

Company Number 1718196

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ECCLESIASTICAL INSURANCE GROUP plc
2015 ANNUAL REPORT

TABLE OF CONTENTS

Page	Contents
2	Directors
3	Strategic Report
8	Directors' Report
12	Independent Auditor's Report
13	Consolidated Statement of Profit or Loss
14	Consolidated and Parent Statement of Comprehensive Income
15	Consolidated and Parent Statement of Changes in Equity
16	Consolidated and Parent Statement of Financial Position
17	Consolidated and Parent Statement of Cash Flows
18	Notes to the Financial Statements

DIRECTORS

Directors

- * E. G. Creasy, MA, MBA, FCII *Chairman*
- I. G. Campbell BSc (Econ) (Hons), ACA *Group Chief Financial Officer*
- * T. J. Carroll BA, MBA, FCII
- M. C. J. Hews BSc, FIA *Group Chief Executive*
- * J. F. Hylands FFA
- * A. P. Latham ACII
- * C. H. Taylor BSc (Hons) Banking and International Finance
- S. J. Whyte MC Inst. M, ACII *Deputy Group Chief Executive*
- * The Venerable C. L. Wilson
- * Ms D. P. Wilson BA (Hons), FCII

Company Secretary

Mrs R. J. Hall FCIS

Registered and Head Office

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Brunswick Road,
Gloucester GL1 1JZ
Tel: 0845 777 3322

Company Registration Number

1718196

Investment Management Office

24 Monument Street,
London EC3R 8AJ
Tel: 0800 358 3010

Auditor

Deloitte LLP,
London

Legal Advisors

Charles Russell Speechlys LLP,
London

* *Non-executive directors*

STRATEGIC REPORT

The directors present the Strategic Report of the Company for the year ended 31 December 2015.

Group Chief Executive's Review

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

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

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

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

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

Another strong year

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

That is why it gives me immense pleasure to report another year of strong results. We have achieved a pre-tax profit of £56.6m compared to £45.9m in 2014 and an underwriting profit of £15.9m, up from £10.7m the previous year. Our capital strength has also been enhanced and our net assets ended the year at £528m, compared to £514m in 2014.

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

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

Being good to do good

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

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

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

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

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

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

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

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

"You meet claims fairly and promptly, and your valuation service is highly valued and unique."

Broker, London and South East

"The human side and the caring that everyone at Ecclesiastical showed has been so tremendous. I don't know how we'd have got through it all without your support."

Kathryn Creese, churchwarden and treasurer, St. Michael and All Angels Church, Tirley

STRATEGIC REPORT

"It is also appropriate here to salute the insurance companies, many of which have been praised for the speed and nature of their response to those flooded. Affected churches have greatly valued the service of the Ecclesiastical Insurance Group in particular during recent weeks."

Rt. Revd. Nick Baines, Bishop of Leeds, speaking in the House of Lords

"We should perhaps praise the Lord there is an insurer out there with a conscience..."

Patrick Collinson, personal finance editor, Guardian (on our behaviour towards a policyholder)

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

Progress in detail

Our underwriting performance improved again, despite a more active year for property claims across all of our territories. Investment returns were also similar to last year in the face of challenging markets, particularly in the second half of the year.

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

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

General insurance

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

United Kingdom and Ireland

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

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

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

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

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

Ansvar Australia

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

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

Canada

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

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

STRATEGIC REPORT

Other insurance operations

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

Investments

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

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

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

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

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

Investment management

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

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

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

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

Long-term insurance

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

Broking and advisory

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

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

Lycetts continued to suffer from competitive pressures within key markets, which restricted commission growth during the year. Profit before tax reduced to £2.8m (2014: £3.2m).

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

STRATEGIC REPORT

Overall, our broking and advisory business delivered an increased pre-tax profit of £3.7m (2014: £0.1m profit) as Group level goodwill relating to Lycetts Holdings Limited was impaired during the prior year.

Looking forward to our future

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

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

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

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

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

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

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

Working together for the greater good

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

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

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

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

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

Solvency II

With effect from 1 January 2016 a new Europe-wide regulatory capital regime (Solvency II) has been adopted by the Prudential Regulation Authority. We met Solvency II requirements by 1 January 2016, resulting in a step change in the Group's management of risk and capital. All frameworks are embedded and operational, and we have agreed a scheduled application submission for the Internal Model in 2017.

Principal risks and uncertainties

The principal risks and uncertainties, together with details of the financial risk management objectives and policies of the Group and Company, are disclosed in notes 3 and 4 to the financial statements. The Company is exposed to financial risk through its investments in subsidiary undertakings, its cash on deposit and its financial investments held. In respect of its investments in subsidiaries, the Company is subject to the financial risks within those undertakings, in particular that the proceeds from the trading subsidiaries' financial assets are not sufficient to fund the obligations arising from their insurance contracts. The most important components of financial risk are interest rate risk, credit risk, currency risk and equity price risk.

STRATEGIC REPORT

Further details of the financial risks of the trading subsidiaries can be found in the Risk Management Report within the Strategic Report of the accounts of Ecclesiastical Insurance Office plc. The core business of the Group is general insurance, thus insurance risks, including business mix, underwriting and pricing risk, claims reserving risk, reinsurance risk and concentration and model error risk, are all principal risks.

By order of the Board

A handwritten signature in black ink, appearing to read 'Mark Hews', written over a horizontal line.

Mark Hews

Group Chief Executive, Ecclesiastical Insurance Group plc

21 April 2016

DIRECTORS' REPORT

Principal activity

The principal activity of the Company is that of an investment holding company. Its principal subsidiary is Ecclesiastical Insurance Office plc (EIO). That company heads a group which operates principally as a provider of general insurance in addition to offering a range of financial services, with offices in the UK and Ireland, Canada and Australia. A list of the main subsidiary undertakings is given on page 67.

Ownership

At 20 April 2016 the entire issued equity capital of the Company was owned by Allchurches Trust Limited.

Board of directors

The directors of the Company at the date of this report are stated on page 2. Edward Creasy was appointed as a non-executive director of the Company on 10 February 2016. Will Samuel and David Christie resigned as directors on 16 March 2016. On that date, Mr Creasy succeeded Mr Samuel as chairman.

All directors that have served since the last Annual General Meeting (AGM), with the exception of those that resigned, will be proposed for re-election at the forthcoming AGM.

The Group has made qualifying third party indemnity provisions for the benefit of its directors, which 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 group companies during the year ended 31 December 2015. There has been no change in these interests since the end of the financial year to the date of this report.

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

Director	Nature of Interest	Number of EIO Non-Cumulative Irredeemable Preference Shares held	
		31.12.2015	31.12.2014
David Christie	Director	11,079	11,079
Mark Hews	Connected person	75,342	75,342
Will Samuel	Director	151,000	151,000

There has been no change to Mr Hews' interests since the end of the financial year to the date of this report. Mr Samuel and Mr Christie resigned as directors of the Company on 16 March 2016.

No contract of significance subsisted during or at the end of the financial year in which a director was or is materially interested, with the exception of a non-interest bearing loan to a director.

Dividends

The directors do not recommend the payment of a dividend for the year ended 31 December 2015 (2014: £nil).

Charitable and political donations

Charitable donations paid and provided for by the Group in the year amounted to £20.6 million (2014: £25.2 million).

It is the Group's policy not to make political donations.

Employees

The Group recognises the importance of employee communication and aims to keep employees informed about its affairs through the use of briefing groups, Group newsletters and the publication of financial reports. Regular meetings are held between management and other employees and discussion encouraged. It is the Group's policy to give full consideration to applications for employment by disabled persons. Appropriate adjustments are arranged for disabled persons, including retraining of employees for alternative work who become disabled, to promote their career development within the organisation.

Remuneration policy

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

DIRECTORS' REPORT

The Group's approach is to pay a fair market value to attract appropriate candidates to the role, taking into consideration their individual skills and experience and the ethos of the organisation. Where it is thought necessary to compensate for an individual's awards from previous employment, the 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 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.

Pension arrangements

Mark Hews and Ian Campbell are members of the Group's defined contribution scheme which is operated by Aegon.

Jacinta Whyte is a Canadian resident and is a member of the Group's Canadian defined contribution scheme.

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.

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

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

A code of conduct and a code of ethics are embedded into the culture of the Group and is accessible to all staff via the intranet.

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

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

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 International Financial Reporting Standards (IFRS).

DIRECTORS' REPORT

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 Group Audit 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.

Going concern

A review of the Group's business activities is provided within the Strategic Report. In addition, notes 3 and 4 to the financial statements, along with the Risk Management Report in the Strategic Report in the accounts of Ecclesiastical Insurance Office plc, disclose the Group's principal risks and uncertainties, including exposures to insurance and financial risk.

The Group has considerable financial resources: financial investments of £838.5m, 96% of which are liquid (2014: financial investments of £896.4m (including current assets classified as held for sale), 97% liquid); cash and cash equivalents of £135.4m and no bank borrowings (2014: cash and cash equivalents of £122.4m and no bank borrowings); and a capital adequacy cover of 4.6 (2014: 4.4). Liquid financial investments consist of listed equities and OEICs, government bonds and listed debt. As a consequence, the directors have a reasonable expectation that the Group is well placed to manage its business risks successfully and continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Auditor and the disclosure of information to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information that the auditor is unaware of, that could be needed by the auditor in order to prepare their report. Having made enquiries of fellow directors and the Group's auditor, each director has taken all the steps that they ought to have taken as a director, in order to make themselves aware of any relevant audit information, and to establish that the auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

In accordance with Section 489 of the Companies Act 2006, a resolution proposing that Deloitte LLP be reappointed as auditor of the Group will be put to the forthcoming AGM.

Non-audit work

The Group determines non-audit services which are prohibited and those which are permitted 'subject to safeguards'. The Group's aim is to identify appropriate service providers and ensure that any non-audit work is carried out by the most appropriate provider in a manner that gives best value for money. The policy is shared with the external auditor of the Group. Adherence to the policy and non-audit fees incurred is regularly reviewed by the Group Audit Committee.

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

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

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

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

DIRECTORS' REPORT

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

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.
- The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's position and performance, Business Model and Strategy.

By order of the Board

A handwritten signature in black ink, appearing to read 'Mark Hews', written over a horizontal line.

Mark Hews

Group Chief Executive, Ecclesiastical Insurance Group plc

21 April 2016

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the members of Ecclesiastical Insurance Group plc

We have audited the financial statements of Ecclesiastical Insurance Group plc for the year ended 31 December 2015 which comprise the Consolidated Statement of Profit or Loss, the Consolidated and Parent Statement of Comprehensive Income, the Consolidated and Parent Statement of Changes in Equity, the Consolidated and Parent Statement of Financial Position, the Consolidated and Parent Statement of Cash Flows and the related notes 1 to 37. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and Auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



Paul Stephenson BA FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
21 April 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2015

	Notes	2015 £000	2014 £000
Revenue			
Gross written premiums	5, 6	308,199	328,797
Outward reinsurance premiums	6	(113,115)	(135,132)
Net change in provision for unearned premiums	6	4,677	31,178
Net earned premiums		<u>199,761</u>	<u>224,843</u>
Fee and commission income		71,286	81,057
Other operating income		7	29
Net investment return	7	44,528	46,622
Total revenue		<u>315,582</u>	<u>352,551</u>
Expenses			
Claims and change in insurance liabilities	8	(163,916)	(197,170)
Reinsurance recoveries	8	66,925	62,306
Fees, commissions and other acquisition costs	9	(60,593)	(70,261)
Other operating and administrative expenses		(101,293)	(100,988)
Total operating expenses		<u>(258,877)</u>	<u>(306,113)</u>
Operating profit		56,705	46,438
Finance costs		(101)	(87)
Share of loss after tax of associate	13	-	(80)
Profit on disposal of associate	13	-	86
Loss on acquisition of interest in subsidiary	16	-	(637)
Profit on disposal of interest in subsidiary		-	219
Profit before tax	5	<u>56,604</u>	<u>45,939</u>
Tax expense	14	(7,597)	(8,492)
Profit for the year	10	<u>49,007</u>	<u>37,447</u>
Attributable to:			
Equity holders of the Parent		39,826	28,153
Non-controlling interests		9,181	9,294
		<u>49,007</u>	<u>37,447</u>

CONSOLIDATED AND PARENT STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2015

	2015		2014	
	Group £000	Parent £000	Group £000	Parent £000
Profit for the year	49,007	1,077	37,447	4,966
Other comprehensive income				
<i>Items that will not be reclassified to profit or loss:</i>				
Fair value gains on property	105	-	30	-
Losses on retirement benefit plans	(4,811)	-	(15,611)	-
Attributable tax	826	-	3,132	-
	(3,880)	-	(12,449)	-
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Losses on currency translation differences	(6,461)	-	(1,697)	-
Net other comprehensive income	(10,341)	-	(14,146)	-
Total comprehensive income	38,666	1,077	23,301	4,966
Attributable to:				
Equity holders of the Parent	29,485	1,077	14,007	4,966
Non-controlling interests	9,181	-	9,294	-
	38,666	1,077	23,301	4,966

CONSOLIDATED AND PARENT STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2015

Group	Attributable to equity holders of the Parent					Total	Non-controlling interests	Total equity
	Share capital	Equalisation reserve	Revaluation reserve	Translation reserve	Retained earnings			
	£000	£000	£000	£000	£000	£000	£000	£000
At 1 January 2015	20,000	25,299	541	12,643	349,564	408,047	106,450	514,497
Profit for the year	-	-	-	-	39,826	39,826	9,181	49,007
Other net income/(expense)	-	-	127	(6,461)	(4,007)	(10,341)	-	(10,341)
Total comprehensive income	-	-	127	(6,461)	35,819	29,485	9,181	38,666
Dividends	-	-	-	-	-	-	(9,181)	(9,181)
Gross charitable grant	-	-	-	-	(20,000)	(20,000)	-	(20,000)
Tax relief on charitable grant	-	-	-	-	4,050	4,050	-	4,050
Reserve transfers	-	(342)	(97)	-	439	-	-	-
At 31 December 2015	20,000	24,957	571	6,182	369,872	421,582	106,450	528,032
At 1 January 2014	20,000	25,837	700	14,340	351,610	412,487	117,064	529,551
Profit for the year	-	-	-	-	28,153	28,153	9,294	37,447
Other net income/(expense)	-	-	40	(1,697)	(12,489)	(14,146)	-	(14,146)
Total comprehensive income	-	-	40	(1,697)	15,664	14,007	9,294	23,301
Acquisition of non-controlling interest	-	-	-	-	-	-	(11,507)	(11,507)
Capital contributions from minority interests	-	-	-	-	-	-	947	947
Dividends	-	-	-	-	-	-	(9,348)	(9,348)
Gross charitable grant	-	-	-	-	(23,500)	(23,500)	-	(23,500)
Tax relief on charitable grant	-	-	-	-	5,053	5,053	-	5,053
Reserve transfers	-	(538)	(199)	-	737	-	-	-
At 31 December 2014	20,000	25,299	541	12,643	349,564	408,047	106,450	514,497
Parent								
At 1 January 2015	20,000	-	-	-	13,274	33,274		
Total comprehensive income attributable to equity holders	-	-	-	-	1,077	1,077		
Group tax relief in excess of standard rate	-	-	-	-	6	6		
At 31 December 2015	20,000	-	-	-	14,357	34,357		
At 1 January 2014	20,000	-	-	-	8,308	28,308		
Total comprehensive income attributable to equity holders	-	-	-	-	4,966	4,966		
At 31 December 2014	20,000	-	-	-	13,274	33,274		

The equalisation reserve is not distributable and must be kept in compliance with the insurance companies' reserves regulations. The revaluation reserve represents cumulative net fair value gains on owner-occupied property. The translation reserve arises on consolidation of the Group's foreign operations.

