of reinsurance	**272,999**	**(9)**	**272,990**
For the year ended 31 December 2020			
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)
Earned premiums, net of reinsurance	247,651	12	247,663

Notes to the financial statements

7 Fee and commission income

During the year, the Group recognised £55,019,000 (2020: £47,541,000) fee and commission income in accordance with IFRS 4, *Insurance Contracts* and £26,528,000 (2020: £22,041,000) 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
For the year ended 31 December 2021			
General business	398	-	398
Investment management	7	14,901	14,908
Broking and advisory	11,222	-	11,222
	11,627	14,901	26,528
For the year ended 31 December 2020			
General business	201	-	201
Investment management	66	12,316	12,382
Broking and advisory	9,458	-	9,458
	9,725	12,316	22,041

8 Net investment return

	2021 £000	2020 £000
Income from financial assets at fair value through profit or loss		
- equity income	7,482	6,255
- debt income	12,123	12,631
- structured note income	30	-
Income from financial assets calculated using the effective interest rate method		
- cash and cash equivalents income	(24)	141
- other income received	1,999	1,887
Other income		
- rental income	8,648	8,786
- exchange movements	605	492
Investment income	30,863	30,192
Fair value movements on financial instruments at fair value through profit or loss	38,102	(13,618)
Fair value movements on investment property	20,238	(4,984)
Fair value movements on property, plant and equipment	-	10
Impact of discount rate change on insurance contract liabilities	11,864	(15,898)
Net investment return/(loss)	101,067	(4,298)

Included within fair value movements on financial instruments at fair value through profit or loss are gains of £6,434,000 (2020: £2,396,000) 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
For the year ended 31 December 2021			
Gross claims paid	191,685	5,438	197,123
Gross change in the provision for claims	75,605	-	75,605
Gross change in life business provision	-	(3,095)	(3,095)
Claims and change in insurance liabilities	267,290	2,343	269,633
Reinsurers' share of claims paid	(83,235)	-	(83,235)
Reinsurers' share of change in the provision for claims	(40,587)	-	(40,587)
Reinsurance recoveries	(123,822)	-	(123,822)
Claims and change in insurance liabilities, net of reinsurance	143,468	2,343	145,811
For the year ended 31 December 2020			
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)
Claims and change in insurance liabilities, net of reinsurance	129,546	(1,333)	128,213

10 Fees, commissions and other acquisition costs

	£000	£000
Fees paid	21	13
Commission paid	73,446	68,717
Change in deferred acquisition costs	(4,376)	(3,352)
Other acquisition costs	26,805	20,066
Fees, commissions and other acquisition costs	95,896	85,444

Notes to the financial statements

11 Profit/(loss) for the year

	2021 £000	2020 £000
Profit/(loss) for the year has been arrived at after (crediting)/charging		
Net foreign exchange gains	(605)	(493)
Depreciation of property, plant and equipment	6,155	5,486
Loss on disposal of property, plant and equipment	24	172
Amortisation of intangible assets	829	1,433
(Increase)/decrease in fair value of investment property	(20,238)	4,984
Employee benefits expense including termination benefits, net of recharges	98,838	83,865

12 Auditor's remuneration

	2021 £000	2020 £000
Fees payable to the Company's auditor and its associates for the audit of the Company's annual accounts	599	476
Fees payable to the Company's auditor and its associates for other services:		
- The audit of the Company's subsidiaries	347	238
Total audit fees	946	714
- Audit-related assurance services	214	178
Total non-audit fees	214	178
Total auditor's remuneration	1,160	892

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

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	2021 General business No.	2021 Life business No.	2021 Other No.	2020 General business No.	2020 Life business No.	2020 Other No.
United Kingdom and Ireland	860	1	227	827	1	194
Australia	110	-	-	102	-	-
Canada	78	-	-	81	-	-
	1,048	1	227	1,010	1	194

Parent	2021 General business No.	2021 Life business No.	2021 Other No.	2020 General business No.	2020 Life business No.	2020 Other No.
United Kingdom and Ireland	860	1	107	827	1	92
Canada	78	-	-	81	-	-
	938	1	107	908	1	92

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.

	2021 Group £000	2021 Parent £000	2020 Group £000	2020 Parent £000
Wages and salaries	86,072	72,207	73,057	61,194
Social security costs	8,101	7,592	6,815	6,347
Pension costs - defined contribution plans	6,411	5,516	5,853	5,101
Pension costs - defined benefit plans	1,646	1,646	1,003	1,003
Other post-employment benefits	83	83	112	112
Total staff costs	102,313	87,044	86,840	73,757
Staff costs recharged to related undertakings of the Group	(2,303)	(12,260)	(1,743)	(9,010)
Capitalised staff costs	(1,446)	(1,446)	(1,652)	(1,652)
	98,564	73,338	83,445	63,095

The above Group figures do not include termination benefits of £274,000 (2020: £476,000) of which £nil (2020: £56,000) was recharged to related undertakings of the group. The above Parent figures do not include termination benefits of £274,000 (2020: £476,000), of which £10,000 (2020: £74,000) was recharged to related undertakings of the Parent.

Notes to the financial statements

14 Tax expense

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

		2021 £000	2020 £000
Current tax	- current year	13,178	1,027
	- prior year adjustments	1,468	(414)
Deferred tax	- temporary differences	(5,140)	(5,395)
	- prior year adjustments	(887)	-
	- Impact of change in deferred tax rate	9,029	4,256
Total tax expense/(credit)		17,648	(526)

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:

	2021 £000	2020 £000
Profit/(loss) before tax	77,037	(15,746)
Tax calculated at the UK standard rate of tax of 19% (2020: 19%)	14,637	(2,992)
Factors affecting charge/(credit) for the year:		
Expenses not deductible for tax purposes	(1,265)	84
Non-taxable income	(1,862)	(1,391)
Life insurance and other tax paid at non-UK rates	(1,234)	90
Impact of differential between current and deferred tax rate	707	-
Tax losses utilised for which no deferred tax asset was recognised	(379)	(159)
Deferred tax asset for tax losses not previously recognised	(2,565)	-
Impact of change in deferred tax rate	9,029	4,256
Adjustments to tax charge in respect of prior periods	580	(414)
Total tax expense/(credit)	17,648	(526)

A change in the UK standard rate of corporation tax from 19% to 25% will become effective from 1 April 2023. Deferred tax has been provided at an average rate of 24% (2020: 19%).

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

	2021 £000	2020 £000
Current tax charged/(credited) on:		
Fair value movements on hedge derivatives	313	(328)
Deferred tax charged/(credited) on:		
Fair value movements on property	-	(62)
Actuarial movements on retirement benefit plans	9,665	(3,291)
Fair value movements on hedge derivatives	(178)	53
Impact of change in deferred tax rate	(1,519)	(158)
Total tax charged/(credited) to other comprehensive income	8,281	(3,786)

Tax relief on charitable grants of £3,990,000 (2020: £nil) has been taken directly to equity.

Notes to the financial statements

15 Appropriations

	2021 £000	2020 £000
Amounts paid directly from equity in the period:		
Dividends		
Non-Cumulative Irredeemable Preference share dividend (8.625 pence per share)	9,181	9,181
Charitable grants		
Gross charitable grants to the ultimate parent company, Benefact Trust Limited	21,000	-
Tax relief	(3,990)	-
Net appropriation for the year	17,010	-

Notes to the financial statements

16 Goodwill and other intangible assets

Group

	Goodwill £000	Computer software £000	Other intangible assets £000	Total £000
Cost				
At 1 January 2021	24,697	48,135	5,987	78,819
Additions	-	3,914	-	3,914
Disposals	-	(6,641)	-	(6,641)
Exchange differences	-	(73)	(12)	(85)
At 31 December 2021	24,697	45,335	5,975	76,007
Accumulated impairment losses and amortisation				
At 1 January 2021	379	19,179	4,908	24,466
Amortisation charge for the year	-	575	254	829
Impairment losses for the year	27	-	-	27
Disposals	-	(1,876)	-	(1,876)
Exchange differences	-	53	(4)	49
At 31 December 2021	406	17,931	5,158	23,495
Net book value at 31 December 2021	24,291	27,404	817	52,512
Cost				
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	24,697	48,135	5,987	78,819
Accumulated impairment losses and amortisation				
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	379	19,179	4,908	24,466
Net book value at 31 December 2020	24,318	28,956	1,079	54,353

£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 and prior period balance relates to the acquisition of WRS Insurance Brokers Limited (WRS) during 2020.