Retained earnings of the Group includes a specific non-distributable reserve of a subsidiary amounting to £4,200,000 (2014: £4,200,000).

CONSOLIDATED AND PARENT STATEMENT OF FINANCIAL POSITION

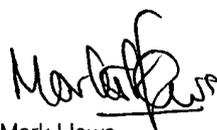
for the year ended 31 December 2015

	Notes	2015		2014	
		Group £000	Parent £000	Group £000	Parent £000
Assets					
Goodwill and other intangible assets	19	59,157	-	60,047	-
Deferred acquisition costs	20	28,394	-	31,117	-
Deferred tax assets	33	2,138	-	1,978	-
Pension assets	21	10,893	-	21,068	-
Property, plant and equipment	22	8,646	-	7,333	-
Investment property	23	98,750	-	69,775	-
Financial investments	24	838,476	53,368	890,214	52,310
Reinsurers' share of contract liabilities	31	170,740	-	157,465	-
Current tax recoverable		331	-	-	-
Other assets	26	110,754	127	105,900	144
Cash and cash equivalents	27	135,390	796	122,411	462
Current assets classified as held for sale	28	-	-	6,204	-
Total assets		1,463,669	54,291	1,473,512	52,916
Equity					
Share capital	29	20,000	20,000	20,000	20,000
Retained earnings and other reserves		401,582	14,357	388,047	13,274
Equity attributable to equity holders of the Parent		421,582	34,357	408,047	33,274
Non-controlling interests	30	106,450	-	106,450	-
Total equity		528,032	34,357	514,497	33,274
Liabilities					
Insurance contract liabilities	31	790,690	-	820,328	-
Borrowings		1,431	19,458	1,259	19,458
Provisions for other liabilities	32	4,066	-	3,588	-
Pension liabilities	21	2,337	-	3,294	-
Retirement benefit obligations	21	9,193	-	12,547	-
Deferred tax liabilities	33	34,471	348	36,197	182
Current tax liabilities		3,667	-	6,007	-
Deferred income		15,532	-	16,454	-
Other liabilities	34	74,250	128	59,341	2
Total liabilities		935,637	19,934	959,015	19,642
Total equity and liabilities		1,463,669	54,291	1,473,512	52,916

The financial statements of Ecclesiastical Insurance Group plc, registered number 1718196, on pages 13 to 68 were approved and authorised for issue by the Board of Directors on 21 April 2016 and signed on its behalf by:



Edward Creasy
Chairman



Mark Hews
Group Chief Executive

CONSOLIDATED AND PARENT STATEMENT OF CASH FLOWS

for the year ended 31 December 2015

	Notes	2015		2014	
		Group £000	Parent £000	Group £000	Parent £000
Profit before tax		56,604	1,192	45,939	4,915
<i>Adjustments for:</i>					
Loss on acquisition of subsidiary		-	-	637	-
Depreciation of property, plant and equipment		1,883	-	1,812	-
Revaluation of property, plant and equipment		(175)	-	-	-
Loss/(profit) on disposal of property, plant and equipment		16	-	(32)	-
Amortisation and impairment of intangible assets		2,427	-	7,024	-
Loss on disposal of intangible assets		11	-	19	-
Share of loss of associate		-	-	80	-
Net fair value gains on financial instruments and investment property		(8,830)	(1,058)	(9,132)	(433)
Gain on disposal of interest in associate		-	-	(86)	-
Gain on disposal of interest in subsidiary		-	-	(219)	-
Dividend and interest income		(30,140)	(390)	(34,898)	(4,850)
Finance costs		101	235	87	235
<i>Changes in operating assets and liabilities:</i>					
Net decrease in insurance contract liabilities		(15,193)	-	(21,413)	-
Net increase in reinsurers' share of contract liabilities		(17,068)	-	(26,814)	-
Net decrease in deferred acquisition costs		1,754	-	3,327	-
Net (increase)/decrease in other assets		(5,711)	118	7,752	(63)
Net increase in operating liabilities		13,732	-	5,426	-
Net increase/(decrease) in other liabilities		918	-	(2,881)	-
Cash generated/(used) by operations		329	97	(23,372)	(196)
Purchases of financial instruments and investment property		(103,333)	-	(152,899)	-
Sale of financial instruments and investment property		122,519	-	185,401	1,166
Dividends received		9,101	386	8,816	4,861
Interest received		23,686	2	26,733	3
Interest paid		(101)	(235)	(87)	(235)
Tax (paid)/recovered		(7,291)	81	399	106
Net cash from operating activities		44,910	331	44,991	5,705
Cash flows from investing activities					
Purchases of property, plant and equipment		(2,739)	-	(1,700)	-
Proceeds from the sale of property, plant and equipment		264	-	677	-
Purchases of intangible assets		(1,850)	-	(1,568)	-
Acquisition of business, net of cash acquired		-	-	(5,000)	-
Disposal of businesses, net of cash transferred		5,260	-	396	-
Disposal of interest in subsidiary		-	-	1,166	-
Net cash from/(used by) investing activities		935	-	(6,029)	-
Cash flows from financing activities					
Payment of finance lease liabilities		(331)	-	(371)	-
Proceeds from other borrowings		-	-	-	4,200
Acquisition of non-controlling interests		-	-	(12,144)	(12,144)
Dividends paid to non-controlling interests of subsidiaries		(9,181)	-	(9,181)	-
Donations paid to ultimate parent undertaking		(20,000)	-	(23,500)	-
Net cash used by financing activities		(29,512)	-	(45,196)	(7,944)
Net increase/(decrease) in cash and cash equivalents		16,333	331	(6,234)	(2,239)
Cash and cash equivalents at beginning of year		122,411	462	129,334	2,715
Exchange (losses)/gains on cash and cash equivalents		(3,354)	3	(689)	(14)
Cash and cash equivalents at end of year	27	135,390	796	122,411	462

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

Ecclesiastical Insurance Group plc (hereafter referred to as the 'Company', or 'Parent'), a public limited company incorporated and domiciled in England, together with its subsidiaries (collectively, the 'Group') operates principally as a provider of general insurance and in addition offers a range of financial services, with offices in the UK & Ireland, Australia and Canada. The principal accounting policies adopted in preparing the Group's International Financial Reporting Standards (IFRS) financial statements are set out below.

Basis of preparation

The Group's consolidated financial statements have been prepared using the following accounting policies, which are in accordance with IFRS applicable at 31 December 2015 issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU). The financial statements have been prepared on the historical cost basis, except for the revaluation of properties and certain financial instruments.

A review of the Group's business activities is provided within the Strategic Report. In addition, notes 3 and 4 to the financial statements disclose the Group's principal risks and uncertainties, including exposures to insurance and financial risk and the Group's objectives for managing capital. The Group has considerable financial resources: financial investments of £838.5m, 96% of which are liquid (2014: financial investments of £896.4m (including current assets classified as held for sale), 97% liquid); cash and cash equivalents of £135.4m and no bank borrowings (2014: cash and cash equivalents of £122.4m and no bank borrowings); and a capital adequacy cover of 4.6 (2014: 4.4). Liquid financial investments consist of listed equities and OEICs, government bonds and listed debt. As a consequence, the directors have a reasonable expectation that the Group is well placed to manage its business risks successfully and continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

In accordance with IFRS 4, *Insurance Contracts*, on adoption of IFRS the Group applied existing accounting practices for insurance and participating investment contracts, modified as appropriate to comply with the IFRS framework and applicable standards, introducing changes only where they provided more reliable and relevant information.

Items included in the financial statements of each of the Group's entities are measured in the currency of the primary economic environment in which that entity operates (the 'functional currency'). The consolidated financial statements are stated in sterling, which is the Company's functional and presentation currency.

As permitted by Section 408 of the Companies Act 2006, a separate profit and loss account for the Company is not presented.

New and revised Standards

The Standards adopted in the current year are either outside the scope of Group transactions or do not materially impact the Group.

The following Standards were in issue but not yet effective and have not been applied in these financial statements.

Accounting Standard	Key requirements	Expected impact on financial statements	Effective date
IFRS 9, <i>Financial Instruments</i>	Provides a new model for the classification and measurement of financial instruments, a single, forward-looking 'expected loss' impairment model and a reformed approach to hedge accounting.	It is expected that equity instruments will continue to be measured at fair value through profit or loss. There is a possibility that the measurement of certain debt instruments will change to amortised cost or fair value through other comprehensive income, although this is being assessed and depends on the conclusion of IFRS 4 Phase II, the IASB's ongoing insurance accounting project.	Annual periods beginning on or after 1 January 2018. Although expected to be deferred until 2020 or 2021 for entities that issue insurance contracts.
IFRS 15, <i>Revenue from Contracts with Customers</i>	Establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.	Insurance contracts are outside the scope of the Standard. The impact on fee and commission income is being assessed. There is the possibility of commission income being recognised earlier if a contract is approved and consideration is probable. Variable consideration will be recognised earlier if receipt is considered highly probable.	Annual periods beginning on or after 1 January 2018 (effective date deferred by one year during the current year).
IFRS 16, <i>Leases</i>	Provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the term is 12 months or less or the underlying asset has a low value.	The Group is currently assessing the full impact of IFRS 16. As operating leases (as disclosed in note 35) are in place for the majority of the Group's offices, these changes will significantly increase the value of both assets and liabilities recognised in the financial statements.	Annual periods beginning on or after 1 January 2019 (subject to EU endorsement).

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

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

Use of estimates

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

Operating profit or loss

Operating profit or loss is stated before finance costs.

Basis of consolidation

Subsidiaries

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

In the Parent statement of financial position subsidiaries are accounted for within financial investments at cost, in accordance with International Accounting Standard (IAS) 27, *Separate Financial Statements*.

The Group uses the acquisition method of accounting to account for business combinations. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Non-controlling interests are measured either at fair value or at a proportionate share of the identifiable net assets of the acquiree. Goodwill is measured as the excess of the aggregate of the consideration transferred, the fair value of contingent consideration, the non-controlling interests and, for an acquisition achieved in stages, the fair value of previously held equity interest over the fair value of the identifiable net assets acquired. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised directly through profit or loss.

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

Associates

Associates are those entities over which the Group has significant influence and are neither subsidiaries nor interests in joint ventures.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Investment vehicles

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

Foreign currency translation

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

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

Product classification

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

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

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

Premium income

General insurance business

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

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

Long-term business

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

Fee and commission income

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

Fees charged for investment management services are recognised as revenue when the services are provided. Initial fees which exceed the level of recurring fees and relate to the future provision of services are deferred and amortised over the anticipated period in which services will be provided. Fees charged for investment management services for institutional and retail fund management are also recognised on this basis.

Net investment return

Net investment return consists of dividends, interest and rents receivable for the year, realised gains and losses, and unrealised gains and losses on financial instruments and investment properties. Dividends on equity securities are recorded as revenue on the ex-dividend date. Interest and rental income is recognised as it accrues.

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

Claims

General insurance claims incurred include all losses occurring during the year, whether reported or not, related handling costs, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Claims handling costs include all internal and external costs incurred in connection with the negotiation and settlement of claims.

Long-term insurance business claims and death claims are accounted for when notified.

Insurance contract liabilities

General insurance provisions

(i) Outstanding claims provisions

General insurance outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the year end date, whether reported or not, together with related claims handling costs. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, the ultimate cost of which cannot be known with certainty at the year end date. An estimate is made representing the best estimate plus a risk margin within a range of possible outcomes. Designated insurance liabilities are remeasured to reflect current market interest rates.

(ii) Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as a provision for unearned premiums. The change in this provision is taken to profit or loss in order that revenue is recognised over the period of risk.

(iii) Liability adequacy

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

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

Long-term business provisions

Under current IFRS requirements, insurance contract liabilities are measured using accounting policies consistent with those adopted previously.

The long-term business provision is determined using methods and assumptions approved by the directors based on advice from the Actuarial Function Holder. Initially it is calculated to comply with the reporting requirements under the Prudential Sourcebook for Insurers. This statutory solvency basis of valuation is then adjusted by eliminating or adjusting certain reserves advised under insurance companies' regulations and general contingency reserves. This adjusted basis is referred to as the modified statutory solvency basis.

Reinsurance

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

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

Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets and liabilities acquired at the date of acquisition. Goodwill on acquisitions prior to 1 January 2004 (the date of transition to IFRS) is carried at book value (original cost less amortisation) on that date, less any subsequent impairment. Where it is considered more relevant, the Group uses the option to measure goodwill initially at fair value, less any subsequent impairment.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Computer software

Computer software is carried at historical cost less accumulated amortisation, and amortised over a useful life of between three and five years, using the straight-line method. The amortisation charge for the period is included in the statement of profit or loss within other operating and administrative expenses.

Other intangible assets

Other intangible assets consist of acquired brand, customer and distribution relationships, and are carried at cost at acquisition less accumulated amortisation after acquisition. Amortisation is on a straight-line basis over the weighted average estimated useful life of intangible assets acquired. The amortisation charge for the period is included in the statement of profit or loss within other operating and administrative expenses.

Property, plant and equipment

Owner-occupied properties are stated at open market value and movements are taken to the revaluation reserve within equity, net of deferred tax. When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings. Where the market value of an individual property is below original cost, any revaluation movement arising during the year is recognised within net investment return in the statement of profit or loss. Valuations are carried out at least every three years by external qualified surveyors. All other items classed as property, plant and equipment within the statement of financial position are carried at historical cost less accumulated depreciation.

Land is not depreciated. No depreciation is provided on owner-occupied properties since such depreciation would be immaterial. Depreciation is calculated on the straight-line method to write down the cost of other assets to their residual values over their estimated useful lives as follows:

Computer equipment	3 - 5 years
Motor vehicles	27% reducing balance or length of lease
Fixtures, fittings and office equipment	3 - 15 years

Where the carrying amount of an item carried at historical cost less accumulated depreciation is greater than its estimated recoverable amount, it is written down to its recoverable amount by way of an impairment charge to profit or loss.

Repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

Investment property

Investment property comprises land and buildings which are held for long-term rental yields. It is carried at fair value with changes in fair value recognised in the statement of profit or loss within net investment return. Investment property is valued annually by external qualified surveyors at open market value.

Financial instruments

IAS 39, *Financial Instruments: Recognition and Measurement* requires the classification of certain financial assets and liabilities into separate categories for which the accounting requirements differ.

The classification depends on the nature and purpose of the financial assets and liabilities, and is determined at the time of initial recognition. Financial instruments are initially measured at fair value. Their subsequent measurement depends on their classification:

- Financial instruments designated as at fair value through profit or loss and those held for trading are subsequently carried at fair value. Changes in fair value are recognised through profit or loss in the period in which they arise.
- All other financial assets and liabilities are held at amortised cost, using the effective interest method (except for short-term receivables and payables when the recognition of interest would be immaterial).

The directors consider that the carrying value of those financial assets and liabilities not carried at fair value in the financial statements approximates to their fair value.

Offset of financial assets and financial liabilities

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position, when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Financial investments

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

Financial assets at fair value through profit or loss

Financial investments are classified into this category if they are managed, and their performance evaluated, on a fair value basis. Purchases and sales of these investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the assets, at their fair value adjusted for transaction costs. Financial investments within this category are classified as held for trading if they are derivatives or acquired principally for the purpose of selling in the near term.

The fair values of investments are based on quoted bid prices. Where there is no active market, fair value is established using a valuation technique based on observable market data where available.

Loans and receivables

Loans and receivables, comprising mortgages and other loans, are recognised when cash is advanced to borrowers. These are carried at amortised cost using the effective interest method. To the extent that a loan is uncollectable, it is written off as impaired. Subsequent recoveries are credited to profit or loss.

Derivative financial instruments

Derivative financial instruments include financial instruments that derive their value from underlying equity instruments. Group derivative transactions, while providing effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting under the specific IFRS rules and are therefore treated as derivatives held for trading. All derivatives are initially recognised in the statement of financial position at their fair value, which usually represents their cost, including any premium paid. They are subsequently remeasured at their fair value with changes in the fair value recognised immediately in net investment return. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on 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 on the statement of financial position within cash and cash equivalents.

Deferred acquisition costs

General insurance business

For general insurance business, a proportion of commission and other acquisition costs relating to unearned premiums is carried forward as deferred acquisition costs or, with regard to reinsurance outwards, as deferred income. Deferred acquisition costs are amortised over the period in which the related revenues are earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

Long-term business

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

Cash and cash equivalents

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

Insurance broking debtors and creditors

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

Leases

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

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

Provisions and contingent liabilities

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

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

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

Employee benefits

Pension obligations

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

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

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

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

Other post-employment obligations

Some Group companies provide post-employment medical benefits to their retirees. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses are recognised immediately in other comprehensive income. Independent qualified actuaries value these obligations annually.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

Other benefits

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the year end date.

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the statement of profit or loss except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in the statement of comprehensive income.

Current tax is the expected tax payable on the taxable result for the period, after any adjustment in respect of prior periods.

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

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

Deferred tax assets and liabilities are not discounted.

Appropriations

Dividends

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

Charitable grant to ultimate parent undertaking

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

Assets held for sale

Assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and expected to qualify for recognition as a completed sale within one year from the date of classification.

NOTES TO THE FINANCIAL STATEMENTS

2 Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are regularly reviewed and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) The ultimate liability arising from claims made under general business insurance contracts

The estimation of the ultimate liability arising from claims made under general business insurance contracts is a critical accounting estimate. There is uncertainty as to the total number of claims made on each class of business, the amounts that such claims will be settled for and the timings of any payments. There are various sources of uncertainty as to how much the Group will ultimately pay with respect to such contracts. Such uncertainty includes:

- whether a claim event has occurred or not and how much it will ultimately settle for;
- variability in the speed with which claims are notified and in the time taken to settle them, especially complex cases resolved through the courts;
- changes in the business portfolio affecting factors such as the number of claims and their typical settlement costs, which may differ significantly from past patterns;
- new types of claim, including latent claims, which arise from time to time;
- changes in legislation and court attitudes to compensation, which may apply retrospectively;
- the way in which certain reinsurance contracts (principally liability) will be interpreted in relation to unusual/latent claims where aggregation of claimants and exposure over time are issues; and
- whether all such reinsurances will remain in force over the long term.

The uncertainties surrounding the estimates of claims payments for the various classes of business are discussed further in note 3, and where discount rates have been applied these are disclosed in note 31. 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 31.

(b) Estimate of future benefit payments arising from long-term insurance contracts

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the Group.

Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to risk. The Group bases these estimates on standard industry and national mortality tables that reflect recent historical mortality experience, with allowance also being made for expected future mortality improvements where prudent. The estimated mortality rates profile provisions for forecast benefit payments net of forecast premium receipts.

Estimates are also made as to future investment returns arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

In addition to the best estimates of future deaths, inflation, investment returns and administration expenses, margins for risk and uncertainty are added to these assumptions in calculating the liabilities of long-term insurance contracts. The sensitivity of profit or loss to changes in the key assumptions is presented in note 31.

(c) Pension and other post-employment benefits

The cost of these benefits and the present value of the pension and other post-employment benefit liabilities depend on factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the charge to profit or loss for these benefits include the discount rate and, in the case of the post-employment medical benefits, expected medical expense inflation. Any changes in these assumptions will impact profit or loss and may affect planned funding of the pension plans. The Group determines an appropriate discount rate at the end of each year, to be used to determine the present value of estimated future cash outflows expected to be required to settle the pension and other post-employment benefit obligations.

In determining the appropriate discount rate, the Group considers interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. The expected rate of medical expense inflation is determined by comparing the historical relationship of medical expense increases over a portfolio of UK-based post-retirement medical plans with the rate of inflation, making an allowance for the size of the plan and actual medical expense experience. Other key assumptions for the pension and post-employment benefit costs and credits are based in part on current market conditions.

Additional information including the sensitivity of pension and post-employment medical benefit scheme liabilities to changes in the key assumptions is disclosed in note 21.

NOTES TO THE FINANCIAL STATEMENTS

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

(d) Goodwill

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. An impairment loss is recognised to the extent that the carrying value of goodwill exceeds the recoverable amount. The recoverable amount is determined by estimating the value in use of the business units to which the goodwill has been allocated. The value in use calculation requires the Group to make an estimation of the future cash flows expected to arise from the business unit and a suitable discount rate to calculate present value. Details of the carrying value of goodwill at the balance sheet date are shown in note 19.

(e) Carrying value of tax liabilities

Calculating tax liabilities requires management to make judgements in respect of the tax payable for current and prior periods based on the interpretation of applicable tax legislation. In particular, the material deferred tax liability held by the Group primarily relates to future tax due on unrealised gains in respect of equities held prior to 2002. Gains on these assets are only recognised for tax purposes when sold and an estimate has to be made of the tax rate that would be applicable at the point of sale in order to determine the tax liability relating to the gain, applying tax rates substantively enacted at the balance sheet date.

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 Report of the Strategic Report in the accounts of Ecclesiastical Insurance Office plc. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount and timing of the resulting claim. Factors such as the business and product mix, the external environment including market competition and reinsurance capacity all may vary from year to year, along with the actual frequency, severity and ultimate cost of claims and benefits. This subjects the Group to underwriting and pricing risk (the risk of failing to ensure disciplined risk selection and achieve the required premium), claims reserving risk (the risk of actual claims payments exceeding the amount we are holding in reserves) and reinsurance risk (the risk of failing to access and manage reinsurance capacity at a reasonable price).

(a) Risk mitigation

Statistics demonstrate that the larger and more diversified the portfolio of insurance contracts, the smaller the relative variability in the expected outcome will be. The Group's underwriting strategy is designed to ensure that the underwritten risks are well diversified in terms of type and amount of risk and geographical spread. In all operations pricing controls are in place, underpinned by sound statistical analysis, market expertise and appropriate external consultant advice. Gross and net underwriting exposure is protected through the use of a comprehensive programme of reinsurance using both proportional and non-proportional reinsurance and supported by proactive claims handling. The overall reinsurance structure is regularly reviewed and modelled to ensure that it remains optimum to the Group's needs. The optimum reinsurance structure provides the Group with sustainable, long-term capacity to support its specialist business strategy, with effective balance sheet and profit and loss protection at a reasonable cost.

Catastrophe protection is purchased following an extensive annual modelling exercise of gross and net (of proportional reinsurance) exposures. In conjunction with reinsurance brokers the Group utilises the full range of proprietary catastrophe models and continues to develop bespoke modelling options that better reflect the specialist nature of the portfolio. Reinsurance is arranged to cover up to a 1/250 loss, which increases to a 1/500 loss where earthquake risk exists.

(b) Concentrations of risk

The core business of the Group is general insurance, with the principal classes of business written being property and liability. The Group has also underwritten a small portfolio of motor policies, but this class is in run-off following the decision in November 2012 to focus on the principal classes. The accident class of business covers injury, death or incapacity as a result of an unforeseen event. The Group's whole-of-life insurance policies support funeral planning products.

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

Group		General insurance				Life insurance	Total
		Property	Liability	Motor	Accident	Funeral plans	
Territory		£000	£000	£000	£000	£000	£000
2015							
United Kingdom and Ireland	Gross	170,371	52,316	210	7,831	113	230,841
	Net	92,631	47,183	209	7,510	113	147,646
Australia	Gross	20,708	15,062	550	1,131	-	37,451
	Net	1,936	12,993	545	1,089	-	16,563
Canada	Gross	28,194	11,713	-	-	-	39,907
	Net	19,995	10,880	-	-	-	30,875
Total	Gross	219,273	79,091	760	8,962	113	308,199
	Net	114,562	71,056	754	8,599	113	195,084
2014							
United Kingdom and Ireland	Gross	179,362	55,895	183	13,742	167	249,349
	Net	94,506	49,787	(924)	13,272	167	156,808
Australia	Gross	22,638	15,532	763	1,150	-	40,083
	Net	(8,558)	13,300	757	1,105	-	6,604
Canada	Gross	27,918	11,447	-	-	-	39,365
	Net	19,691	10,562	-	-	-	30,253
Total	Gross	229,918	82,874	946	14,892	167	328,797
	Net	105,639	73,649	(167)	14,377	167	193,665

NOTES TO THE FINANCIAL STATEMENTS

3 Insurance risk (continued)

(c) General insurance risks

Property classes

Property cover mainly compensates the policyholder for damage suffered to their properties or for the value of property lost. Property insurance may also include cover for pecuniary loss through the inability to use damaged insured commercial properties.

For property insurance contracts, there can be variability in the nature, number and size of claims made in each period.

The nature of claims may include fire, business interruption, weather damage, escape of water, subsidence, accidental damage to insured vehicles and theft. Subsidence claims are particularly difficult to predict because the damage is often not apparent for some time. The ultimate settlements can be small or large with a risk of a settled claim being reopened at a later date.

The number of claims made can be affected by weather events, changes in climate and crime rates. Climate change may give rise to more frequent and extreme weather events, such as river flooding, hurricanes and drought, and their consequences, for example, subsidence claims. If a weather event happens near the end of the financial year, the uncertainty about ultimate claims cost in the financial statements is much higher because there is insufficient time for adequate data to be received to assess the final cost of claims.

Individual claims can vary in amount since the risks insured are diverse in both size and nature. The cost of repairing property varies according to the extent of damage, cost of materials and labour charges.

Contracts are underwritten on a reinstatement basis or repair and restoration basis as appropriate. Costs of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims. Individual large claims are more likely to arise from fire, storm or flood damage. The greatest likelihood of an aggregation of claims arises from earthquake, weather or fire events.

Claims payment, on average, occurs within a year of the event that gives rise to the claim. However, there is variability around this average with larger claims typically taking longer to settle.

Liability classes

The main exposures are in respect of liability insurance contracts which protect policyholders from the liability to compensate injured employees (employers' liability) and third parties (public liability).

Claims that may arise from the liability portfolios include damage to property, physical injury, disease and psychological trauma. The Group has a different exposure profile to most other commercial lines insurance companies as it has lower exposure to industrial risks. Therefore, claims for industrial diseases are less common for the Group than injury claims such as slips, trips and back injuries.

The frequency and severity of claims arising on liability insurance contracts, including the liability element of motor contracts, can be affected by several factors. Most significant are the increasing level of awards for damages suffered, the courts' move to periodic payments awards and the increase in the number of cases that have been latent for a long period of time.

The severity of bodily injury claims is highly influenced by the value of loss of earnings and the future cost of care. The settlement value of claims arising under public and employers' liability is particularly difficult to predict. There is often uncertainty as to the extent and type of injury, whether any payments will be made and, if they are, the amount and timing of the payments. Key factors driving the high levels of uncertainty include the late notification of possible claim events and the legal process.

Late notification of possible claims necessitates the holding of provisions for incurred claims that may only emerge some years into the future. In particular, the effect of inflation over such a long period can be considerable and is uncertain. A lack of comparable past experience makes it difficult to quantify the number of claims and, for certain types of claims, the amounts for which they will ultimately settle. The legal and legislative framework continues to develop, which has a consequent impact on the uncertainty as to the length of the claims settlement process and the ultimate settlement amounts.

Claims payment, on average, occurs about three to four years after the event that gives rise to the claim. However, there is significant variability around this average.

NOTES TO THE FINANCIAL STATEMENTS

3 Insurance risk (continued)

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

(d) Life insurance risks

The Group provides whole-of-life insurance policies to support funeral planning products, for most of which the future benefits are linked to inflation and backed by index-linked assets. The risk that actual claims payments exceed the carrying amount of the insurance liabilities may occur if the timing of claims is different from assumed. This is not one of the Group's principal risks and the life fund is closed to new entrants, with only minimal premiums now being received each year.

Uncertainty in the estimation of the timing of future claims arises from the unpredictability of long-term changes in overall levels of mortality. The Group bases these estimates on standard industry and national mortality tables. The most significant factors that could alter the expected mortality rates profile are epidemics, widespread changes in lifestyle and continued improvement in medical science and social conditions. The primary risk on these contracts is the level of future investment returns on the assets backing the liabilities over the life of the policyholders. The interest rate and inflation risk within this has been largely mitigated by holding index-linked assets of a similar term to the expected liabilities profile. The main residual risk is the spread risk attaching to corporate bonds held to match the liabilities. The small mortality risk is retained by the Group and directly impacts shareholders' equity.