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 1.7% (2020: 1.8%) as being appropriate, based on medium-term rates published in the OBR's November report. The pre-tax discount rate of 10.8% (2020: 9.8%) 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 £5.8m (2020: £4.4m). If the cumulative growth rate between 2022 and 2024 was 2.8% lower than assumed in management-approved business plans, or the discount rate increased by 1.9%, 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

16 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 three years on a weighted average basis (2020: one year).

Parent

	2021			2020		
	Computer software £000	Other intangible assets £000	Total £000	Computer software £000	Other intangible assets £000	Total £000
Cost						
At 1 January	41,330	198	41,528	29,163	-	29,163
Additions	3,914	-	3,914	12,780	198	12,978
Disposals	(1,964)	-	(1,964)	(542)	-	(542)
Exchange differences	92	(13)	79	(71)	-	(71)
At 31 December	43,372	185	43,557	41,330	198	41,528
Amortisation						
At 1 January	17,222	41	17,263	17,249	-	17,249
Charge for the year	574	48	622	552	41	593
Disposals	(1,876)	-	(1,876)	(542)	-	(542)
Exchange differences	52	(5)	47	(37)	-	(37)
At 31 December	15,972	84	16,056	17,222	41	17,263
Net book value at 31 December	27,400	101	27,501	24,108	157	24,265

17 Deferred acquisition costs

	2021		2020	
	Group £000	Parent £000	Group £000	Parent £000
At 1 January	41,989	33,472	38,199	31,133
Increase in the period	46,122	36,689	41,582	33,515
Release in the period	(41,746)	(33,520)	(38,230)	(31,110)
Exchange differences	(338)	99	438	(66)
At 31 December	46,027	36,740	41,989	33,472

All balances are current.

Notes to the financial statements

18 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. 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. The scheme previously had two discrete sections; the EIO Section and the Ansvar Section. With effect from 1 January 2021, the two discrete sections of the scheme have been combined.

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. No contribution is expected to be paid by the Group in 2022.

Actuarial valuations were reviewed and updated by an actuary at 31 December 2021 for IAS 19 purposes. The surplus in the scheme attributable to the former EIO Section has been assessed against the economic benefit available to the Parent as a reduction in future contributions in accordance with IFRIC 14. This has resulted in the recognisable surplus being restricted by £17.5m. The Parent has an unconditional right to a refund of the surplus attributable to the former Ansvar Section of the Fund, which has been recognised in full in accordance with IFRIC 14.

In the current year, actuarial gains arising from changes in financial assumptions of £19.4m (2020: actuarial losses of £53.6m) have been recognised in the statement of other comprehensive income. These gains resulted from a 0.6% increase in the discount rate partially offset by inflation-linked pension increases. In the prior year, actuarial losses were recognised as a result of a 0.6% fall in the discount rate combined with inflationary increases arising from a reduction in the gap between the RPI and CPI assumptions following the conclusion of the government's consultation on the future measure of RPI.

Certain mortality assumptions used in the IAS 19 valuation were reviewed and updated resulting in an actuarial gain of £4.2m (2020: £6.0m actuarial gain) being recognised in the current year. In the prior year, updating for actual member experience since the previous triennial valuation and for other financial assumption experience resulted in an actuarial gain of £14.5m.

A past service cost of £32,000 was recognised in the prior year following the High Court ruling relating to Guaranteed Minimum Pensions (GMP) equalisation for historic transfers values.

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; and
- 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

18 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 portfolio, structured to increase in value with decreases in interest rates and grow in line with inflation expectations. This is estimated currently to hedge 65% of the interest rate and 75% 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, including the use of an equity protection strategy to reduce the impact of a material fall in equity markets. 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.

The Trustees have recently adopted a Responsible and Sustainable Investment Policy with regards to the Fund's equities. This includes an 'absence of harm' exclusion policy, as well as an aspiration to reduce the portfolio's carbon intensity over time.

Group and Parent	**2021 £000**	2020 £000
The amounts recognised in the statement of financial position are determined as follows:		
Present value of funded obligations	**(377,113)**	(403,709)
Fair value of plan assets	**422,885**	394,356
	45,772	(9,353)
Restrictions on asset recognised	**(17,468)**	-
Net defined benefit pension scheme surplus/(deficit) in the statement of financial position	**28,304**	(9,353)
Movements in the net defined benefit pension scheme asset recognised in the statement of financial position are as follows:		
At 1 January	**(9,353)**	8,505
Expense charged to profit or loss	**(1,646)**	(1,003)
Amounts recognised in other comprehensive income	**39,303**	(16,855)
Contributions paid	**-**	-
At 31 December	**28,304**	(9,353)
The amounts recognised through profit or loss are as follows:		
Current service cost	**683**	575
Administration cost	**828**	557
Interest expense on liabilities	**5,193**	6,971
Interest income on plan assets	**(5,058)**	(7,132)
Past service cost	**-**	32
Total, included in employee benefits expense	**1,646**	1,003
The amounts recognised in the statement of other comprehensive income are as follows:		
Return on plan assets, excluding interest income	**34,200**	16,150
Experience (losses)/gains on liabilities	**(944)**	14,543
Gains from changes in demographic assumptions	**4,155**	6,017
Gains/(losses) from changes in financial assumptions	**19,360**	(53,565)
Change in asset ceiling	**(17,468)**	-
Total included in other comprehensive income	**39,303**	(16,855)

Notes to the financial statements

18 Retirement benefit schemes (continued)

The following is the analysis of the defined benefit pension balances:

Group and Parent	2021 £000	2020 £000
Pension surplus	28,304	1,053
Pension deficit	-	(10,406)
	28,304	(9,353)

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

	%	%
Discount rate	1.90	1.30
Inflation (RPI)	3.40	2.90
Inflation (CPI)	3.00	2.50
Future salary increases	4.50	4.50
Future increase in pensions in deferment	3.60	3.40
Future average pension increases (linked to RPI)	3.20	2.80
Future average pension increases (linked to CPI)	2.20	1.70

Mortality rate

The average life expectancy in years of a pensioner retiring at age 65, at the year-end date, is as follows:

Male	22.7	22.9
Female	24.0	24.1

The average life expectancy in years of a pensioner retiring at age 65, 20 years after the year-end date, is as follows:

Male	23.5	24.0
Female	25.2	25.6

Plan assets are weighted as follows:

	£000	£000
Cash and other[1]	38,856	36,657
Equity instruments		
UK quoted	81,330	83,040
UK unquoted	34	552
Overseas quoted	90,751	80,704
	172,115	164,296
Liability driven investments - unquoted	60,482	57,519
Debt instruments		
UK public sector quoted - fixed interest	227	243
UK non-public sector quoted - fixed interest	77,883	68,500
UK quoted - index-linked	24,806	24,383
	102,916	93,126
Derivative financial instruments - unquoted	851	885
Property	47,665	41,873
	422,885	394,356

[1] Includes accrued income, prepayments and other debtors and creditors.

The actual return on plan assets was a gain of £39,258,000 (2020: a gain of £23,282,000).

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

18 Retirement benefit schemes (continued)

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

	2021 £000	2020 £000
Plan assets		
At 1 January	394,356	379,684
Interest income	5,058	7,132
Actual return on plan assets, excluding interest income	34,200	16,150
Pension benefits paid and payable	(10,729)	(8,610)
At 31 December	422,885	394,356
Defined benefit obligation		
At 1 January	403,709	371,179
Current service cost	683	575
Administration cost	828	557
Past service cost	-	32
Interest cost	5,193	6,971
Pension benefits paid and payable	(10,729)	(8,610)
Experience losses/(gains) on liabilities	944	(14,543)
Gains from changes in demographic assumptions	(4,155)	(6,017)
(Gains)/losses from changes in financial assumptions	(19,360)	53,565
At 31 December	377,113	403,709
Asset ceiling		
At 1 January	-	-
Change in asset ceiling	17,468	-
At 31 December	17,468	-

History of plan assets and liabilities	2021 £000	2020 £000	2019 £000	2018 £000	2017 £000
Present value of defined benefit obligations	(377,113)	(403,709)	(371,179)	(325,738)	(343,143)
Fair value of plan assets	422,885	394,356	379,684	341,869	363,179
	45,772	(9,353)	8,505	16,131	20,036
Restrictions on asset recognised	(17,468)	-	-	-	-
Surplus/(deficit)	28,304	(9,353)	8,505	16,131	20,036

The weighted average duration of the defined benefit obligation at the end of the reporting period is 21 years (2020: 21 years).

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, inflation, expected salary increases and mortality. The sensitivity analysis below has been determined based on reasonably possible changes in the assumptions occurring at the end of the reporting period assuming that all other assumptions are held constant.

Assumption	Change in assumption	Increase/(decrease) in plan liabilities 2021 £000	2020 £000
Discount rate	Increase by 0.5%	(35,010)	(39,500)
	Decrease by 0.5%	40,505	46,000
Inflation	Increase by 0.5%	29,134	33,600
	Decrease by 0.5%	(26,435)	(29,100)
Salary increase	Increase by 0.5%	5,540	6,800
	Decrease by 0.5%	(5,128)	(6,300)
Life expectancy	Increase by 1 year	16,402	20,100
	Decrease by 1 year	(16,021)	(20,000)

Notes to the financial statements

18 Retirement benefit schemes (continued)

Post-employment medical benefits

The Parent operates a post-employment medical benefit plan, for which it chooses to self-insure. The method of accounting, assumptions and the frequency of valuation are similar to those used for the defined benefit pension plans.

The provision of the plan leads to a number of risks as follows:

- Interest rate risk: The reserves are assessed using market rates of interest to discount the liabilities and are therefore subject to volatility in the movement of the market rates of interest. A reduction in the market rate of interest would lead to an increase in the reserves required to be held;
- Medical expense inflation risk: Future medical costs are influenced by a number of factors including economic trends and advances in medical technology and sciences. An increase in medical expense inflation would lead to an increase in the reserves required to be held;
- Medical claims experience: Claims experience can be volatile, exposing the Company to the risk of being required to pay over and above the assumed reserve. If future claims experience differs significantly from that experienced in previous years, this will increase the risk to the Company;
- Spouse and widows' contributions: The self-insured benefit includes a potential liability for members who pay contributions in respect of their spouse and for widows who pay contributions. There is the possibility that the contributions charged may not be sufficient to cover the medical costs that fall due; and
- Mortality risk: If members live longer than expected, the Company is exposed to the expense of medical claims for a longer period, with increased likelihood of needing to pay claims.

The amounts recognised in the statement of financial position are determined as follows:

Group and Parent	**2021 £000**	2020 £000
Present value of unfunded obligations and net obligations in the statement of financial position	**7,058**	6,530
Movements in the net obligations recognised in the statement of financial position are as follows:		
At 1 January	**6,530**	5,998
Total expense charged to profit or loss	**83**	112
Net actuarial losses during the year, recognised in other comprehensive income	**643**	463
Benefits paid	**(198)**	(43)
At 31 December	**7,058**	6,530
The amounts recognised through profit or loss are as follows:		
Interest cost	**83**	112
Total, included in employee benefits expense	**83**	112

The weighted average duration of the net obligations at the end of the reporting period is 12.8 years (2020: 13.1 years).

The main actuarial assumptions for the plan are a long-term increase in medical costs of 7.4% (2020: 6.9%) and a discount rate of 1.9% (2020: 1.3%). An actuarial loss from experience of £814,000 has been recognised in the current year following a review of the medical cost scale. This has been partially offset by an actuarial gain of £130,000 arising from changes in financial assumptions. A small actuarial gain has been recognised due to changes in mortality assumptions. 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**	
		2021 £000	2020 £000
Discount rate	Increase by 0.5%	**(421)**	(404)
	Decrease by 0.5%	**464**	445
Medical expense inflation	Increase by 1.0%	**875**	851
	Decrease by 1.0%	**(743)**	(721)
Life expectancy	Increase by 1 year	**513**	576
	Decrease by 1 year	**(480)**	(527)

Notes to the financial statements

19 Property, plant and equipment

Group	**Land and buildings £000**	**Motor vehicles £000**	**Furniture, fittings and equipment £000**	**Computer equipment £000**	**Right-of-use asset £000**	**Total £000**
Cost or valuation						
At 1 January 2021	**2,440**	**146**	**14,971**	**11,363**	**31,766**	**60,686**
Additions	**-**	**34**	**2,444**	**1,155**	**746**	**4,379**
Disposals	**-**	**(68)**	**(2,087)**	**(3,880)**	**(2,241)**	**(8,276)**
Transfers to investment property	**(975)**	**-**	**-**	**-**	**-**	**(975)**
Exchange differences	**-**	**-**	**8**	**(16)**	**(77)**	**(85)**
At 31 December 2021	**1,465**	**112**	**15,336**	**8,622**	**30,194**	**55,729**
Depreciation						
At 1 January 2021	**-**	**107**	**7,247**	**8,738**	**6,278**	**22,370**
Charge for the year	**-**	**17**	**1,377**	**1,599**	**3,162**	**6,155**
Disposals	**-**	**(50)**	**(2,087)**	**(3,880)**	**(1,952)**	**(7,969)**
Exchange differences	**-**	**-**	**(5)**	**(13)**	**(54)**	**(72)**
At 31 December 2021	**-**	**74**	**6,532**	**6,444**	**7,434**	**20,484**
Net book value at 31 December 2021	**1,465**	**38**	**8,804**	**2,178**	**22,760**	**35,245**
Cost or valuation						
At 1 January 2020	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
Depreciation						-
At 1 January 2020	-	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
Net book value at 31 December 2020	2,440	39	7,724	2,625	25,488	38,316

Notes to the financial statements

19 Property, plant and equipment (continued)

Parent

	Land and buildings £000	Motor vehicles £000	Furniture, fittings and equipment £000	Computer equipment £000	Right of use asset £000	Total £000
Cost or valuation						
At 1 January 2021	2,040	53	14,439	10,283	27,802	54,617
Additions	-	-	2,438	1,013	678	4,129
Disposals	-	(39)	(2,045)	(3,795)	(2,195)	(8,074)
Transfers to investment property	(575)	-	-	-	-	(575)
Exchange differences	-	-	9	10	29	48
At 31 December 2021	1,465	14	14,841	7,511	26,314	50,145
Depreciation						
At 1 January 2021	-	40	6,922	7,989	4,940	19,891
Charge for the year	-	2	1,321	1,432	2,530	5,285
Disposals	-	(28)	(2,045)	(3,793)	(1,940)	(7,806)
Exchange differences	-	-	(6)	7	3	4
At 31 December 2021	-	14	6,192	5,635	5,533	17,374
Net book value at 31 December 2021	1,465	-	8,649	1,876	20,781	32,771
Cost or valuation						
At 1 January 2020	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
Depreciation						
At 1 January 2020	-	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
Net book value at 31 December 2020	2,040	13	7,517	2,294	22,862	34,726

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 £1,464,000 (2020: £2,444,000). The value of land and buildings of the Parent on a historical cost basis is £1,464,000 (2020: £2,044,000).

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

Notes to the financial statements

20 Investment property

	2021 Group £000	2021 Parent	2020 Group £000	2020 Parent £000
Fair value at 1 January	142,142	142,142	148,146	148,146
Transfers from property, plant and equipment	975	575	-	-
Disposals	-	-	(1,020)	(1,020)
Fair value gains/(losses) recognised in profit or loss	20,238	20,105	(4,984)	(4,984)
Fair value at 31 December	163,355	162,822	142,142	142,142

The Group's investment properties were last revalued at 31 December 2021 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 £8,648,000 (2020: £8,786,000) and is included in net investment return.

21 Financial investments

	2021 Group £000	2021 Parent £000	2020 Group £000	2020 Parent £000
Financial investments at fair value through profit or loss				
Equity securities				
- listed	281,682	254,743	262,598	238,555
- unlisted	68,620	68,619	59,288	59,287
Debt securities				
- government bonds	204,071	100,631	160,381	71,199
- listed	313,294	215,496	334,732	217,211
- unlisted	34	34	552	552
Structured notes	14,649	-	-	-
Derivative financial instruments				
- options	334	334	1,407	1,407
- forwards	2	147	672	672
	882,686	640,004	819,630	588,883
Financial investments at fair value through other comprehensive income				
Derivative financial instruments				
- forwards	414	269	401	401
Total financial investments at fair value	883,100	640,273	820,031	589,284
Loans and receivables				
Other loans	670	670	746	746
Parent investments in subsidiary undertakings				
Shares in subsidiary undertakings	-	66,163	-	60,757
Total financial investments	883,770	707,106	820,777	650,787
Current	447,418	392,530	335,916	298,036
Non-current	436,352	314,576	484,861	352,751

All investments in subsidiary undertakings are unlisted.