NOTES TO THE FINANCIAL STATEMENTS

4 Financial risk and capital management

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

There has been no change from the prior period in the nature of the financial risks to which the Group is exposed. The Group's management and measurement of financial risks is informed by either stochastic modelling or stress testing techniques.

(a) Categories of financial instruments

Group	Financial assets			Held for trading £000	Financial liabilities** £000	Other assets and liabilities £000	Total £000
	Designated at fair value £000	Held for trading £000	Loans and receivables* £000				
At 31 December 2015							
Financial investments	837,747	713	16	-	-	-	838,476
Other assets	-	-	107,306	-	-	3,448	110,754
Cash and cash equivalents	-	-	135,390	-	-	-	135,390
Borrowings	-	-	-	-	-	(1,431)	(1,431)
Other liabilities	-	-	-	(1,466)	(67,743)	(5,041)	(74,250)
Net other	-	-	-	-	-	(480,907)	(480,907)
Total	837,747	713	242,712	(1,466)	(67,743)	(483,931)	528,032
At 31 December 2014							
Financial investments	890,198	-	16	-	-	-	890,214
Other assets	-	-	102,424	-	-	3,476	105,900
Cash and cash equivalents	-	-	122,411	-	-	-	122,411
Assets classified as held for sale	-	-	6,204	-	-	-	6,204
Borrowings	-	-	-	-	-	(1,259)	(1,259)
Other liabilities	-	-	-	-	(55,064)	(4,277)	(59,341)
Net other	-	-	-	-	-	(549,632)	(549,632)
Total	890,198	-	231,055	-	(55,064)	(551,692)	514,497
Parent							
At 31 December 2015							
Financial investments	5,086	-	-	-	-	48,282	53,368
Other assets	-	-	127	-	-	-	127
Cash and cash equivalents	-	-	796	-	-	-	796
Borrowings	-	-	-	-	(19,458)	-	(19,458)
Other liabilities	-	-	-	-	(128)	-	(128)
Net other	-	-	-	-	-	(348)	(348)
Total	5,086	-	923	-	(19,586)	47,934	34,357
At 31 December 2014							
Financial investments	4,028	-	-	-	-	48,282	52,310
Other assets	-	-	144	-	-	-	144
Cash and cash equivalents	-	-	462	-	-	-	462
Borrowings	-	-	-	-	(19,458)	-	(19,458)
Other liabilities	-	-	-	-	(2)	-	(2)
Net other	-	-	-	-	-	(182)	(182)
Total	4,028	-	606	-	(19,460)	48,100	33,274
* Cash and cash equivalents have been presented with loans and receivables.							
** Financial liabilities are held at amortised cost.							

NOTES TO THE FINANCIAL STATEMENTS

4 Financial risk and capital management (continued)

(b) Fair value hierarchy

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

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

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

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

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

Analysis of fair value measurement bases	Fair value measurement at the end of the reporting period based on			Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
Group				
At 31 December 2015				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	274,293	221	36,304	310,818
Debt securities	524,453	2,289	187	526,929
Derivatives	-	713	-	713
Total financial assets at fair value through profit or loss	798,746	3,223	36,491	838,460
At 31 December 2014				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	269,347	209	24,377	293,933
Debt securities	591,542	4,485	238	596,265
Total financial assets at fair value through profit or loss	860,889	4,694	24,615	890,198
Parent				
At 31 December 2015				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	-	-	5,086	5,086
Total financial assets at fair value through profit or loss	-	-	5,086	5,086
At 31 December 2014				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	-	-	4,028	4,028
Total financial assets at fair value through profit or loss	-	-	4,028	4,028

NOTES TO THE FINANCIAL STATEMENTS

4 Financial risk and capital management (continued)

Fair value measurements based on level 3

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

Group	Financial assets at fair value through profit and loss		
	Equity securities £000	Debt securities £000	Total £000
At 31 December 2015			
Opening balance	24,377	238	24,615
Total gains/(losses) recognised in profit or loss	6,204	(51)	6,153
Purchases	5,723	-	5,723
Closing balance	36,304	187	36,491
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	6,204	(51)	6,153
At 31 December 2014			
Opening balance	23,204	317	23,521
Total gains/(losses) recognised in profit or loss	1,173	(79)	1,094
Closing balance	24,377	238	24,615
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	1,173	(79)	1,094
Parent			
At 31 December 2015			
Opening balance	4,028	-	4,028
Total gains recognised in profit or loss	1,058	-	1,058
Closing balance	5,086	-	5,086
Total gains for the period included in profit or loss for assets held at the end of the reporting period	1,058	-	1,058
At 31 December 2014			
Opening balance	3,813	-	3,813
Total gains recognised in profit or loss	215	-	215
Closing balance	4,028	-	4,028
Total gains for the period included in profit or loss for assets held at the end of the reporting period	215	-	215

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

NOTES TO THE FINANCIAL STATEMENTS

4 Financial risk and capital management (continued)

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

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

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

Non-exchange-traded derivative contracts (level 2)

The Group's derivative contracts are not traded in active markets. Foreign currency forward contracts are valued using observable forward exchange rates and interest rates corresponding to the maturity of the contract. Over-the-counter equity or index options and futures are valued by reference to observable index prices.

Unlisted equity securities (level 3)

These financial assets are valued using observable net asset data, adjusted for unobservable inputs including comparable price-to-book ratios based on similar listed companies, and management's consideration of constituents as to what exit price might be obtainable. Where material, these valuations are reviewed by the Group Audit Committee.

The valuation is most sensitive to the level of underlying net assets, the euro exchange rate, the price-to-book ratio chosen, an illiquidity discount and a credit rating discount applied to the valuation to account for the risks associated with holding the asset. If the price-to-book ratio, illiquidity discount and credit rating discount applied changes by +/-10%, the value of unlisted equity securities could move by +/-£4m.

The increase in value during the year is the result of an increase in underlying net assets and a decrease in the illiquidity margin applied to one of the stocks. The illiquidity assumption was updated based on observable market inputs.

Unlisted debt (level 3)

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

4 Financial risk and capital management (continued)

(c) Interest rate risk

The Group's exposure to interest rate risk arises primarily from movements on financial investments that are measured at fair value and have fixed interest rates, which represent a significant proportion of the Group's assets, and from those insurance liabilities for which discounting is applied at a market interest rate. Investment strategy is set in order to control the impact of interest rate risk on anticipated Group cash flows and asset and liability values. The fair value of the Group's investment portfolio of fixed income securities reduces as market interest rates rise as does the present value of discounted insurance liabilities, and vice versa.

Interest rate risk concentration is reduced by adopting asset-liability duration matching principles where appropriate. Excluding assets held to back the long-term business, the average duration of the Group's fixed income portfolio is two years (2014: two years), reflecting the relatively short-term average duration of its general insurance liabilities. The mean term of discounted general insurance liabilities is disclosed in note 31 (a) part (iv).

For the Group's long-term insurance funeral plan business, benefits payable to policyholders are independent of the returns generated by interest-bearing assets. Therefore the interest rate risk on the invested assets supporting these liabilities is borne by the Group. This risk can be mitigated by purchasing fixed interest investments with durations that precisely match the profile of the liabilities. For funeral plan policies, benefits are linked to the Retail Prices Index (RPI). Assets backing these liabilities are also linked to the RPI, and include index-linked gilts and corporate bonds. For practical purposes it is not possible to exactly match the durations due to the uncertain profile of liabilities (e.g. mortality risk) and the availability of suitable assets, therefore some interest rate risk will persist. The Group monitors its exposure by comparing projected cash flows for these assets and liabilities and making appropriate adjustments to its investment portfolio.

The table below summarises the maturities of long-term business assets and liabilities that are exposed to interest rate risk.

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

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

NOTES TO THE FINANCIAL STATEMENTS

4 Financial risk and capital management (continued)

(d) Credit risk

The Group has exposure to credit risk, which is the risk of non-payment of their obligations by counterparties and financial markets borrowers. Areas where the Group is exposed to credit risk are:

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

The carrying amount of financial and reinsurance assets represents the Group's maximum exposure to credit risk. The Group structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty. Limits on the level of credit risk are regularly reviewed.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on a regular basis through the year by reviewing their financial strength. The Group Reinsurance Security Committee assesses, monitors and approves the creditworthiness of all reinsurers, reviewing relevant credit ratings provided by the recognised credit rating agencies, as well as other publicly available data and market information. The Committee also monitors the balances outstanding from reinsurers and maintains an approved list of reinsurers.

There has been no significant change in the recoverability of the Group's reinsurance balances during the year with all reinsurers on the 2015 reinsurance programme having a minimum rating of 'A-' from Standard & Poor's or an equivalent agency at the time of purchase.

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

The Group's credit risk policy details prescriptive methods for the collection of premiums and control of intermediary and policyholder debtor balances. The level and age of debtor balances are regularly assessed via monthly credit management reports. These reports are scrutinised to assess exposure in more than one region in respect of aged or outstanding balances. Any such balances are likely to be major international brokers that are in turn monitored via credit reference agencies and considered to pose minimal risk of default. The Group has no material concentration of credit risk in respect of amounts due from insurance intermediaries and policyholders due to the well-diversified spread of such debtors.

Collateral is held over loans secured by mortgages. The debt securities portfolio consists of a range of mainly fixed interest instruments including government securities, local authority issues, corporate loans and bonds, overseas bonds, preference shares and other interest-bearing securities. Limits are imposed on the credit ratings of the corporate bond portfolio and exposures regularly monitored. Group investments in unlisted securities represent less than 1% of this category in the current and prior year. The Group's exposure to counterparty default on debt securities is spread across a variety of geographical and economic territories, as follows:

Group	2015 £000	2014 £000
UK	381,087	424,480
Australia	73,429	87,037
Canada	52,350	60,162
Europe	15,876	24,586
Other	4,187	-
Total	<u>526,929</u>	<u>596,265</u>

NOTES TO THE FINANCIAL STATEMENTS

4 Financial risk and capital management (continued)

(e) Liquidity risk

Liquidity risk is the risk that funds may not be available to pay obligations when due. The Group is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts. An estimate of the timing of the net cash outflows resulting from insurance contracts is provided in note 31. The Group has robust processes in place to manage liquidity risk and has available cash balances, other readily marketable assets and access to funding in case of exceptional need. This is not considered to be a significant risk to the Group.

Non-derivative financial liabilities consist of finance leases, which are not material to the Group, and other liabilities for which a maturity analysis is included in note 34.

(f) Currency risk

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

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

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

- the operating results of the Group's foreign branches and subsidiaries in the Group financial statements are translated at the average exchange rates prevailing during the period; and
- the equity investment in foreign branches and subsidiaries is translated into sterling using the exchange rate at the year end date.

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

	2015			2014	
	Group £000	Parent £000		Group £000	Parent £000
Aus \$	45,530	-	Aus \$	45,571	-
Can \$	32,544	-	Can \$	34,757	-
Euro	25,213	5,193	Euro	18,653	4,028
USD \$	3,289	-	NZ \$	10,969	-
NZ \$	2,130	-	Japanese Yen	1,047	-

(g) Equity price risk

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

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

	2015			2014	
	Group £000	Parent £000		Group £000	Parent £000
UK	269,724	-	UK	264,716	-
Europe	36,526	5,086	Europe	24,470	4,028
Canada	2,257	-	Canada	2,583	-
US	2,139	-	US	1,950	-
Other	172	-	Other	214	-
Total	<u>310,818</u>	<u>5,086</u>	Total	<u>293,933</u>	<u>4,028</u>

NOTES TO THE FINANCIAL STATEMENTS

4 Financial risk and capital management (continued)

(h) Market risk sensitivity analysis

The sensitivity of profit and other equity reserves to movements on market risk variables (comprising interest rate, currency and equity price risk), each considered in isolation, 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 21.

Group		Potential increase/ (decrease) in profit		Potential increase/ (decrease) in other equity reserves	
Variable	Change in variable	2015 £000	2014 £000	2015 £000	2014 £000
Interest rate risk	-100 basis points	(6,377)	(4,284)	(29)	(15)
	+100 basis points	2,154	1,243	29	18
Currency risk	-10%	4,195	3,281	7,052	8,010
	+10%	(3,433)	(2,684)	(5,770)	(6,554)
Equity price risk	+/-10%	24,788	23,074	-	-

Parent		Potential increase/ (decrease) in profit		Potential increase/ (decrease) in other equity reserves	
Variable	Change in variable	2015 £000	2014 £000	2015 £000	2014 £000
Currency risk	-10%	460	351	-	-
	+10%	(377)	(287)	-	-
Equity price risk	+/-10%	406	316	-	-

The following assumptions have been made in preparing the above sensitivity analysis:

- the value of fixed income investments will vary inversely with changes in interest rates, and all territories experience the same interest rate movement;
- currency gains and losses will arise from a change in the value of sterling against all other currencies moving in parallel;
- equity prices will move by the same percentage across all territories; and
- change in profit is stated net of tax at the standard rate applicable in each of the Group's territories.

(i) Capital management

The Group's primary objectives when managing capital are to:

- comply with the regulators' capital requirements of the markets in which the Group operates; and
- safeguard the Group's ability to continue to meet stakeholders' expectations in accordance with its corporate mission, vision and values.

The Group is subject to insurance solvency regulations in all the territories in which it issues insurance and investment contracts, and capital is managed and evaluated on the basis of regulatory capital.

In the UK, the Group and its UK regulated entities are required to comply with rules issued by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA), and submit PRA returns detailing levels of regulatory capital held. Regulatory capital should be in excess of the higher of two amounts. The first is an amount which is calculated by applying fixed percentages to premiums and claims (general insurance business) or by applying fixed percentages to insurance liabilities and applying stress testing (long-term business). The second is an economic capital assessment by the regulated entity, which the PRA reviews and may amend by issuing Individual Capital Guidance. The Group sets internal capital standards above the PRA's minimum requirement. For overseas business the relevant capital requirement is the minimum requirement under the local regulatory regime. Both the Group and the regulated entities within it have complied with all externally imposed capital requirements throughout the current and prior year. With effect from 1 January 2016 a new Europe-wide regulatory capital regime (Solvency II) has been adopted by the PRA. The Group is well placed to comply with the new Solvency II reporting requirements and has separately calculated its capital requirement under the new regime. The Group holds capital resources in excess of its expected Solvency II capital requirement and its internal capital standard will continue to be set above the PRA's minimum requirement.

Regulated subsidiaries are restricted in the amount of cash dividends they transfer to the parent entity in order for them to meet their individual minimum capital requirements. The Group's total available capital resources are disclosed in note 31 (b).