Notes to the financial statements

22 Derivative financial instruments

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

The Group has also formally designated certain derivatives as a hedge of its net investments in Australia and Canada. A gain of £1,912,000 (2020: loss of £2,339,000) in respect of these 'hedge' derivatives has been recognised in the hedging reserve within shareholders' equity, as disclosed in note 26. The Group has formally assessed and documented the effectiveness of derivatives that qualify for hedge accounting in accordance with IAS 39, *Financial Instruments: Recognition and Measurement* .

Group	2021			2020		
	Contract/ notional amount £000	Fair value asset £000	Fair value liability £000	Contract/ notional amount[1] £000	Fair value asset £000	Fair value liability £000
Non-hedge derivatives						
Equity/Index contracts						
Options	34,695	334	296	40,597	1,407	-
Foreign exchange contracts						
Forwards (Euro)	99,369	2	35	86,980	672	-
Hedge derivatives						
Foreign exchange contracts						
Forwards (Australian dollar)	40,512	145	-	41,231	-	1,244
Forwards (Canadian dollar)	37,609	269	-	30,269	401	-
	212,185	750	331	199,077	2,480	1,244

[1] The contract/notional amount in the prior year has been restated to reflect sterling values

All 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 of the Australian dollar foreign exchange contract which 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 21) and derivative fair value liabilities are recognised within other liabilities (note 30).

Notes to the financial statements

23 Other assets

	2021 Group £000	2021 Parent £000	2020 Group £000	2020 Parent £000
Receivables arising from insurance and reinsurance contracts				
- due from contract holders	52,706	52,629	50,285	49,981
- due from agents, brokers and intermediaries	67,333	43,712	66,232	39,796
- due from reinsurers	12,583	8,001	11,005	4,941
Other receivables				
- accrued interest and rent	3,927	3,096	4,329	3,253
- other prepayments and accrued income	8,606	4,425	5,259	3,966
- amounts owed by related parties	68,900	80,688	52,683	56,513
- debtors arising from broking activities	7,008	-	6,685	-
- net investment in finance leases	111	111	236	236
- other debtors	19,736	2,146	19,856	2,428
	240,910	194,808	216,570	161,114
Current	181,346	134,574	162,085	105,075
Non-current	59,564	60,234	54,485	56,039

The Group has recognised a net charge of £554,000 (2020: net charge of £759,000) 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 £578,000 (2020: £693,000).

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 due from agents, brokers and intermediaries of the Group and Parent is a letter of credit for £2,000,000 (2020: £2,000,000) and included within amounts owed by related parties of the Parent is £12,152,000 (2020: £2,920,000) pledged as collateral in respect of an insurance liability.

Included within other receivables of the Group is £1,584,000 (2020: £1,201,000) classified as contract assets, and £1,618,000 (2020: £1,410,000) classified as receivables in accordance with IFRS 15.

Movement in the allowance for doubtful debts	2021 Group £000	2021 Parent £000	2020 Group £000	2020 Parent £000
Balance at 1 January	723	574	145	69
Movement in the year	262	307	578	505
Balance at 31 December	985	881	723	574

Included within other assets of the Group is £13,702,000 (2020: £13,767,000) overdue but not impaired, of which £11,754,000 (2020: £11,588,000) is not more than three months overdue at the reporting date. Included within trade receivables of the Parent is £2,012,000 (2020: £5,238,000) overdue but not impaired, of which £1,884,000 (2020: £4,245,000) is not more than three months overdue at the reporting date.

24 Cash and cash equivalents

	2021 Group £000	2021 Parent £000	2020 Group £000	2020 Parent £000
Cash at bank and in hand	75,982	30,038	78,643	43,713
Short-term bank deposits	38,054	18,399	25,786	15,753
	114,036	48,437	104,429	59,466

Included within short-term bank deposits of the Group and Parent are cash deposits of £2,830,000 (2020: £1,960,000) pledged as collateral by way of cash margins on open derivative contracts to cover derivative liabilities. Included within cash at bank and in hand of the Group and Parent are amounts of £820,000 (2020: £874,000) held in accordance with the third country branch requirements of the European Union.

Included within Group cash at bank and in hand are amounts of £23,072,000 (2020: £4,131,000) pledged as collateral by way of cash calls from reinsurers, and £4,604,000 (2020: £3,765,000) of restricted cash held on an agency basis.

Notes to the financial statements

25 Called up share capital

	Issued, allotted and fully paid	
	2021 £000	2020 £000
Ordinary shares of 4p each	**14,027**	14,027
8.625% Non-Cumulative Irredeemable Preference shares of £1 each	**106,450**	106,450
	120,477	120,477
The number of shares in issue are as follows:		
Ordinary shares of 4p each		
At 1 January and 31 December	**350,678**	350,678
8.625% Non-Cumulative Irredeemable Preference shares of £1 each		
At 1 January and 31 December	**106,450**	106,450

On winding up, the assets of the Company remaining after payment of its liabilities are to be applied to holders of the Non-Cumulative Irredeemable Preference shares in repaying the nominal capital sum paid up on the shares and an amount equal to all arrears of accrued and unpaid dividends up to the date of the commencement of the winding up. The residual interest in the assets of the Company after deducting all liabilities belongs to the Ordinary shareholders.

Holders of the Non-Cumulative Irredeemable Preference shares are not entitled to receive notice of, or to attend, or vote at any general meeting of the Company unless at the time of the notice convening such meeting, the dividend on such shares which is most recently payable on such shares shall not have been paid in full, or where a resolution is proposed varying any of the rights of such shares, or for the winding up of the Company.

26 Translation and hedging reserve

Group	Translation reserve £000	Hedging reserve £000	Total £000
At 1 January 2021	**15,552**	**2,678**	**18,230**
Losses on currency translation differences	**(2,356)**	**-**	**(2,356)**
Gains on net investment hedges	**-**	**1,912**	**1,912**
Attributable tax	**-**	**(183)**	**(183)**
At 31 December 2021	**13,196**	**4,407**	**17,603**
At 1 January 2020	13,572	4,752	18,324
Gains on currency translation differences	1,980	-	1,980
Losses on net investment hedges	-	(2,339)	(2,339)
Attributable tax	-	265	265
At 31 December 2020	15,552	2,678	18,230
Parent			
At 1 January 2021	**6,418**	**649**	**7,067**
Gains on currency translation differences	**551**	**-**	**551**
Losses on net investment hedges	**-**	**(713)**	**(713)**
Attributable tax	**-**	**131**	**131**
At 31 December 2021	**6,969**	**67**	**7,036**
At 1 January 2020	7,130	434	7,564
Losses on currency translation differences	(712)	-	(712)
Gains on net investment hedges	-	279	279
Attributable tax	-	(64)	(64)
At 31 December 2020	6,418	649	7,067

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

Notes to the financial statements

27 Insurance liabilities and reinsurance assets

	2021 Group £000	2021 Parent £000	2020 Group £000	2020 Parent £000
Gross				
Claims outstanding	**616,225**	**471,209**	560,992	434,583
Unearned premiums	**253,158**	**202,389**	230,800	181,619
Life business provision	**73,909**	**-**	76,857	-
Total gross insurance liabilities	**943,292**	**673,598**	868,649	616,202
Recoverable from reinsurers				
Claims outstanding	**166,360**	**107,491**	129,284	78,450
Unearned premiums	**88,089**	**64,431**	79,393	56,066
Total reinsurers' share of insurance liabilities	**254,449**	**171,922**	208,677	134,516
Net				
Claims outstanding	**449,865**	**363,718**	431,708	356,133
Unearned premiums	**165,069**	**137,958**	151,407	125,553
Life business provision	**73,909**	**-**	76,857	-
Total net insurance liabilities	**688,843**	**501,676**	659,972	481,686
Gross insurance liabilities				
Current	**449,342**	**347,937**	412,200	315,863
Non-current	**493,950**	**325,661**	456,449	300,339
Reinsurance assets				
Current	**172,844**	**117,315**	142,466	94,662
Non-current	**81,605**	**54,607**	66,211	39,854

(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, 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

27 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 2021	Discount rate 2020	Mean term of discounted liabilities (years) 2021	Mean term of discounted liabilities (years) 2020
UK and Ireland	**1.3% to 2.1%**	0.5% to 1.5%	**17**	17
Canada	**1.2% to 2.1%**	0.4% to 1.7%	**12**	12
Australia	**1.5%**	0.70%	**5**	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 £640,528,000 for the Group (2020: £585,635,000), and £493,198,000 for the Parent (2020: £456,912,000).

The impact of discount rate changes on the outstanding claims liability is presented within net investment return (note 8).

At 31 December 2021, it is estimated that a fall of 1% in the discount rates used would increase the Group's net outstanding claims liabilities by £18,922,000 (2020: £20,715,000). 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 approach but we continue to evolve estimates in light of underlying experience.

(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:

		2021 Gross £000	2021 Net £000	2020 Gross £000	2020 Net £000
Liability	- UK	**18,900**	**17,200**	20,200	19,000
	- Overseas	**18,000**	**13,700**	14,900	12,200
Property	- UK	**12,200**	**6,200**	10,300	5,600
	- Overseas	**9,000**	**3,100**	7,200	2,600
Motor	- UK	**100**	**100**	200	200

Notes to the financial statements

27 Insurance liabilities and reinsurance assets (continued)

(viii) Claims development tables

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

Estimate of ultimate gross claims

Group	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	2019 £000	2020 £000	2021 £000	Total £000
At end of year	100,612	81,725	61,901	46,464	51,738	50,736	48,759	47,945	50,134	60,267	
One year later	88,046	80,027	50,571	43,582	46,073	46,885	40,461	42,467	42,044		
Two years later	78,196	69,860	48,327	40,337	41,041	41,883	34,680	39,859			
Three years later	72,516	66,192	45,495	33,804	38,468	38,648	33,362				
Four years later	67,980	60,174	37,064	29,436	37,044	40,177					
Five years later	62,712	56,912	34,606	28,211	34,649						
Six years later	61,213	54,901	34,962	31,738							
Seven years later	60,560	55,516	36,195								
Eight years later	62,025	55,252									
Nine years later	61,615										
Current estimate of ultimate claims	61,615	55,252	36,195	31,738	34,649	40,177	33,362	39,859	42,044	60,267	435,158
Cumulative payments to date	(54,400)	(47,153)	(28,117)	(21,087)	(21,853)	(17,642)	(12,013)	(8,852)	(5,571)	(1,471)	(218,159)
Outstanding liability	7,215	8,099	8,078	10,651	12,796	22,535	21,349	31,007	36,473	58,796	216,999
Effect of discounting											(10,619)
Present value											206,380
Discounted liability in respect of earlier years											162,780
Total discounted gross liability (for liability classes) included in insurance liabilities in the statement of financial position											369,160

Parent	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	2019 £000	2020 £000	2021 £000	Total £000
At end of year	84,511	71,798	52,350	34,769	37,981	34,210	32,992	33,719	35,690	43,976	
One year later	77,629	60,950	40,153	31,941	32,541	33,353	28,181	30,285	28,874		
Two years later	69,580	54,792	39,015	30,129	29,538	31,463	24,212	28,618			
Three years later	63,068	50,492	37,158	27,287	28,622	29,557	23,116				
Four years later	56,225	43,910	31,530	23,620	27,899	30,012					
Five years later	51,872	42,289	30,024	23,068	25,084						
Six years later	50,791	40,698	30,063	25,631							
Seven years later	50,092	40,041	30,505								
Eight years later	50,367	40,161									
Nine years later	49,929										
Current estimate of ultimate claims	49,929	40,161	30,505	25,631	25,084	30,012	23,116	28,618	28,874	43,976	325,906
Cumulative payments to date	(45,540)	(34,792)	(24,976)	(17,859)	(16,580)	(13,548)	(8,158)	(5,622)	(3,744)	(809)	(171,628)
Outstanding liability	4,389	5,369	5,529	7,772	8,504	16,464	14,958	22,996	25,130	43,167	154,278
Effect of discounting											(6,677)
Present value											147,601
Discounted liability in respect of earlier years											126,428
Total discounted gross liability (for liability classes) included in insurance liabilities in the statement of financial position											274,029

Notes to the financial statements

27 Insurance liabilities and reinsurance assets (continued)

Estimate of ultimate net claims

Group	**2012 £000**	**2013 £000**	**2014 £000**	**2015 £000**	**2016 £000**	**2017 £000**	**2018 £000**	**2019 £000**	**2020 £000**	**2021 £000**	**Total £000**
At end of year	88,247	76,729	59,633	42,739	47,402	45,920	44,053	44,230	45,459	47,289	
One year later	79,272	66,475	47,690	40,397	41,631	41,706	37,456	39,842	37,509		
Two years later	73,735	60,075	47,428	37,740	37,740	37,797	32,867	37,243			
Three years later	69,837	55,710	41,494	32,297	36,337	34,818	31,647				
Four years later	65,872	51,482	35,164	28,506	35,217	36,431					
Five years later	60,800	49,196	33,233	27,418	32,993						
Six years later	59,338	47,518	33,309	30,544							
Seven years later	59,061	47,443	34,245								
Eight years later	60,056	47,338									
Nine years later	59,783										
Current estimate of ultimate claims	59,783	47,338	34,245	30,544	32,993	36,431	31,647	37,243	37,509	47,289	395,022
Cumulative payments to date	(53,066)	(39,851)	(26,771)	(20,558)	(21,651)	(17,570)	(12,011)	(8,838)	(5,484)	(1,463)	(207,263)
Outstanding liability	6,717	7,487	7,474	9,986	11,342	18,861	19,636	28,405	32,025	45,826	187,759
Effect of discounting											(10,619)
Present value											177,140
Discounted liability in respect of earlier years											146,274
Total discounted net liability (for liability classes) included in insurance liabilities in the statement of financial position											323,414

Parent	**2012 £000**	**2013 £000**	**2014 £000**	**2015 £000**	**2016 £000**	**2017 £000**	**2018 £000**	**2019 £000**	**2020 £000**	**2021 £000**	**Total £000**
At end of year	74,361	67,690	50,025	33,122	35,882	33,134	31,981	32,688	33,502	33,792	
One year later	69,805	57,538	38,944	31,041	30,906	30,965	27,208	29,509	26,536		
Two years later	65,297	51,828	38,215	29,494	28,199	28,854	23,787	27,615			
Three years later	61,795	47,942	34,393	26,981	27,493	26,774	22,651				
Four years later	55,686	43,568	30,252	23,229	26,894	27,279					
Five years later	51,766	42,126	28,825	22,806	24,782						
Six years later	50,762	40,587	28,865	25,061							
Seven years later	50,079	39,930	29,268								
Eight years later	50,356	40,051									
Nine years later	49,918										
Current estimate of ultimate claims	49,918	40,051	29,268	25,061	24,782	27,279	22,651	27,615	26,536	33,792	306,953
Cumulative payments to date	(45,537)	(34,688)	(23,752)	(17,330)	(16,395)	(13,548)	(8,156)	(5,613)	(3,657)	(800)	(169,476)
Outstanding liability	4,381	5,363	5,516	7,731	8,387	13,731	14,495	22,002	22,879	32,992	137,477
Effect of discounting											(6,677)
Present value											130,800
Discounted liability in respect of earlier years											119,609
Total discounted net liability (for liability classes) included in insurance liabilities in the statement of financial position											250,409

Notes to the financial statements

27 Insurance liabilities and reinsurance assets (continued)

(b) Life insurance contracts

(i) Assumptions

The most significant assumptions in determining life reserves are as follows:

Mortality

An appropriate base table of standard mortality is chosen depending on the type of contract. Where prudent, an allowance is made for future mortality improvements based on trends identified in population data. For both 2021 and 2020 the base tables used were ELF16F and ELT16M with a 1% improvement applied each year.

Investment returns

Projected investment returns for index-linked business 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:

	2021	2020
UK and overseas government bonds: non-linked	**-**	-0.28%
UK and overseas government bonds: index-linked	**-2.71%**	-2.72%
Corporate debt instruments: index-linked	**-2.28%**	-2.23%

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. For index-linked assets, the real yield is shown gross of tax.

The investment return assumption for non-linked business is based on government bond returns at an average duration of cash flows for this business. The return after allowance for investment expenses is 1.02%.

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 £2.60 per annum (2020: £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 £5.7m (2020: £5.8m).

Expense inflation is set with reference to the nominal and index-linked UK government bond rates of return and is assumed to be 4.69% per annum (2020: 4.07%).

Tax

It has been assumed that current tax legislation and rates applicable at 1 January 2022 will continue to apply. All in-force business is classed as protection business and is expected to be taxed on a profits basis.

(ii) Changes in assumptions

Projected investment returns have been revised in line with the changes in the actual yields of the underlying assets. As a result, liabilities have increased by £0.1m (2020: £5.0m increase).