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. Group activities that are not reportable operating segments on the basis of size are included within an 'Other activities' category. Changes have been made to segments during 2015 as follows:

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

The prior period has been restated to the revised basis.

The activities of each operating segment are described below.

- General business

United Kingdom and Ireland

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

Australia

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

Canada

The Group operates a general insurance Ecclesiastical branch in Canada.

Other insurance operations

This includes the Group's internal reinsurance function, adverse development cover sold to ACS (NZ) Limited and operations that are in run-off or not reportable due to their immateriality.

- Investment management

The Group provides investment management services both internally and to third parties through EdenTree Investment Management Limited.

- Broking and Advisory

The Group provides insurance broking through South Essex Insurance Brokers Limited and Lycetts Holdings Limited, and advisory services through Ecclesiastical Financial Advisory Services Limited.

- Life business

Ecclesiastical Life Limited provides long-term insurance policies to support funeral planning products. It is closed to new business.

- Corporate costs

This includes costs associated with Group management activities.

- Other activities

This includes the return on Parent company investment holdings and costs relating to acquisition of businesses.

Inter-segment and inter-territory transfers or transactions are entered into under normal commercial terms and conditions that would also be available to unrelated third parties.

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.

	2015			(restated) 2014		
	Gross written premiums £000	Non-insurance services £000	Total £000	Gross written premiums £000	Non-insurance services £000	Total £000
General business						
United Kingdom and Ireland	228,056	-	228,056	245,528	-	245,528
Australia	37,451	-	37,451	40,083	-	40,083
Canada	39,907	-	39,907	39,365	-	39,365
Other insurance operations	2,672	-	2,672	3,654	-	3,654
Total	308,086	-	308,086	328,630	-	328,630
Life business	113	-	113	167	-	167
Investment management	-	11,394	11,394	-	12,045	12,045
Broking and Advisory	-	27,870	27,870	-	28,693	28,693
Group revenue	308,199	39,264	347,463	328,797	40,738	369,535

Group revenues are not materially concentrated on any single external customer.

Segment result

General business segment results comprise the insurance underwriting profit or loss, investment activities and other expenses of each underwriting territory. The Group uses the industry standard net combined operating ratio (COR) as a measure of underwriting efficiency. The COR expresses the total of net claims costs, commission and underwriting expenses as a percentage of net earned premiums.

The life business segment result comprises the profit or loss on insurance contracts (including return on assets backing liabilities in the long-term fund), shareholder investment return and other expenses.

All other segment results consist of the profit or loss before tax measured in accordance with IFRS.

2015	Combined operating ratio	Insurance £000	Investments £000	Other £000	Total £000
General business					
United Kingdom and Ireland	90.4%	14,454	34,683	4	49,141
Australia	102.3%	(370)	2,468	(96)	2,002
Canada	96.5%	1,017	1,090	-	2,107
Other insurance operations		792	-	-	792
	92.0%	15,893	38,241	(92)	54,042
Life business		1,001	2,161	(4)	3,158
Investment management		-	1,812	-	1,812
Broking and Advisory		-	-	3,738	3,738
Corporate costs		-	-	(7,341)	(7,341)
Other activities		-	1,216	(21)	1,195
Profit/(loss) before tax		16,894	43,430	(3,720)	56,604

NOTES TO THE FINANCIAL STATEMENTS

5 Segment information (continued)

2014 (restated)	Combined operating ratio	Insurance £000	Investments £000	Other £000	Total £000
General business					
United Kingdom and Ireland	94.0%	10,359	23,648	70	34,077
Australia	106.2%	(1,129)	7,619	(139)	6,351
Canada	94.2%	1,662	1,598	-	3,260
Other insurance operations		(172)	-	-	(172)
	95.2%	10,720	32,865	(69)	43,516
Life business		(178)	1,522	(4)	1,340
Investment management		-	3,164	-	3,164
Broking and Advisory		-	-	77	77
Corporate costs		-	-	(1,521)	(1,521)
Other activities		-	(89)	(548)	(637)
Profit/(loss) before tax		10,542	37,462	(2,065)	45,939

(b) Geographical information

Gross written premiums from external customers and non-current assets, as attributed to individual countries in which the Group operates, are as follows:

	2015		(restated) 2014	
	Gross written premiums £000	Non-current assets £000	Gross written premiums £000	Non-current assets £000
United Kingdom and Ireland	230,841	165,216	249,349	136,492
Australia	37,451	190	40,083	257
Canada	39,907	3,154	39,365	2,407
	308,199	168,560	328,797	139,156

Gross written premiums are allocated based on the country in which the insurance contracts are issued. Non-current assets exclude rights arising under insurance contracts, deferred tax assets, pension assets and financial instruments and are allocated based on where the assets are located.

NOTES TO THE FINANCIAL STATEMENTS

6 Net insurance premium revenue

	General business £000	Long-term business £000	Total £000
For the year ended 31 December 2015			
Gross written premiums	308,086	113	308,199
Outward reinsurance premiums	(113,115)	-	(113,115)
Net written premiums	194,971	113	195,084
Change in the gross provision for unearned premiums	3,889	-	3,889
Change in the provision for unearned premiums, reinsurers' share	788	-	788
Change in the net provision for unearned premiums	4,677	-	4,677
Earned premiums, net of reinsurance	199,648	113	199,761
For the year ended 31 December 2014			
Gross written premiums	328,630	167	328,797
Outward reinsurance premiums	(135,132)	-	(135,132)
Net written premiums	193,498	167	193,665
Change in the gross provision for unearned premiums	23,651	-	23,651
Change in the provision for unearned premiums, reinsurers' share	7,527	-	7,527
Change in the net provision for unearned premiums	31,178	-	31,178
Earned premiums, net of reinsurance	224,676	167	224,843

7 Net investment return

	2015 £000	2014 £000
<i>Income from financial assets at fair value through profit or loss</i>		
- equity income	9,106	8,934
- debt income	20,510	22,936
<i>Income from financial assets not at fair value through profit or loss</i>		
- interest income on mortgages and other loans	26	328
- cash and cash equivalents income, net of exchange movements	(352)	(112)
- other income received	1,412	1,573
<i>Other income</i>		
- rental income	4,996	3,831
Investment income	35,698	37,490
Fair value movements on financial instruments at fair value through profit or loss	3,985	6,673
Fair value movements on investment property	4,845	2,459
Net investment return	44,528	46,622

Included within cash and cash equivalents income are exchange losses of £1,421,000 (2014: £1,352,000 losses).

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

NOTES TO THE FINANCIAL STATEMENTS

8 Claims and change in insurance liabilities and reinsurance recoveries

	General business £000	Long-term business £000	Total £000
For the year ended 31 December 2015			
Gross claims paid	167,364	6,899	174,263
Gross change in the provision for claims	(1,448)	3	(1,445)
Gross change in long-term business provisions	-	(8,902)	(8,902)
Claims and change in insurance liabilities	165,916	(2,000)	163,916
Reinsurers' share of claims paid	(50,721)	-	(50,721)
Reinsurers' share of change in the provision for claims	(16,204)	-	(16,204)
Reinsurance recoveries	(66,925)	-	(66,925)
Claims and change in insurance liabilities, net of reinsurance	98,991	(2,000)	96,991
For the year ended 31 December 2014			
Gross claims paid	188,263	7,016	195,279
Gross change in the provision for claims	(13)	26	13
Gross change in long-term business provisions	-	1,878	1,878
Claims and change in insurance liabilities	188,250	8,920	197,170
Reinsurers' share of claims paid	(43,034)	-	(43,034)
Reinsurers' share of change in the provision for claims	(19,272)	-	(19,272)
Reinsurance recoveries	(62,306)	-	(62,306)
Claims and change in insurance liabilities, net of reinsurance	125,944	8,920	134,864

9 Fees, commissions and other acquisition costs

	2015 £000	2014 £000
Fees paid	665	533
Commission paid	44,477	51,334
Change in deferred acquisition costs	1,754	3,327
Other acquisition costs	13,697	15,067
Fees, commissions and other acquisition costs	60,593	70,261

NOTES TO THE FINANCIAL STATEMENTS

10 Profit for the year

	2015	2014
	£000	£000
Profit for the year has been arrived at after charging/(crediting)		
Net foreign exchange losses	1,421	1,352
Depreciation of property, plant and equipment	1,883	1,812
Loss/(profit) on disposal of property, plant and equipment	16	(32)
Amortisation of intangible assets	2,363	2,722
Impairment of goodwill	64	4,302
Increase in fair value of investment property	(4,845)	(2,459)
Employee benefits expense including termination benefits	75,072	73,858
Operating lease rentals	3,772	3,920

11 Auditor's remuneration

	2015	2014
	£000	£000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	15	15
Fees payable to the Company's auditor and its associates for other services:		
- The audit of the Company's subsidiaries	463	358
Total audit fees	<u>478</u>	<u>373</u>
- Audit-related assurance services	86	84
- Other assurance services	6	6
Total non-audit fees	<u>92</u>	<u>90</u>
Total auditor's remuneration	<u>570</u>	<u>463</u>

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

Fees payable to the Company's auditor in respect of the audit of the Group's associated pension plans amounted to £17,000 (2014: £15,000).

NOTES TO THE FINANCIAL STATEMENTS

12 Employee information

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

	2015			2014		
	General business	Long-term business	Other	General business	Long-term business	Other
	No.	No.	No.	No.	No.	No.
United Kingdom and Ireland	709	1	361	724	1	353
Australia	92	-	-	101	-	-
Canada	68	-	-	63	-	-
	<u>869</u>	<u>1</u>	<u>361</u>	<u>888</u>	<u>1</u>	<u>353</u>

	2015	2014
	£000	£000
Wages and salaries	61,787	62,935
Social security costs	5,553	5,512
Pension costs - defined contribution plans	3,096	3,063
Pension costs - defined benefit plans	3,181	1,774
Other post-employment benefits	459	551
	<u>74,076</u>	<u>73,835</u>

The above figures do not include termination benefits of £996,000 (2014: £23,000).

The remuneration of the directors (including non-executive directors), who are the key management personnel of the Group, is set out in aggregate below:

	2015	2014
	£000	£000
Salaries and other short-term employee benefits	2,239	1,958
Long-term cash incentive	396	306
Post-employment benefits	122	118
	<u>2,757</u>	<u>2,382</u>

Directors' remuneration includes amounts paid in Canadian dollars. An average exchange rate of 1.9524 Canadian dollars to 1 GBP has been used in respect of the current and prior year.

Post-employment benefits includes £66,000 (2014: £100,000) in respect of contributions to a defined contribution scheme. The prior year has been restated for the effects of exchange.

No directors who were employed by Ecclesiastical Insurance Office plc were members of the Group's defined benefit pension scheme during the year (2014: no directors). Three directors (2014: three) were members of the Group's defined contribution scheme during the year.

	2015	2014
	£000	£000
Highest paid director		
- emoluments	1,089	877
- money purchase pension contributions	-	30
Chairman's fees *	68	68

*The Chairman waived £27,000 of his fee in both the current and prior years, which was increased to £95,000 from 1 January 2014.

NOTES TO THE FINANCIAL STATEMENTS

13 Associate

On 20 May 2014 the Group disposed of its 40% shareholding in its associate Amlin Plus Limited, an unlisted insurance services company incorporated in the United Kingdom, for consideration of £396,000, recognising a profit on disposal of £86,000. The Group's interest in Amlin Plus Limited is as follows:

	2014
	£000
At 1 January	390
Share of loss after tax for the year	(80)
Disposal	(310)
At 31 December	-
Group's share of:	
Revenue	163
Loss	(80)

14 Tax expense

	2015	2014
	£000	£000
Current tax		
- current year	8,321	9,176
- prior years	385	(1,206)
Deferred tax		
- temporary differences	2,610	46
- prior years	2	476
- reduction in tax rate	(3,721)	-
Total tax expense	7,597	8,492

Tax on the Group's result before tax differs from the United Kingdom standard rate of corporation tax for the reasons set out in the following reconciliation:

	2015	2014
	£000	£000
Profit before tax	56,604	45,939
Tax calculated at the UK standard rate of tax of 20.25% (2014: 21.5%)	11,461	9,877
<i>Factors affecting charge for the year:</i>		
Expenses not deductible for tax purposes	873	2,027
Non-taxable income	(1,272)	(2,990)
Life insurance and other tax paid at non-standard rates	72	424
Utilisation of tax losses for which no deferred tax asset has been recognised	(203)	(116)
Impact of reduction in deferred tax rate	(3,721)	-
Adjustments to tax charge in respect of prior periods	387	(730)
Total tax expense	7,597	8,492

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

A change in the UK standard rate of corporation tax from 21% to 20% became effective from 1 April 2015. Where appropriate, current tax has been provided at the blended rate of 20.25%. A further reduction in the rate of corporation tax to 19% will become effective from April 2017, reducing again to 18% effective from April 2020. These changes were substantively enacted on 18 November 2015. Deferred tax has been provided at an average rate of 18.5% (2014: 20%).

NOTES TO THE FINANCIAL STATEMENTS

15 Appropriations

	2015 £000	2014 £000
Charitable grants		
Gross charitable grants to the ultimate parent company, Allchurches Trust Limited	20,000	23,500
Tax relief	(4,050)	(5,053)
Net appropriation for the year	<u>15,950</u>	<u>18,447</u>

16 Acquisition of additional shares in subsidiary

At 1 January 2014 the Group owned 75% of Lycetts Holding Limited (hereafter referred to as Lycetts), a holding company of a group whose primary activity is insurance broking business. Through the course of 2014 the Group acquired the remaining 25% of the shares for a cash consideration of £12,144,000 paid to minority interest shareholders, generating a loss on the acquisition of £637,000. The purpose of the business combination was to diversify the portfolio of the Group and benefit from Lycetts' expertise in rural, specialist commercial and bloodstock lines of business.

17 Acquisition of business

On 15 April 2014, South Essex Insurance Brokers Limited acquired the assets of Lansdown Insurance Brokers (hereafter referred to as Lansdown). Lansdown is an insurance broker across a variety of classes of business, with a particular specialism in blocks of flats and apartments and high net worth homes. Lansdown was acquired as part of the Group's strategy to identify new market sectors in which to grow, either organically or through acquisition, and is included within the Broking and Advisory segment in note 5.

The amounts recognised in respect of the identifiable assets acquired are as set out in the table below.

	2014 £000
Property, plant and equipment	12
Intangible assets	<u>1,166</u>
Total identifiable assets	<u>1,178</u>
Goodwill	<u>4,392</u>
Total consideration	<u>5,570</u>
Satisfied by:	
Cash	5,000
Contingent consideration arrangement	<u>570</u>
Total consideration	<u>5,570</u>

The contingent consideration arrangement required £2,100,000 of retained commission income to be received for the twelve months to 15 April 2015, with the potential amount of the future payment that the Group could be required to make being between £nil and £1,000,000.