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 £0.2m increase (2020: £0.7m increase).

There has been a small change in the mortality assumptions that has reduced liabilities by £0.1m (2020: no material change).

Notes to the financial statements

27 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 2021 £000	2020 £000
Deterioration in mortality	+10%	1,300	1,300
Improvement in mortality	-10%	(1,500)	(1,600)
Increase in fixed interest/cash yields	+1% pa	-	200
Decrease in fixed interest/cash yields	-1% pa	(400)	(700)
Worsening of base renewal expense level	+10%	(200)	(200)
Improvement in base renewal expense level	-10%	200	300
Increase in expense inflation	+1% pa	(600)	(600)
Decrease in expense inflation	-1% pa	500	500

(c) Movements in insurance liabilities and reinsurance assets

Group	Gross £000	Reinsurance £000	Net £000
Claims outstanding			
At 1 January 2021	560,992	(129,284)	431,708
Cash (paid)/received for claims settled in the year	(191,685)	83,235	(108,450)
Change in liabilities/reinsurance assets			
- arising from current year claims	252,310	(114,378)	137,932
- arising from prior year claims	14,980	(9,444)	5,536
- change in discount rate	(13,034)	1,023	(12,011)
Exchange differences	(7,338)	2,488	(4,850)
At 31 December 2021	616,225	(166,360)	449,865
Provision for unearned premiums			
At 1 January 2021	230,800	(79,393)	151,407
Increase in the period	253,759	(88,464)	165,295
Release in the period	(229,255)	78,580	(150,675)
Exchange differences	(2,146)	1,188	(958)
At 31 December 2021	253,158	(88,089)	165,069
Life business provision			
At 1 January 2021	76,857	-	76,857
Effect of claims during the year	(5,577)	-	(5,577)
Changes in assumptions	2,493	-	2,493
Change in discount rate	147	-	147
Other movements	(11)	-	(11)
At 31 December 2021	73,909	-	73,909
Total insurance contract liabilities and reinsurance assets	943,292	(254,449)	688,843

Notes to the financial statements

27 Insurance liabilities and reinsurance assets (continued)

Group	Gross £000	Reinsurance £000	Net £000
Claims outstanding			
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
Provision for unearned premiums			
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
Life business provision			
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 methodolgy	(708)	-	(708)
Change in discount rate	4,986	-	4,986
Other movements	(7)	-	(7)
At 31 December 2020	76,857	-	76,857
Total insurance contract liabilities and reinsurance assets	868,649	(208,677)	659,972

Parent	Gross £000	Reinsurance £000	Net £000
Claims outstanding			
At 1 January 2021	434,583	(78,450)	356,133
Cash (paid)/received for claims settled in the year	(165,227)	57,340	(107,887)
Change in liabilities/reinsurance assets			
- arising from current year claims	221,277	(102,576)	118,701
- arising from prior year claims	(9,317)	16,370	7,053
- change in discount rate	(9,367)	-	(9,367)
Exchange differences	(740)	(175)	(915)
At 31 December 2021	471,209	(107,491)	363,718
Provision for unearned premiums			
At 1 January 2021	181,619	(56,066)	125,553
Increase in the period	202,191	(64,432)	137,759
Release in the period	(181,753)	56,049	(125,704)
Exchange differences	332	18	350
At 31 December 2021	202,389	(64,431)	137,958
Claims outstanding			
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
Provision for unearned premiums			
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

Notes to the financial statements

28 Provisions for other liabilities and contingent liabilities

Group	Regulatory and legal provisions £000	Contingent consideration £000	Other provisions £000	Total £000
At 31 December 2020	2,329	419	3,751	6,499
Additional provisions	2,142	22	70	2,234
Used during year	(1,789)	(441)	(60)	(2,290)
Not utilised	(63)	-	-	(63)
Exchange differences	-	-	(7)	(7)
At 31 December 2021	2,619	-	3,754	6,373
Current	2,619	-	1,609	4,228
Non-current	-	-	2,145	2,145
Parent				
At 31 December 2020	2,329	-	3,513	5,842
Additional provisions	2,142	-	-	2,142
Used during year	(1,789)	-	(60)	(1,849)
Not utilised	(63)	-	-	(63)
Exchange differences	-	-	(4)	(4)
At 31 December 2021	2,619	-	3,449	6,068
Current	2,619	-	1,609	4,228
Non-current	-	-	1,840	1,840

Regulatory and legal provisions
The Group operates in the financial services industry and is subject to regulatory requirements in the normal course of business, including contributing towards any levies raised on UK general and life business. The provisions reflect an assessment by the Group of its share of the total potential levies.

In addition, from time to time the Group receives complaints from customers and, while the majority relate to cases where there has been no customer detriment, we recognise that we have provided, and continue to provide, advice and services across a wide spectrum of regulated activities. We therefore believe that it is prudent to hold a provision for the estimated costs of customer complaints relating to services provided. The Group continues to reassess the ultimate level of complaints expected and the appropriateness of the provision, which reflects the expected redress and associated administration costs that would be payable in relation to any complaints we may uphold.

Contingent consideration
The provision for contingent consideration relates to the acquisition of WRS Insurance Brokers Limited that completed in 2020.

Other provisions
The provision for other costs relates to costs in respect of dilapidations.

Notes to the financial statements

29 Deferred tax

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

Group	Unrealised gains on investments £000	Net retirement benefit assets £000	Equalisation reserve £000	Other differences £000	Total £000
At 1 January 2020	34,081	425	1,434	(2,494)	33,446
(Credited)/charged to profit or loss	(6,569)	(204)	(790)	2,168	(5,395)
- Impact of change in deferred tax rate	4,050	232	145	(171)	4,256
(Credited)/charged to other comprehensive income	-	(3,291)	-	(9)	(3,300)
- 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
Charged/(credited) to profit or loss	4,022	(383)	(789)	(8,877)	(6,027)
- Impact of change in deferred tax rate	8,584	632	-	(187)	9,029
Charged/(credited) to other comprehensive income	-	9,665	-	(179)	9,486
- Impact of change in deferred tax rate	-	(1,585)	-	66	(1,519)
Exchange differences	5	-	-	133	138
At 31 December 2021	44,169	5,309	-	(9,603)	39,875
Parent					
At 1 January 2020	33,149	427	1,434	(582)	34,428
(Credited)/charged to profit or loss	(6,489)	(204)	(790)	971	(6,512)
- Impact of change in deferred tax rate	3,900	232	145	(165)	4,112
(Credited)/charged to other comprehensive income	-	(3,290)	-	(9)	(3,299)
- Impact of change in deferred tax rate	-	(182)	-	24	(158)
Exchange differences	-	-	-	(9)	(9)
At 31 December 2020	30,560	(3,017)	789	230	28,562
Charged/(credited) to profit or loss	3,538	(383)	(789)	(1,442)	924
- Impact of change in deferred tax rate	8,202	632	-	(170)	8,664
Charged/(credited) to other comprehensive income	-	9,665	-	(179)	9,486
- Impact of change in deferred tax rate	-	(1,585)	-	66	(1,519)
Exchange differences				6	6
At 31 December 2021	42,300	5,312	-	(1,489)	46,123

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:

	2021 Group £000	2021 Parent £000	2020 Group £000	2020 Parent £000
Deferred tax liabilities	48,355	46,123	29,846	28,562
Deferred tax assets	(8,480)	-	(1,078)	-
	39,875	46,123	28,768	28,562

The Group has unused tax losses of £10,565,000 (2020: £12,954,000) arising from life business, which are available for offset against future profits and can be carried forward indefinitely. In the prior year no deferred tax asset was recognised due to the unpredictability of future profit streams. In the current year a deferred tax asset has been recognised based on the expectation that these losses can be utilised.

Notes to the financial statements

30 Other liabilities and deferred income

	2021		2020	
	Group £000	Parent £000	Group £000	Parent £000
Creditors arising out of direct insurance operations	3,238	1,579	3,055	1,556
Creditors arising out of reinsurance operations	34,865	23,714	39,190	24,539
Derivative liabilities	331	331	1,244	1,244
Creditors arising from broking activities	5,370	-	4,343	-
Other creditors	23,843	12,114	24,020	12,304
Amounts owed to related parties	22	369	3	45
Accruals	29,678	21,551	21,706	15,399
	97,347	59,658	93,561	55,087
Current	96,791	59,658	93,011	55,087
Non-current	556	-	550	-

Derivative liabilities are in respect of equity futures contracts and are detailed in note 22.

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 £407,000 (2020: £308,000) classified as contract liabilities in accordance with IFRS 15. Included within deferred income of the Parent is £nil (2020: £nil) classified as contract liabilities in accordance with IFRS 15.

31 Subordinated debt

Group and Parent	2021 £000	2020 £000
6.3144% EUR 30m subordinated debt	24,433	-
	24,433	-

Subordinated debt consists of a privately-placed issue of 20-year subordinated bonds, maturing in February 2041 and callable after February 2031. The Group's subordinated debt ranks below its senior debt and ahead of its preference shares and ordinary share capital.

Subordinated debt is stated at amortised cost.

32 Investment contract liabilities

Group	2021 £000	2020 £000
Investment contract liabilities	15,519	-
	15,519	-

Investment contract liabilities represents amounts due to policyholders and, if applicable, the cost of the minimum repayment guarantee. Investment contract liabilities are repayable on demand or at short notice and therefore classified as current. These liabilities are matched with highly liquid investments.

Notes to the financial statements

33 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 1 January 2021	24,231	1,068	189	25,488
Additions	189	448	109	746
Disposals	-	(268)	(21)	(289)
Depreciation expense	(2,812)	(236)	(114)	(3,162)
Exchange differences	(20)	(2)	(1)	(23)
At 31 December 2021	21,588	1,010	162	22,760
At 1 January 2020	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	24,231	1,068	189	25,488

Parent	Land and buildings £000	Motor vehicles £000	Other equipment £000	Total £000
At 1 January 2021	21,738	993	131	22,862
Additions	121	448	109	678
Disposals	-	(235)	(20)	(255)
Depreciation expense	(2,217)	(219)	(94)	(2,530)
Exchange differences	27	-	(1)	26
At 31 December 2021	19,669	987	125	20,781
At 1 January 2020	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	21,738	993	131	22,862

Set out below are the carrying amounts of lease obligations:

	2021		2020	
	Group £000	Parent £000	Group £000	Parent £000
Current	3,402	2,691	3,502	2,725
Non-current	19,336	18,115	21,948	20,113
	22,738	20,806	25,450	22,838

Notes to the financial statements

33 Leases (continued)

Group profit for the year has been arrived at after charging the following amounts in respect of lease contracts:

	2021 £000	2020 £000
Depreciation expense of right-of-use assets	3,162	3,273
Interest expense on lease liabilities	974	773
Expenses relating to short-term leases	23	9
	4,159	4,055

The Group had total cash outflows for leases, including interest paid, of £4,206,000 (2020: £5,872,000). The Parent had total cash outflows for leases, including interest paid, of £3,406,000 (2020: £5,103,000). The future cash outflows relating to leases that have not yet commenced are disclosed in note 34.

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.

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 less than 1 year. The contract does not include an extension or early termination option.

	2021		2020	
	Group £000	Parent £000	Group £000	Parent £000
Year 1	111	111	131	131
Year 2	-	-	110	110
Undiscounted lease payments	111	111	241	241
Less: unearned finance income	-	-	(5)	(5)
Net investment in the lease	111	111	236	236

Net investment in the lease is recognised in other assets as shown in note 23.

Group profit for the year has been arrived at after crediting the following amounts in respect of finance lease contracts:

	2021 £000	2020 £000
Finance income on the net investment in finance leases	4	7
	4	7

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 20.

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

	2021		2020	
	Group £000	Parent £000	Group £000	Parent £000
Year 1	7,866	7,866	8,150	8,150
Year 2	7,604	7,604	7,290	7,290
Year 3	7,165	7,165	6,773	6,773
Year 4	6,014	6,014	6,390	6,390
Year 5	4,883	4,883	5,441	5,441
After 5 years	20,217	20,217	22,163	22,163
	53,749	53,749	56,207	56,207

Notes to the financial statements

34 Commitments

At the year end, the Group and Parent had no capital commitments relating to furniture, fittings and equipment (2020: £2,506,000).

The Group has lease contracts for right-of-use assets that had not commenced at 31 December 2021. These leases will commence in 2022. Leases for other equipment have a term of 2 years with expected cash outflow of £47,000 per annum. Leases for motor vehicles have a term of 4 years with an expected cash outflow of £73,000 per annum.

35 Related undertakings

Ultimate parent company and controlling party

The Company is a wholly-owned subsidiary of Benefact Group plc. Its ultimate parent and controlling company is Benefact 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 264. The parent companies of the smallest and largest groups for which group financial statements are drawn up are Ecclesiastical Insurance Office plc and Benefact Trust Limited, respectively.

Related undertakings

The Company's interest in related undertakings at 31 December 2021 is as follows:

Company	Company Registration Number	Share Capital	Holding of shares by Company	Holding of shares by Group	Activity
Subsidiary undertakings					
Incorporated in the United Kingdom					
Ecclesiastical Financial Advisory Services Limited [1]	2046087	Ordinary	100%	-	Independent financial advisory
Ecclesiastical Life Limited [1]	0243111	Ordinary	100%	-	Life insurance
EdenTree Investment Management Limited [1]	2519319	Ordinary	100%	-	Investment management
E.I.O. Trustees Limited [1 3]	0941199	Ordinary	100%	-	Trustee company
Ecclesiastical Group Healthcare Trustees Limited [1]	10988127	Ordinary	100%	-	Trustee company
SEIB Insurance Brokers Limited [1]	6317314	Ordinary	-	100%	Insurance agents and brokers
South Essex Insurance Holdings Limited [1]	6317313	Ordinary	100%	-	Investment holding company
Incorporated in Australia					
Ansvar Insurance Limited [2]	007216506	Ordinary	100%	-	Insurance
Ansvar Risk Management Services Pty Limited [2]	623695054	Ordinary	-	100%	Risk management services
Ansvar Insurance Services Pty Limited [2 4]	162612286	Ordinary	-	100%	Dormant company

1 Registered office: Benefact House, 2000 Pioneer Avenue, Gloucester Business Park, Brockworth, Gloucester, GL3 4AW, United Kingdom
2 Registered office: Level 5, 1 Southbank Boulevard, Melbourne, VIC 3006, Australia
3 Exempt from audit under s480 of the Companies Act 2006
4 Exempt from audit

Notes to the financial statements

36 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.

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

	Benefact Group plc £000	Subsidiaries £000	Other related parties £000
2021			
Group			
Trading, investment and other income, including recharges, and amounts received	**531**	**-**	**14,188**
Trading, investment and other expenditure, including recharges, and amounts paid	**15,625**	**-**	**5,706**
Amounts owed by related parties	**66,254**	**-**	**2,646**
Amounts owed to related parties	**-**	**-**	**53,924**
Parent			
Trading, investment and other income, including recharges, and amounts received	**531**	**17,700**	**960**
Trading, investment and other expenditure, including recharges, and amounts paid	**15,625**	**25,971**	**1,438**
Amounts owed by related parties	**66,254**	**12,278**	**2,156**
Amounts owed to related parties	**-**	**9,458**	**10**
2020			
Group (restated)			
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*	-	-	43,833
Parent			
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	-

*Amounts owed to related parties of the Group in the prior year have been restated from £57,427,000, to better reflect the fair value of funeral plan liabilities.

During the year, the Company received premiums, commission and reinsurance recoveries via a related party insurance agency amounting to £147,000 (2020: £38,000) and paid reinsurance protection, commission and claims amounting to £136,000 (2020: £34,000).

Trading, investment and other expenditure, including recharges, and amounts paid in the current year includes loans totalling £24.9m (2020: £13.1m), general business claims of £11.2m (2020: £5.7m) and acquisition of shares totalling £nil (2020: £11.1m).

Trading, investment and other income, including recharges, and amounts received in the current year includes general business premiums totalling £13.0m (2020: £0.6m) and deposits received for life business totalling £11.8m (2020: £nil).

Amounts owed to related parties by the Group and by the Parent include insurance liabilities which are included in note 27. Amounts owed to related parties by the Group also includes investment contract liabilities which are included in note 32.

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

36 Related party transactions (continued)

The total aggregate remuneration of the directors in respect of qualifying services during 2021 was £2,801,000 (2020: £2,344,000). After inclusion of amounts receivable under long-term incentive schemes and pension benefits, the total aggregate emoluments of the directors was £3,564,000 (2020: £3,043,000). 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.