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

NOTES TO THE FINANCIAL STATEMENTS

18 Disposal of business

On 20 January 2015, Ecclesiastical Financial Advisory Services Limited entered into an agreement to transfer its mortgage business to Holmesdale Building Society. The transfer was completed on 1 February 2015.

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

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

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

At the prior year end date, the assets were classified as held for sale (see note 28).

NOTES TO THE FINANCIAL STATEMENTS

19 Goodwill and other intangible assets

Group	Goodwill £000	Computer software £000	Other intangible assets £000	Total £000
Cost				
At 1 January 2015	56,303	20,886	16,727	93,916
Additions	-	1,850	-	1,850
Disposals	-	(1,799)	-	(1,799)
Exchange differences	-	(428)	-	(428)
At 31 December 2015	56,303	20,509	16,727	93,539
Accumulated impairment losses and amortisation				
At 1 January 2015	9,631	16,562	7,676	33,869
Amortisation charge for the year	-	1,234	1,129	2,363
Impairment losses for the year	64	-	-	64
Disposals	-	(1,788)	-	(1,788)
Exchange differences	-	(126)	-	(126)
At 31 December 2015	9,695	15,882	8,805	34,382
Net book value at 31 December 2015	46,608	4,627	7,922	59,157
Cost (restated)				
At 1 January 2014	51,911	22,708	15,561	90,180
Additions	-	1,568	-	1,568
Acquisition	4,392	-	1,166	5,558
Disposals	-	(3,348)	-	(3,348)
Exchange differences	-	(42)	-	(42)
At 31 December 2014	56,303	20,886	16,727	93,916
Accumulated impairment losses and amortisation (restated)				
At 1 January 2014	5,329	18,696	6,169	30,194
Amortisation charge for the year	-	1,215	1,507	2,722
Impairment losses for the year	4,302	-	-	4,302
Disposals	-	(3,329)	-	(3,329)
Exchange differences	-	(20)	-	(20)
At 31 December 2014	9,631	16,562	7,676	33,869
Net book value at 31 December 2014	46,672	4,324	9,051	60,047

£23,032,000 of the goodwill balance in the current and prior year relates to the acquisition of Lycetts Holdings Limited during 2011. £16,885,000 of the goodwill balance in the current and prior year relates to the acquisition of South Essex Insurance Holdings Limited during 2008. £4,392,000 of the goodwill balance in the current and prior year relates to the acquisition of Lansdown Insurance Brokers Limited during the prior year (see note 17).

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 of 2.3% (2014: 2.3%), sourced from the Office for Budget Responsibility. The discount rate of 11% reflects the way that the market would assess the specific risks associated with the estimated cash flows (2014: 12%).

For the goodwill balances relating to South Essex Insurance Holdings Limited and Lansdown Insurance Brokers Limited, the headroom above the goodwill carrying value is significant and reasonably possible changes to the key assumptions do not result in impairment. The recoverable amount of the goodwill relating to Lycetts Holdings Limited exceeds its carrying amount by £5.6m. If the cash flow projections decreased by 13.2% or the discount rate increased by 1.4%, then the recoverable amount would equal the carrying amount.

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

Other intangible assets consist of acquired brand, customer and distribution relationships. £6,978,000 of the intangible assets balance in the current year relates to the acquisition of Lycetts Holdings Limited and has a remaining useful life of seven years.

NOTES TO THE FINANCIAL STATEMENTS

20 Deferred acquisition costs

Group	2015 £000	2014 £000
At 1 January	31,117	34,757
Increase in the period	28,626	31,267
Release in the period	(30,380)	(34,594)
Exchange differences	(969)	(313)
At 31 December	<u>28,394</u>	<u>31,117</u>

All balances are current.

21 Retirement benefit schemes

Defined benefit pension plans

The Group's main plan is a defined benefit plan for UK employees, which includes two discrete sections, the EIO Section and Ansvar Section. The assets of the plan are held separately from those of the Group by the Trustee of the Ecclesiastical Insurance Office plc Staff Retirement Benefit Fund (the 'Fund'). The Fund is subject to the Statutory Funding Objective under the Pensions Act 2004. An independent qualified actuary appointed by the Trustee is responsible for undertaking triennial valuations to determine whether the Statutory Funding Objective is met. Pension costs for the plan are determined by the Trustee, having considered the advice of the actuary and having consulted with the employer. The most recent triennial valuation was at 31 December 2013. In the current year, the IAS 19 (R) surplus in the scheme has been restricted in accordance with International Financial Reporting Interpretations Committee 14 (IFRIC 14). Lycetts Holdings Limited also operates a defined benefit plan. Actuarial valuations were reviewed and updated by the actuary at 31 December 2015 for IAS 19 (R) purposes.

Ecclesiastical Insurance Office plc (EIO) is also the sponsoring employer for the Ecclesiastical Insurance Office plc Pension and Life Assurance Scheme (EIOPLA). This is a defined benefit scheme that has been closed to new entrants since 1 July 1998, providing benefits to pensioners of Methodist Insurance plc, a company with a similar culture and whose insurance risks, excluding terrorism, are fully reinsured by EIO. The assets of the scheme are held separately from those of the EIO. The most recent triennial valuation was at 31 December 2013. The scheme had not previously been reported within the Group accounts, and was therefore shown as a transfer in, in the prior year.

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

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

The plans typically expose the Group to risks such as:

- Investment risk: The Fund holds some of its investments in asset classes, such as equities, which have volatile market values and, while these assets are expected to provide the best returns over the long term, any short-term volatility could cause additional funding to be required if a deficit emerges. Derivative contracts are used from time to time, which would limit losses in the event of a fall in equity markets.
- Interest rate risk: Scheme liabilities are assessed using market rates of interest to discount the liabilities and are therefore subject to any volatility in the movement of the market rate of interest. The net interest income or expense recognised in profit or loss is also calculated using the market rate of interest.
- Inflation risk: A significant proportion of scheme benefits are linked to inflation. Although scheme assets are expected to provide a good hedge against inflation over the long term, movements over the short term could lead to a deficit emerging.
- Mortality risk: In the event that members live longer than assumed the liabilities may be understated originally, and a deficit may emerge if funding has not adequately provided for the increased life expectancy.

The Group's main defined benefit plan is now closed to new entrants but remains open to future accrual. The Group operates a number of defined contribution pension plans, for which contributions by the Group are disclosed in note 12.

NOTES TO THE FINANCIAL STATEMENTS

21 Retirement benefit schemes (continued)

Group	2015 £000	2014 £000
The amounts recognised in the statement of financial position are determined as follows:		
Present value of funded obligations	(287,206)	(291,711)
Fair value of plan assets	303,045	310,048
	<u>15,839</u>	<u>18,337</u>
Restrictions on asset recognised	(7,283)	(563)
Net asset in the statement of financial position	<u>8,556</u>	<u>17,774</u>
Movements in the net asset recognised in the statement of financial position are as follows:		
At 1 January	17,774	31,568
Exchange differences	-	22
Expense charged to profit or loss*	(3,791)	(2,293)
Amounts recognised in other comprehensive income	(8,463)	(15,120)
Contributions paid	3,036	3,597
At 31 December	<u>8,556</u>	<u>17,774</u>
The amounts recognised through profit or loss are as follows:		
Current service cost	3,985	3,864
Administration cost	375	417
Interest expense on liabilities	10,634	12,134
Interest income on plan assets	(11,358)	(13,751)
Effect of interest on the asset ceiling	-	41
Gains on settlements/curtailments	155	(412)
Total, included in employee benefits expense	<u>3,791</u>	<u>2,293</u>
The amounts recognised in the statement of other comprehensive income are as follows:		
Return on plan assets, excluding interest income	(8,832)	2,448
Experience gains on liabilities	758	4,416
Gains from changes in demographic assumptions	428	5,273
Gains/(losses) from changes in financial assumptions	5,903	(28,401)
Change in asset ceiling	(6,720)	1,144
Total included in other comprehensive income	<u>(8,463)</u>	<u>(15,120)</u>
* Charge to profit or loss includes £610,000 (2014: £519,000) in respect of member salary sacrifice contributions and costs ultimately borne by related parties.		

NOTES TO THE FINANCIAL STATEMENTS

21 Retirement benefit schemes (continued)

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

	2015	2014
	£000	£000
Pension assets	10,893	21,068
Pension liabilities	(2,337)	(3,294)
	<u>8,556</u>	<u>17,774</u>

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

	2015	2014
	%	%
Discount rate	3.80	3.67
Inflation (RPI)	3.10	3.08
Inflation (CPI)	2.10	2.09
Future salary increases	4.52	4.46
Future increase in pensions in deferment	2.14	2.14
Future pension increases (linked to RPI)	3.10	3.08
Future pension increases (linked to CPI)	2.10	2.08

	2015	2014
Mortality rate		
The average life expectancy in years of a pensioner retiring at age 65, at the year end date, is as follows:		
Male	24.0	23.8
Female	25.6	25.5
The average life expectancy in years of a pensioner retiring at age 65, 20 years after the year end date, is as follows:		
Male	26.3	26.1
Female	27.8	27.7

	2015	2014
	%	%
Plan assets are weighted as follows:		
Cash and cash equivalents	3	6
Equity instruments		
UK quoted	24	25
Overseas quoted	23	25
	<u>47</u>	<u>50</u>
Debt instruments		
UK public sector quoted - fixed interest	2	2
UK non-public sector quoted - fixed interest	20	18
UK quoted - index-linked	14	14
	<u>36</u>	<u>34</u>
Property	14	10
	<u>100</u>	<u>100</u>

The actual return on plan assets was a gain of £2,526,000 (2014: gain of £16,199,000).

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

The contribution expected to be paid by the Group during the year ending 31 December 2016 is £3.0 million.

NOTES TO THE FINANCIAL STATEMENTS

21 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:

	2015 £000	2014 £000			
Plan assets					
At 1 January	310,048	303,359			
Transfer in	-	2,947			
Interest income	11,358	13,751			
Return on plan assets, excluding interest income	(8,832)	2,448			
Pension benefits paid and payable	(10,333)	(11,472)			
Contributions paid	3,036	3,597			
Administration cost	(33)	(25)			
Assets distributed on settlements	(2,199)	(4,416)			
Exchange differences	-	(141)			
At 31 December	<u>303,045</u>	<u>310,048</u>			
Defined benefit obligation					
At 1 January	291,711	270,813			
Transfer in	-	2,259			
Current service cost	3,985	3,864			
Administration cost	342	392			
Interest cost	10,634	12,134			
Pension benefits paid and payable	(10,333)	(11,472)			
Experience gains on liabilities	(758)	(4,416)			
Gains from changes in demographic assumptions	(428)	(5,273)			
(Gains)/losses from changes in financial assumptions	(5,903)	28,401			
Liabilities extinguished on settlements/curtailments	(2,044)	(4,828)			
Exchange differences	-	(163)			
At 31 December	<u>287,206</u>	<u>291,711</u>			
Asset ceiling					
At 1 January	563	978			
Transfer in	-	688			
Effect of interest on the asset ceiling	-	41			
Change in asset ceiling	6,720	(1,144)			
At 31 December	<u>7,283</u>	<u>563</u>			
History of plan assets and liabilities					
	2015	2014	2013	2012	2011
	£000	£000	£000	£000	£000
Present value of defined benefit obligations	(287,206)	(291,711)	(270,813)	(239,268)	(215,292)
Fair value of plan assets	303,045	310,048	303,359	275,638	250,101
	15,839	18,337	32,546	36,370	34,809
Restrictions on asset recognised	(7,283)	(563)	(978)	-	-
Surplus	<u>8,556</u>	<u>17,774</u>	<u>31,568</u>	<u>36,370</u>	<u>34,809</u>

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 on reasonably possible changes of the assumptions occurring at the end of the reporting period assuming that all other assumptions are held constant.

Assumption	Change in assumption	Impact on plan liabilities	
		2015	2014
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 10%/12%	Decrease/increase by 10%/12%
Inflation	Increase/decrease by 0.5%	Increase/decrease by 10%/9%	Increase/decrease by 10%/9%
Salary increase	Increase/decrease by 0.5%	Increase/decrease by 3%/2%	Increase/decrease by 3%/2%
Life expectancy	Increase/decrease by 1 year	Increase/decrease by 3%	Increase/decrease by 3%

NOTES TO THE FINANCIAL STATEMENTS

21 Retirement benefit schemes (continued)

Post-employment medical benefits

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

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

- Interest rate risk: The reserves are assessed using market rates of interest to discount the liabilities and are therefore subject to volatility in the movement of the market rates of interest. A reduction in the market rate of interest would lead to an increase in the reserves required to be held.
- Medical expense assumption: Claims experience can be volatile, exposing the Group 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 Group.
- Spouse and widows' contributions: The self-insured benefit includes a potential liability for members who pay contributions in respect of their spouse and for widows who pay contributions. There is the possibility that the contributions charged may not be sufficient to cover the medical costs that fall due.
- Mortality risk: If members live longer than expected the Group 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:

	2015	2014
	£000	£000
Present value of unfunded obligations and net obligations in the statement of financial position	<u>9,193</u>	<u>12,547</u>
Movements in the net obligations recognised in the statement of financial position are as follows:		
At 1 January	12,547	11,744
Total expense charged to profit or loss	459	551
Net actuarial (gains)/losses during the year, recognised in other comprehensive income	(3,652)	491
Benefits paid	<u>(161)</u>	<u>(239)</u>
At 31 December	<u>9,193</u>	<u>12,547</u>
The amounts recognised through profit or loss are as follows:		
Current service cost	-	33
Interest cost	459	518
Total, included in employee benefits expense	<u>459</u>	<u>551</u>

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

The main actuarial assumptions for the plan are a long-term increase in medical costs of 9.1% (2014: 12.0%) and a discount rate of 3.8% (2014: 3.7%). The reduction in medical cost inflation is the result of a change in the calculation methodology following actuarial advice received. The change in methodology generated an actuarial gain of £3.5m. The sensitivity analysis below has been determined based on reasonably possible changes in the assumptions occurring at the end of the accounting period assuming that all other assumptions are held constant.