	2021 Group £000	2021 Parent £000	2020 Group £000	2020 Parent £000
Key management personnel				
Wages and salaries	**6,221**	**6,221**	3,645	3,645
Social security costs	**566**	**566**	558	558
Pension costs - defined contribution plans	**303**	**303**	241	241
Fees and benefits for non-executive directors	**602**	**602**	606	606
	7,692	**7,692**	5,050	5,050

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 18.

Notes to the financial statements

37 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 50: 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.

The table below provides 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		2021							
		Insurance		Inv'mnt return	Inv'mnt mngt	Broking and Advisory		Corporate costs	Total
		General £000	Life £000	£000	£000	£000		£000	£000
Revenue									
Gross written premiums		486,220	(9)	-	-	-		-	486,211
Outward reinsurance premiums		(198,601)	-	-	-	-		-	(198,601)
Net change in provision for unearned premiums		(14,620)	-	-	-	-		-	(14,620)
Net earned premiums	[1]	272,999	(9)	-	-	-		-	272,990
Fee and commission income	[2]	55,417	-	-	14,908	11,222		-	81,547
Other operating income		1,136	-	-	-	-		-	1,136
Net investment return		-	3,939	96,358	6	764		-	101,067
Total revenue		329,552	3,930	96,358	14,914	11,986		-	456,740
Expenses									
Claims and change in insurance liabilities		(267,291)	(2,342)	-	-	-		-	(269,633)
Reinsurance recoveries		123,822	-	-	-	-		-	123,822
Fees, commissions and other acquisition costs	[3]	(95,628)	(21)	-	(979)	732		-	(95,896)
Other operating and administrative expenses	[4]	(81,696)	(450)	(3,234)	(16,460)	(9,658)	[5]	(24,134)	(135,632)
Total operating expenses		(320,793)	(2,813)	(3,234)	(17,439)	(8,926)		(24,134)	(377,339)
Operating profit	[6]	8,759	1,117	93,124	(2,525)	3,060		(24,134)	79,401
Finance costs		(2,288)	-	-	-	(76)		-	(2,364)
Profit/(loss) before tax		6,471	1,117	93,124	(2,525)	2,984		(24,134)	77,037
Underwriting profit	[6]	8,759							
Combined operating ratio		96.8%							
Net expenses (= [2] + [3] + [4] + [5])	[7]	(146,041)							
Net expense ratio		53%							

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

37 Reconciliation of Alternative Performance Measures (continued)

Group		2020							
		Insurance		Inv'mnt return	Inv'mnt mngt	Broking and Advisory		Corporate costs	Total
		General £000	Life £000	£000	£000	£000		£000	£000
Revenue									
Gross written premiums		437,287	12	-	-	-		-	437,299
Outward reinsurance premiums		(173,074)	-	-	-	-		-	(173,074)
Net change in provision for unearned premiums		(16,562)	-	-	-	-		-	(16,562)
Net earned premiums	[1]	247,651	12	-	-	-		-	247,663
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)
Total revenue		297,519	(472)	(4,600)	12,357	10,269		-	315,073
Expenses									
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)
Total operating expenses		(285,467)	940	(2,813)	(13,388)	(7,789)		(21,533)	(330,050)
Operating profit	[6]	12,052	468	(7,413)	(1,031)	2,480		(21,533)	(14,977)
Finance costs		(686)	-	-	-	(83)		-	(769)
Profit/(loss) before tax		11,366	468	(7,413)	(1,031)	2,397		(21,533)	(15,746)
Underwriting profit	[6]	12,052							
Combined operating ratio		95.1%							
Net expenses (= [2] + [3] + [4] + [5])	[7]	(129,712)							
Net expense ratio		52%							

Section Five

Other Information

Directors, executive management and company information (unaudited)

Directors

[1] R. D. C. Henderson FCA *Chair*
[1] R. Bajaj MA
[1] F. X. Boisseau MSc
D. P. Cockrem, MA, FCA Group Chief Financial Officer
M. C. J. Hews BSc (Hons), FIA Group Chief Executive
[1] Sir S. M. J. Lamport GCVO, DL
[1] N. P. Maidment MA, FCII
[1] A. J. McIntyre MA, ACA, FRCO
[1] C. J. G. Moulder MA, FCA Senior Independent Director
S. J. Whyte MC Inst. M, ACII Deputy Group Chief Executive
[1] 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
Cheltenham and London

DAC Beachcroft LLP
Bristol and London

Eversheds Sutherland LLP
Cardiff, Birmingham and London

Burges Salmon LLP
Bristol and London

Harrison Clark Rickerbys LLP
Cheltenham

Matheson
Dublin

William Fry LLP
Dublin

Pinsent Masons LLP
Birmingham and London

CMS Cameron McKenna Nabarro Olswang LLP
London, Leeds and Bristol

Fieldfisher Capital LLP
Dublin

Wynne-Jones IP Limited
Cheltenham

[1] Non-Executive Directors

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:	3rd Floor 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:	S. Cox ACII Chartered Insurer
	Office:	Ansvar House 31 St. Leonards Road Eastbourne, East Sussex BN21 3UR
	Tel:	0345 60 20 999
Canada Branch	Deputy Group Chief Executive, Ecclesiastical Insurance and General Manager and Chief Agent:	S. J. Whyte MC Inst M, ACII
	Chief Office:	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:	D. G. Lane B.Comm (Hons), Certified Insurance Director
	Office:	2nd Floor, Block F2 Eastpoint Dublin 3, D03 T6P8

Insurance subsidiaries and agencies (unaudited)

Ansvar Insurance Limited	Chief Executive Officer: Head Office:	W. R. Hutcheon MBA, GAICD, Fellow ANZIIF (CIP) Level 5 1 Southbank Boulevard Southbank Melbourne VIC 3006
Ecclesiastical Life Limited	Chief Executive Officer: Head Office:	P. S. Pickernell, FIA 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	Chief Executive Officer: Office: Tel:	S. Middleton FCII South Essex House, North Road South Ockendon Essex RM15 5BE 01708 850000

Notice of meeting (unaudited)

NOTICE is hereby given that the Annual General Meeting of Ecclesiastical Insurance Office plc will be held at 24 Monument Street, London EC3R 8AJ on Thursday, 23rd June 2022 at 12.35pm for the following purposes:

Ordinary business (unaudited)

1. To receive the Report of the Directors and Accounts for the year ended 31st December 2021 and the report of the auditors thereon.
2. To re-elect Mr F. X. Boisseau as a Director.[1]
3. To re-elect Mrs D. Cockrem as a Director.[1]
4. To re-elect Mr R. D. C. Henderson as a Director.[1]
5. To re-elect Mr M. C. J. Hews as a Director.[1]
6. To re-elect Sir S. Lamport as a Director.[1]
7. To re-elect Mr N. Maidment as a Director.[1]
8. To re-elect Mr A. J. McIntyre as a Director.[1]
9. To re-elect Mr C. J. G. Moulder as a Director.[1]
10. To re-elect Mrs S. J. Whyte as a Director.[1]
11. To re-elect Mr A. Winther as a Director.[1]
12. To elect Mrs R. Bajaj as a Director.[1]
13. To consider the declaration of a dividend.
14. To re-appoint PricewaterhouseCoopers LLP as auditors and authorise the Directors to fix their remuneration.

By order of the Board

Mrs R. J. Hall, Secretary
17 March 2022

[1] Brief biographies of the Directors seeking election or re-election are shown on pages 100 to 102 of the 2021 Annual Report. All Non-Executive Directors seeking re-election have been subject to formal performance evaluation by the Chair who is satisfied that the performance of each Non-Executive Director is effective and sufficient time has been spent on the Company's affairs.

Only a member holding ordinary shares, or their duly appointed representative(s), is entitled to attend, vote and speak at the annual general meeting.

A member holding ordinary shares is entitled to appoint a proxy or proxies (who need not be a member of the Company) to exercise all or any of their rights to attend, speak and vote on their behalf at the annual general meeting. Such a member may appoint more than one proxy in relation to the annual general meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member.

Any corporation which is a member holding ordinary shares can appoint one or more corporate representatives who may exercise, on its behalf, all of the same powers as that corporation could exercise if it were an individual member, provided that they do not do so in relation to the same share or shares and that they act within the powers of their appointment.

This notice is sent purely for information to the holders of 8.625% Non-Cumulative Irredeemable Preference shares who are not entitled to attend and vote at the annual general meeting.

Notes

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BENEFACT GROUP

Proudly part of the Benefact Group - specialist financial services companies built to make a difference

Annual Report & Accounts 2021
Ecclesiastical Insurance Office plc (EIO)
Benefact House
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Brockworth
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