Assumption	Change in assumption	Impact on plan liabilities	
		2015	2014
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 8%/10%	Decrease/increase by 10%/11%
Medical expense inflation	Increase/decrease by 1.0%	Increase/decrease by 19%/15%	Increase/decrease by 23%/18%
Life expectancy	Increase/decrease by 1 year	Increase/decrease by 9%/8%	Increase/decrease by 11%/8%

NOTES TO THE FINANCIAL STATEMENTS

22 Property, plant and equipment

Group	Land and buildings £000	Motor vehicles £000	Furniture, fittings and equipment £000	Computer equipment £000	Total £000
Cost or valuation					
At 1 January 2015	3,035	2,616	5,779	6,597	18,027
Additions	-	768	1,875	816	3,459
Disposals	(225)	(741)	(290)	(890)	(2,146)
Revaluation	280	-	-	-	280
Exchange differences	-	-	(93)	(76)	(169)
At 31 December 2015	3,090	2,643	7,271	6,447	19,451
Depreciation					
At 1 January 2015	-	1,125	4,541	5,028	10,694
Charge for the year	-	420	647	816	1,883
Disposals	-	(508)	(280)	(862)	(1,650)
Exchange differences	-	-	(72)	(50)	(122)
At 31 December 2015	-	1,037	4,836	4,932	10,805
Net book value at 31 December 2015	3,090	1,606	2,435	1,515	8,646
Cost or valuation					
At 1 January 2014	3,505	2,878	6,758	7,978	21,119
Additions	-	525	525	865	1,915
Acquisition	-	-	12	-	12
Disposals	(504)	(787)	(1,479)	(2,239)	(5,009)
Revaluation	30	-	-	-	30
Exchange differences	4	-	(37)	(7)	(40)
At 31 December 2014	3,035	2,616	5,779	6,597	18,027
Depreciation					
At 1 January 2014	-	1,156	5,554	6,347	13,057
Charge for the year	-	476	422	914	1,812
Disposals	-	(507)	(1,403)	(2,233)	(4,143)
Exchange differences	-	-	(32)	-	(32)
At 31 December 2014	-	1,125	4,541	5,028	10,694
Net book value at 31 December 2014	3,035	1,491	1,238	1,569	7,333

All properties were revalued at 31 December 2015, with the exception of a certain properties, which were revalued at 31 December 2014. Valuations were carried out by Cluttons, an external firm of chartered surveyors, using standard industry methodology to determine a fair market value. All properties are classified as level 2 assets.

The value of land and buildings on a historical cost basis is £3,377,000 (2014: £3,521,000).

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

Included within net book value of motor vehicles is £1,364,000 (2014: £1,182,000) and within net book value of computer equipment is £4,000 (2014: £17,000) in respect of assets held under finance leases.

NOTES TO THE FINANCIAL STATEMENTS

23 Investment property

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

The Group's investment properties were last revalued at 31 December 2015 by Cluttons LLP, an external firm of chartered surveyors, with the exception of one property purchased close to the year end which has been valued at its purchase price, and another which was purchased through Cluttons and therefore following RICS guidelines was valued independently by Colliers LLP. Valuations were carried out using standard industry methodology to determine a fair market value. All properties are classified as level 2 assets.

Investment properties are held for long-term capital appreciation rather than short-term sale. Rental income arising from the investment properties owned by the Group amounted to £4,996,000 (2014: £3,831,000) and is included in net investment return. Other operating and administrative expenses include £742,000 (2014: £391,000) relating to investment property.

24 Financial investments

Financial investments summarised by measurement category are as follows:

	2015		2014	
	Group £000	Parent £000	Group £000	Parent £000
Financial investments at fair value through profit or loss				
Equity securities				
- listed	274,514	-	269,556	-
- unlisted	36,304	5,086	24,377	4,028
Debt securities				
- government bonds	160,691	-	196,179	-
- listed	366,051	-	399,848	-
- unlisted	187	-	238	-
Derivative financial instruments				
- options	713	-	-	-
	<u>838,460</u>	<u>5,086</u>	<u>890,198</u>	<u>4,028</u>
Loans and receivables				
Other loans	16	-	16	-
Parent investments in subsidiary undertakings				
Shares in subsidiary undertakings	-	48,282	-	48,282
Total financial investments	<u>838,476</u>	<u>53,368</u>	<u>890,214</u>	<u>52,310</u>
Current	408,440	-	327,552	-
Non-current	430,036	53,368	562,662	52,310

All investments in subsidiary undertakings are unlisted.

NOTES TO THE FINANCIAL STATEMENTS

25 Derivative financial instruments

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

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

All balances are current.

The notional amount above reflects the aggregate of individual derivative positions on a gross basis and so gives an indication of the overall scale of the derivative transaction. It does not reflect current market values of the open positions.

Derivative fair value assets are recognised within financial investments (note 24) and derivative fair value liabilities are recognised within other liabilities (note 34).

Amounts pledged as collateral in respect of derivative contracts are disclosed in note 27.

26 Other assets

	2015		2014	
	Group £000	Parent £000	Group £000	Parent £000
Receivables arising from insurance and reinsurance contracts				
- due from contract holders	27,310	-	24,469	-
- due from agents, brokers and intermediaries	40,095	-	40,645	-
- due from reinsurers	9,481	-	7,230	-
Other receivables				
- accrued interest and rent	6,109	-	7,032	-
- other prepayments and accrued income	3,619	-	3,641	-
- amounts owed by related parties	114	127	147	144
- other debtors	24,026	-	22,736	-
	<u>110,754</u>	<u>127</u>	<u>105,900</u>	<u>144</u>
Current	108,748	127	103,900	144
Non-current	2,006	-	2,000	-

The Group has recognised a charge of £44,000 (2014: credit of £454,000) in other operating and administrative expenses in the statement of profit or loss for the impairment of its trade and other receivables during the year.

There has been no significant change in the recoverability of the Group's trade receivables, for which no collateral is held. The directors consider that the amounts are recoverable at their carrying values, which are stated net of an allowance for doubtful debts for those debtors that are individually determined to be impaired.

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

Movement in the Group allowance for doubtful debts	2015 £000	2014 £000
Balance at 1 January	214	323
Movement in the year	(51)	(109)
Balance at 31 December	<u>163</u>	<u>214</u>

NOTES TO THE FINANCIAL STATEMENTS

26 Other assets (continued)

Included within trade receivables of the Group is £5,242,000 (2014: £4,927,000) overdue but not impaired, of which £4,647,000 (2014: £4,111,000) is not more than three months overdue at the reporting date.

27 Cash and cash equivalents

	2015		2014	
	Group £000	Parent £000	Group £000	Parent £000
Cash at bank and in hand	68,403	796	62,899	462
Short-term bank deposits	66,987	-	59,512	-
	<u>135,390</u>	<u>796</u>	<u>122,411</u>	<u>462</u>

Included within short-term bank deposits of the Group are cash deposits of £3,122,000 (2014: £nil) pledged as collateral by way of cash margins on open derivative contracts and cash to cover derivative liabilities. On closure of these contracts any derivative liability position is settled, and collateral pledged on the margin ceases.

28 Current assets held for sale

Ecclesiastical Financial Advisory Services Limited ceased to offer new mortgages following a strategic review in 2007, although it continued to administer the existing book. During the prior year management decided to dispose of the mortgage book in order to more clearly focus their attention on the current elements of the business.

After the end of the prior financial year the Company entered into an agreement to transfer its legacy mortgage business to Holmesdale Building Society. The transfer was completed on 1 February 2015.

The current assets held for sale consist of mortgages secured on residential property.

	2014 £000
Cost at 1 January	7,892
Repayments and redemptions	(1,022)
Market value adjustment	(666)
Carrying value at 31 December	<u>6,204</u>

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

Clients have the option to redeem mortgages before the end of the mortgage term. The directors consider that the carrying value approximates to fair value.

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

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

29 Called up share capital

	2015 £000	2014 £000
Issued, allotted and fully paid		
Ordinary share capital:		
20,000,000 shares of £1 each	<u>20,000</u>	<u>20,000</u>

Ordinary shares in issue in the Company rank pari passu and carry equal voting rights. On winding up, the residual interest in the assets of the Company, after deducting all liabilities, belongs to the Ordinary shareholders.

NOTES TO THE FINANCIAL STATEMENTS

30 Non-controlling interests

Non-controlling interests comprise the 8.625% Non-Cumulative Irredeemable Preference shares in Ecclesiastical Insurance Office plc.

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 Ecclesiastical Insurance Office plc 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.

31 Insurance liabilities and reinsurance assets

Group	2015 £000	2014 £000
Gross		
Claims outstanding	551,571	564,380
Unearned premiums	153,697	161,624
Long-term business provision	85,422	94,324
Total gross insurance liabilities	<u>790,690</u>	<u>820,328</u>
Recoverable from reinsurers		
Claims outstanding	120,753	107,331
Unearned premiums	49,987	50,134
Total reinsurers' share of insurance liabilities	<u>170,740</u>	<u>157,465</u>
Net		
Claims outstanding	430,818	457,049
Unearned premiums	103,710	111,490
Long-term business provision	85,422	94,324
Total net insurance liabilities	<u>619,950</u>	<u>662,863</u>
Gross insurance liabilities		
Current	321,812	324,979
Non-current	468,878	495,349
Reinsurance assets		
Current	98,967	92,728
Non-current	71,773	64,737

(a) General business insurance contracts

(i) Reserving methodology

Reserving for non-life insurance claims is a complex process and the Group adopts recognised actuarial methods and, where appropriate, other calculations and statistical analysis. Actuarial methods used include the chain ladder, Bornhuetter-Ferguson and average cost methods.

Chain ladder methods extrapolate paid amounts, incurred amounts (paid claims plus case estimates) and the number of claims or average cost of claims, to ultimate claims based on the development of previous years. This method assumes that previous patterns are a reasonable guide to future developments. Where this assumption is felt to be unreasonable, adjustments are made or other methods such as Bornhuetter-Ferguson or average cost are used. The Bornhuetter-Ferguson method places more credibility on expected loss ratios for the most recent loss years. For smaller portfolios the materiality of the business and data available may also shape the methods used in reviewing reserve adequacy.

The selection of results for each accident year and for each portfolio depends on an assessment of the most appropriate method. Sometimes a combination of techniques is used. The average weighted term to payment is calculated separately by class of business and is based on historical settlement patterns.

(ii) Calculation of uncertainty margins

To reflect the uncertain nature of the outcome of the ultimate settlement cost of claims an uncertainty margin is added to the best estimate. The addition for uncertainty is assessed using actuarial methods including the Mack method and Bootstrapping techniques, based on at least the 75th percentile confidence level for each portfolio. The Mack method was used in current and prior periods, while Bootstrapping techniques were introduced in 2015. For smaller portfolios, where these methods cannot be applied, provisions are calculated at a level intended to provide an equivalent probability of sufficiency. Where the standard methods cannot allow for changing circumstances, additional uncertainty margins are added and are typically expressed as a percentage of outstanding claims. This approach generally results in a favourable release of provisions in the current financial year, arising from the settlement of claims relating to previous financial years, as shown in part (c) of the note.

NOTES TO THE FINANCIAL STATEMENTS

31 Insurance liabilities and reinsurance assets (continued)

(iii) Calculation of provisions for latent claims

The Group adopts commonly used industry methods including those based on claims frequency and severity and benchmarking.

(iv) Discounting

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

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

The above rates of interest are based on government bond yields of the relevant currency and term at the reporting date. Adjustments are made, where appropriate, to reflect portfolio assets held and to allow for future investment expenses. At the year end the undiscounted gross outstanding claims provision was £603,735,000 for the Group (2014: £606,259,000).

At 31 December 2015, it is estimated that a fall of 1% in the discount rates used would increase the Group's net outstanding claims provisions by £14,380,000 (2014: £13,865,000). Financial investments backing these liabilities are not hypothecated across general insurance classes of business. The sensitivity of Group profit or loss and other equity reserves to interest rate risk, taking into account the mitigating effect on asset values is provided in note 4 (h).

(v) Assumptions

The Group follows a process of reviewing its reserves for outstanding claims on a regular basis. This involves an appraisal of each portfolio with respect to ultimate claims liability for the recent exposure period as well as for earlier periods, together with a review of the factors that have the most significant impact on the assumptions used to determine the reserving methodology. The work conducted on each portfolio is subject to an internal peer review and management sign-off process.

The most significant assumptions in determining the undiscounted general insurance reserves are the anticipated number and ultimate settlement cost of claims, and the extent to which reinsurers will share in the cost. Factors which influence decisions on assumptions include legal and judicial changes, significant weather events, other catastrophes, subsidence events, exceptional claims or substantial changes in claims experience and developments in older or latent claims. Significant factors influencing assumptions about reinsurance are the terms of the reinsurance treaties, the anticipated time taken to settle a claim and the incidence of large individual and aggregated claims.

(vi) Changes in assumptions

There are no significant changes in assumptions.

(vii) Sensitivity of results

The ultimate amount of claims settlement is uncertain and the Group's aim is to reserve to at least the 75th percentile confidence level.

If final settlement of insurance claims reserved for at the year end turns out to be 10% higher or lower than the reserves included in these financial statements, the following pre-tax Group loss or profit will be realised:

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

NOTES TO THE FINANCIAL STATEMENTS

31 Insurance liabilities and reinsurance assets (continued)

(viii) Claims development tables

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

Group	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Estimate of gross ultimate claims											
At end of year	45,688	50,840	56,420	74,742	84,476	82,095	100,612	81,725	61,901	46,464	
One year later	45,900	47,307	53,552	59,807	75,550	76,371	88,046	80,027	50,571		
Two years later	40,092	43,270	47,643	55,250	62,239	71,543	78,196	69,860			
Three years later	36,168	35,510	44,658	57,134	66,422	68,587	72,516				
Four years later	30,791	35,556	40,433	55,695	61,330	60,841					
Five years later	28,470	34,925	37,546	58,631	62,074						
Six years later	27,154	34,036	37,864	54,942							
Seven years later	27,377	33,917	37,289								
Eight years later	28,534	33,028									
Nine years later	28,637										
Current estimate of ultimate claims	28,637	33,028	37,289	54,942	62,074	60,841	72,516	69,860	50,571	46,464	516,222
Cumulative payments to date	(22,954)	(27,910)	(30,915)	(43,347)	(45,397)	(38,339)	(30,248)	(21,720)	(4,973)	(826)	(266,629)
Outstanding liability	5,683	5,118	6,374	11,595	16,677	22,502	42,268	48,140	45,598	45,638	249,593
Effect of discounting											(16,085)
Present value											233,508
Discounted liability in respect of earlier years											119,772
Total discounted gross liability (for liability classes) included in insurance liabilities in the statement of financial position											353,280
Estimate of net ultimate claims											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
At end of year	41,007	46,235	51,795	64,476	73,218	75,302	88,247	76,729	59,633	42,739	
One year later	40,976	43,107	48,432	53,700	64,796	72,336	79,272	66,475	47,690		
Two years later	35,783	38,979	44,498	50,805	57,758	68,057	73,735	60,075			
Three years later	33,145	34,180	42,524	50,168	59,353	66,822	69,837				
Four years later	30,283	35,004	39,321	50,062	55,975	60,314					
Five years later	28,230	34,688	37,208	49,879	57,012						
Six years later	26,926	33,702	37,606	48,960							
Seven years later	27,150	33,718	37,089								
Eight years later	28,016	32,819									
Nine years later	28,237										
Current estimate of ultimate claims	28,237	32,819	37,089	48,960	57,012	60,314	69,837	60,075	47,690	42,739	484,772
Cumulative payments to date	(22,808)	(27,723)	(30,715)	(39,551)	(41,253)	(37,972)	(29,679)	(14,932)	(4,937)	(809)	(250,379)
Outstanding liability	5,429	5,096	6,374	9,409	15,759	22,342	40,158	45,143	42,753	41,930	234,393
Effect of discounting											(16,085)
Present value											218,308
Discounted liability in respect of earlier years											101,878
Total discounted net liability (for liability classes) included in insurance liabilities in the statement of financial position											320,186

NOTES TO THE FINANCIAL STATEMENTS

31 Insurance liabilities and reinsurance assets (continued)

(b) Long-term insurance contracts

(i) Assumptions

The most significant assumptions in determining long-term business reserves are as follows:

Mortality

An appropriate base table of standard mortality is chosen depending on the type of contract. Where prudent, an allowance is made for future mortality improvements based on trends identified in population data.

Investment returns

Projected investment returns are based on actual yields for each asset class less an allowance for credit risk, where appropriate. The risk adjusted yields after allowance for investment expenses for the current valuation are as follows:

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

The investment return assumption is determined by calculating an overall yield on all cash flows projected to occur from the portfolio of financial assets which are assumed to back the relevant class of liabilities. This is in accordance with a modification to PRA Rule INSPRU 3.1.35R, which was granted in September 2011. For index-linked assets, the real yield is shown gross of tax.

Funeral plans renewal expense level and inflation

Numbers of policies in force and both projected and actual expenses have been considered when setting the base renewal expense level. The unit renewal expense assumption for this business is £2.70 per annum (2014: £2.70 per annum). Additionally, now the business volumes are expected to fall, a number of expenses have been reserved for in a separate exercise. A reserve for these expenses is held at £4.8 million.

Expense inflation is set with reference to the index-linked UK government bond rates of return, and published figures for earnings inflation, and is assumed to be 3.54% per annum (2014: 3.68%).

Tax

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

(ii) Changes in assumptions

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

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

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

(iii) Sensitivity analysis

The sensitivity of profit before tax to changes in the key assumptions used to calculate the long-term business insurance liabilities is shown in the following table. No account has been taken of any correlation between the assumptions.

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

NOTES TO THE FINANCIAL STATEMENTS

31 Insurance liabilities and reinsurance assets (continued)

(iv) Available capital resources

	Non-profit life fund £000	Share- holders' fund £000	Total life business £000	Other activities £000	Group total £000
2015					
Shareholders' equity	(312)	44,833	44,521	377,061	421,582
Adjustments to assets/liabilities	7,500	(7,500)	-	(86,115)	(86,115)
Total available capital resources	7,188	37,333	44,521	290,946	335,467
Policyholder liabilities					
- life insurance business	85,422	-	85,422		
Net actuarial liabilities on statement of financial position	85,422	-	85,422		
2014					
Shareholders' equity	(1,314)	43,008	41,694	366,353	408,047
Adjustments to assets/liabilities	7,500	(7,500)	-	(76,772)	(76,772)
Total available capital resources	6,186	35,508	41,694	289,581	331,275
Policyholder liabilities					
- life insurance business	94,324	-	94,324		
Net actuarial liabilities on statement of financial position	94,324	-	94,324		

Shareholders' equity/(deficit) in the non-profit fund represents the net profit or loss generated by this fund not transferred, to date, to the shareholders' fund. The life shareholders' fund is the balance of shareholder equity in the life business.

Other activities include the general insurance business of the Group, and consequently all Group capital not required to meet the solvency requirements of the general business is available to meet the solvency requirements of the life business.

The available capital resources in the non-profit life fund, subject to the regulatory capital requirements of the fund itself, are available to meet requirements elsewhere in the Group. The capital requirements of the life business are based on the PRA capital requirements.

The Group uses both its Individual Capital Assessment and its Individual Capital Guidance as a tool for determining capital requirements and their sensitivity to various risks. The Group manages these risks by means of its underwriting strategy, reinsurance strategy, investment strategy, and management control framework.

(v) Movements in life capital

	Non-profit life fund £000	Share- holders' fund £000	Total life business £000
Published capital resources as at 31 December 2014	6,186	35,508	41,694
Variance between actual and expected experience	249	-	249
Effect of changes to valuation interest rates	670	-	670
Effect of change in expense assumption	(393)	-	(393)
Effect of change in inflation assumption	32	-	32
Other movements	444	1,825	2,269
Capital resources as at 31 December 2015	7,188	37,333	44,521

NOTES TO THE FINANCIAL STATEMENTS

31 Insurance liabilities and reinsurance assets (continued)

(c) Movements in insurance liabilities and reinsurance assets

Group	Gross £000	Reinsurance £000	Net £000
Claims outstanding			
At 1 January 2015	564,380	(107,331)	457,049
Cash (paid)/received for claims settled in the year	(174,263)	50,721	(123,542)
Change in liabilities/reinsurance assets			
- arising from current year claims	200,148	(74,035)	126,113
- arising from prior year claims	(27,330)	7,110	(20,220)
Exchange differences	(11,364)	2,782	(8,582)
At 31 December 2015	551,571	(120,753)	430,818
Provision for unearned premiums			
At 1 January 2015	161,624	(50,134)	111,490
Increase in the period	154,575	(50,038)	104,537
Release in the period	(158,464)	49,250	(109,214)
Exchange differences	(4,038)	935	(3,103)
At 31 December 2015	153,697	(49,987)	103,710
Long-term business provision			
At 1 January 2015	94,324	-	94,324
Effect of claims during the year	(7,111)	-	(7,111)
Changes in assumptions	(1,988)	-	(1,988)
Other movements	197	-	197
At 31 December 2015	85,422	-	85,422
Claims outstanding			
At 1 January 2014	569,179	(89,472)	479,707
Cash (paid)/received for claims settled in the year	(195,279)	43,034	(152,245)
Change in liabilities/reinsurance assets			
- arising from current year claims	183,977	(44,824)	139,153
- arising from prior year claims	11,315	(17,482)	(6,167)
Exchange differences	(4,812)	1,413	(3,399)
At 31 December 2014	564,380	(107,331)	457,049
Provision for unearned premiums			
At 1 January 2014	186,642	(43,121)	143,521
Increase in the period	162,393	(50,549)	111,844
Release in the period	(186,044)	43,022	(143,022)
Exchange differences	(1,367)	514	(853)
At 31 December 2014	161,624	(50,134)	111,490
Long-term business provision			
At 1 January 2014	92,446	-	92,446
Effect of claims during the year	(7,176)	-	(7,176)
Changes in assumptions	7,317	-	7,317
Other movements	1,737	-	1,737
At 31 December 2014	94,324	-	94,324

NOTES TO THE FINANCIAL STATEMENTS

32 Provisions for other liabilities and contingent liabilities

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

Regulatory provisions

The Group operates in the financial services industry and is subject to regulatory requirements in the normal course of business, including contributing towards any levies raised on UK general and life business. The provisions reflect an assessment by the Group of its share of the total potential levies.

In addition, from time to time the Group receives complaints from customers and, while the majority relate to cases where there has been no customer detriment, we recognise that we have provided, and continue to provide, advice and services across a wide spectrum of regulated activities. We therefore believe that it is prudent to hold a provision for the estimated costs of customer complaints relating to services provided. The Group continues to reassess the ultimate level of complaints expected and the appropriateness of the provision, which reflects the expected redress and associated administration costs that would be payable in relation to any complaints we may uphold.

Restructuring and other provisions

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

NOTES TO THE FINANCIAL STATEMENTS

33 Deferred tax

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

Group	Unrealised gains on investments £000	Net retirement benefit assets £000	Equalisation reserve £000	Other differences £000	Total £000
At 1 January 2014	32,502	3,964	5,167	(4,826)	36,807
(Credited)/charged to profit or loss	(486)	203	(108)	913	522
Credited to other comprehensive income	-	(3,122)	-	(10)	(3,132)
Exchange differences	(26)	-	-	48	22
At 31 December 2014	31,990	1,045	5,059	(3,875)	34,219
Charged/(credited) to profit or loss	1,652	(164)	(62)	1,186	2,612
(Credited)/charged to profit or loss	-	-	-	-	-
- resulting from reduction in tax rate	(3,208)	(196)	(506)	189	(3,721)
Credited to other comprehensive income	-	(856)	-	(11)	(867)
Charged/(credited) to other comprehensive income	-	-	-	-	-
- resulting from reduction in tax rate	-	52	-	(11)	41
Exchange differences	(52)	-	-	101	49
At 31 December 2015	30,382	(119)	4,491	(2,421)	32,333

Parent

The deferred tax liability, shown below, arises on unrealised gains on investments. The increase of £184,000 (2014: £31,000 increase), net of an £18,000 decrease (2014: £nil) resulting from the reduction in tax rate, is recognised in the statement of profit or loss in the year.

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

	2015		2014	
	Group £000	Parent £000	Group £000	Parent £000
Deferred tax liabilities	34,471	348	36,197	182
Deferred tax assets	(2,138)	-	(1,978)	-
	32,333	348	34,219	182

The Group has unused tax losses of £21,137,000 (2014: £21,417,000) arising from life business and capital transactions, which are available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

NOTES TO THE FINANCIAL STATEMENTS

34 Other liabilities

	2015		2014	
	Group £000	Parent £000	Group £000	Parent £000
Creditors arising out of direct insurance operations	1,277	-	831	-
Creditors arising out of reinsurance operations	24,671	-	13,034	-
Derivative liabilities	1,466	-	-	-
Other creditors	26,666	-	26,063	-
Amounts owed to related parties	-	126	40	-
Accruals	20,170	2	19,373	2
	<u>74,250</u>	<u>128</u>	<u>59,341</u>	<u>2</u>
Current	73,944	128	59,011	2
Non-current	306	-	330	-

Derivative liabilities are in respect of equity futures contracts and are detailed in note 25.

35 Commitments

Capital commitments

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

Operating lease commitments

The Group leases premises and equipment under non-cancellable operating lease agreements.

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

	2015 £000	2014 £000
Within 1 year	5,282	3,762
Between 1 & 5 years	16,725	13,291
After 5 years	28,871	24,750
	<u>50,878</u>	<u>41,803</u>

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

	2015 £000	2014 £000
Within 1 year	3,195	2,769
Between 1 & 5 years	9,806	10,068
After 5 years	5,154	6,942
	<u>18,155</u>	<u>19,779</u>
Operating lease rentals charged to profit or loss during the year	3,772	3,920

NOTES TO THE FINANCIAL STATEMENTS

36 Parent and subsidiary undertakings

Ultimate parent company and controlling party

The Company is a wholly-owned subsidiary of Allchurches Trust Limited, a company incorporated in England. Its ultimate parent and controlling company is Allchurches Trust Limited, for which copies of the financial statements are available from the registered office as shown on page 2. The parent companies of the smallest and largest groups for which group financial statements are drawn up are Ecclesiastical Insurance Group plc and Allchurches Trust Limited, respectively. All the entities listed are included within the consolidated financial statements. Voting rights are in line with the holdings of Ordinary shares.

The Company's interest in Group undertakings at 31 December 2015 is as follows:

Subsidiary undertakings	Share capital	Holding of shares by	
		Parent	Subsidiary
Incorporated and operating in Great Britain, engaged in investment, insurance and financial services or other insurance-related business			
Ecclesiastical Insurance Office plc	Ordinary shares	100%	-
Ecclesiastical Underwriting Management Limited	Ordinary shares	100%	-
Ecclesiastical Financial Advisory Services Limited	Ordinary shares	-	100%
Ecclesiastical Life Limited	Ordinary shares	-	100%
EdenTree Investment Management Limited	Ordinary shares	-	100%
South Essex Insurance Holdings Limited	Ordinary shares	-	100%
South Essex Insurance Brokers Limited	Ordinary shares	-	100%
Lycetts Holdings Limited	Ordinary shares	100%	-
Lycett, Browne-Swinburne & Douglass Limited	Ordinary shares	-	100%
Lycetts Financial Services Limited	Ordinary shares	-	100%
Farmers & Mercantile Insurance Brokers Limited	Ordinary shares	-	100%
Incorporated and operating in Great Britain, engaged in retail of goods and services			
Ecclesiastical Investment Management Limited	Ordinary shares	100%	-
Incorporated in Great Britain, dormant			
E.I.O. Trustees Limited * (Company Registration Number 00941199)	Ordinary shares	-	100%
Incorporated and operating in Australia, engaged in insurance business			
Ansvar Insurance Limited	Ordinary shares	-	100%
Incorporated in Australia, dormant			
Ansvar Insurance Services Pty Limited * (Company Number 162612286)	Ordinary shares	-	100%
* Not audited			

NOTES TO THE FINANCIAL STATEMENTS

37 Related party transactions

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

The Parent related party transactions below relate to Allchurches Trust Limited, the Group and Parent's immediate and ultimate parent company. Group and Parent other related parties include the Group's pension plans and directors.

	Parent £000	Subsidiaries £000	Other related parties £000
2015			
Group			
Trading, investment and other income, including recharges, and amounts received	332	-	1,018
Trading, investment and other expenditure, including recharges, and amounts paid	-	-	140
Amounts owed by related parties	-	-	114
Amounts owed to related parties	-	-	-
Parent			
Trading, investment and other income, including recharges, and amounts received	-	51	100
Trading, investment and other expenditure, including recharges, and amounts paid	-	256	102
Amounts owed by related parties	-	45	82
Amounts owed to related parties	-	19,584	-
2014 (restated)			
Group			
Trading, investment and other income, including recharges, and amounts received	214	-	895
Trading, investment and other expenditure, including recharges, and amounts paid	-	-	302
Amounts owed by related parties	-	-	147
Amounts owed to related parties	-	-	40
Parent			
Trading, investment and other income, including recharges, and amounts received	-	16,584	-
Trading, investment and other expenditure, including recharges, and amounts paid	-	235	80
Amounts owed by related parties	-	64	80
Amounts owed to related parties	-	19,458	-

Transactions and services within the Group are made on commercial terms. Amounts outstanding between Group companies are unsecured, are not subject to guarantees, and will be settled in cash. No provisions have been made in respect of these balances. Loans to directors are non-interest-bearing.

The remuneration of the directors, who are the key management personnel of the Group, is disclosed in note 12.